EFFECT OF LEASE FINANCING ON THE FINANCIAL PERFORMANCE OF HOMA-BAY COUNTY GOVERNMENT, KENYA

BY

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DECLARATION

This project report is my original work and has not been presented for degree award in any university.

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DECLARATION BY THE SUPERVISOR

This research project has been submitted for examination with my approval as the University Supervisor.

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I would whole heartedly thank all the personalities who have been of unwavering support towards the accomplishment of this worthwhile task.

I am very thankful to my supervisor, Dr. Oima David for the relentless support and mentorship he accorded me towards making this work worthy of quality rating. Your guidance was invaluable in accomplishing this project.

To God Almighty, thank you for giving the mental and physical strength throughout this project.

DEDICATION

To my family

ABSTRACT

The main problem facing institutions is on how to finance their assets using cheaper ways. Thus, lease financing has been adopted over the years as a robust method of financing assets by both the private and public sector institutions. Globally more than 60 % of global leasing market is controlled by four countries (US, China, Germany and UK). Africa accounts for 0.08 % of the world lease market and the region showed a significant growth from 6.4 % in 2009 to 8.2 % in 2014 while Kenya lease market stands at less than 0.01% as at 2014. In Homa-Bay County, performance has been low due to usage of outright asset procurement to achieve performance targets. A report cited indicated an allocation of Ksh. 230 million for outright vehicles procurement in 2013-14 budgets which caused public concern. Presently only 3.3% have electricity against national average of 23%; paved roads at 4.8% against 9.4%; water connectivity at 38.6% against 66.5% which are considered low. It is thus essential to address the challenges by investigating on the effect of choice of financing method adopted by Homa-Bay county government. However, despite many studies on lease financing, findings on the influence of availability of financial resources, cost of borrowing and cost reduction on performance are unknown. The general objective of this study is to determine the effect of lease financing on the financial performance of Homa-Bay County Government in Kenya. Specifically the study sought to; determine the influence of availability financial resources on performance of Homa-Bay County Government in Kenya; determine the influence of cost of borrowing on performance of Homa-Bay County Government in Kenya and; to analyze the influence of cost reduction on the performance of Homa-Bay County Government in Kenya. The study adopted financial contracting theory. Causal survey research design was adopted for the study. The target population of the study was 230 employees from the ministries of: Transport, Health, Trade, Finance and Water Services. Sample size was 146 respondents obtained using stratified random sampling. Primary and secondary data was obtained using structured questionnaires and desk review respectively. Reliability test at Cronbach's Alpha threshold of 0.7 was done using pilot test results from a survey of 5 respondents who were excluded from the final sample of the study. Content validity test was done using expert reviewers. Data analysis for all the objectives was done using descriptive statistics and presented using graphs and tables. The findings in objective one revealed that availability of financial resources had a positive effect on financial performance of HCG (β=0.383, p=0.000). Study findings in objective two revealed positive influence of cost of borrowing on the financial performance of HCG (β=0.171 p=0.000) and third objective revealed cost reduction had a positive influence on financial performance of HCG (β=0.112, p=0.000). From the foregoing study results above it implies that lease financing has a positive influence on the financial performance of HCG as measured by the return on assets. In effect the study that all the selected lease financing constructs influences financial performance of Homa-Bay County Government. Thus the study recommends that lease financing strategy to be increased to higher proposition as the best possible way to minimize cost while precisely focusing on maximizing value for money to the stakeholders. The study is expected to be of immense benefit to the strategist in HCG in formulation of robust financing strategies which are sustainable, cost effective and value generating oriented.

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LIST OF ABBREVIATIONS AND ACRONYMS

CFSP:	County Fiscal Strategy Paper
CTL:	Credit Tenant Lease
IAS:	International Accounting Standard
USA:	United States of America
UK:	United Kingdom
LAK:	Lease Association of Kenya
SME:	Small and Medium Enterprises
ROA:	Return on Assets
ROE:	Return on Equity
GDP:	Gross Domestic Product
PPD:	Public Procurement Act
BPS:	Budget Policy Statement
CRS:	County Fact Sheets
HCG:	Homa-Bay County Government
CB:	Cost of Borrowing
AFR:	Availability of Financial Resources
CR:	Cost Reduction

DEFINITION OF TERMS

Cost of Capital: These is the minimum required rate of return a firm must earn on its projects to retain its market value and also to attract funds from investors.

Agency Costs: These are the costs borne by the principal to ensure the agent achieves the principals set objectives.

Corporate Governance: These are practices, regulations and policies a firm is required to adhere to in the normal course of its operations.

Financial Resources: This includes a firm's cash flows i.e. Liquid cash, debt finance and share capital a firm posses to ensure its smooth operations.

Cost of Borrowing: This the amount of cost a firm inquires to acquire the financial resources.

Cost Reduction: These are financial techniques adopted by a firm to ensure its operations are lower to maximize on investments returns.

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CHAPTER ONE: INTRODUCTION

This chapter provides the background of the study, the problem statement, the research objectives, and hypothesis and research questions. It also provides the scope and justification of the study and conceptual framework.

1.1 Background of the Study

Firms achieve their objectives of maximizing shareholders wealth by making successful investments decisions, which generate positive net present values. Lease financing decisions concerns whether the firm should lease equipments or out rightly procure the asset. Entities should therefore examine the cost of both: Leasing and outright equipment purchase in order to select the cheaper method of financing which increase the market value of the firm (Munene, 2014).

Lease financing is an alternative form of financing plant, equipment and motor vehicles. More than 60% of global leasing market is controlled by; US, China, Germany and UK (White, 2014). Africa leasing stands at 0.08 % of the world lease market, however the region showed a significant growth from 6.4 % in 2009 to 8.2 % in 2014 while Kenya lease market stands at less than 0.01% as at 2014. Moreover, leasing industry has witnessed tremendous growth over the years as the government changes its policy on the procurement of asset. The Budget Policy Statement (2013/2014) presented in the National Assembly by the cabinet secretary in charge of finance Hon. Rotich, had provided for an estimated Ksh. 3 billion for leasing of government automobiles and other medical assets (Munga, 2013). The lease was to ensure the government eliminate high cost of asset maintenance risks, enhance flexibility on asset management and reduce operational cost.

The growth and development initiatives of Homa-Bay County Government have been anchored on adoption of robust financing methods (CFSP, 2016). Moreover, the institutions investments priorities rest on putting up priority infrastructure and cost cutting measures in asset acquisition and usage. This has been on the platforms of explicit analysis and steady roll out of resource mobilization and effective expenditure financing. Amongst the strategic expenditure policies initiated by Homa-Bay County Government includes the rolling out of lease financing across its departments to higher proportions. However, the concerted efforts has not realized due diligence due to unfavorable outcome of financial performance indicators which are considerably low.

A number of empirical studies have been conducted in the field of lease financing. The performance of firms is influenced by both internal and external factors. Internal factors focus on firm's specific characteristics e.g. technology, market diversification and innovation. The external factors concerns both industry features and macroeconomic variables e.g. competition and inflation (Hellen, et al., 2010). Vasantha (2012) conducted a study on capital market frictions, leasing and investments using retrospective design. He collected panel data on all S&P 100, S&P 400 and S&P 600. The data panel consisted of 7012 firm-year observations. He used the ratio of rental expenses with net PPE as a comprehensive measure of lease ratio. Liquidity and cash flows was measured as the average ratio of daily absolute return to the dollar trading volume on that day, for credit rating was market based. Tobin's Q was used to measure firm's growth opportunities, the firm size was measured as a log of sales and capital investments were measured as capital expenditures. The findings revealed that firms with significant tax-loss carry forwards were unable to take full advantages of tax benefits of asset ownership hence they leased more. The coefficient on size was positive and size squired was negative indicating that largest firms used less lease financing.

Tarus (1997) using cross sectional survey, conducted a study on factors influencing the growth of lease in Kenya. He used descriptive analysis technique and collected data through questionnaires both structured and unstructured while his population consisted of all companies listed in the stock exchange. He found that many firms employ lease financing because it helps in conservation of cash flows and guards the firm against having a complex accounting practice and legal regulations.

Letoluo (2003) did a study of the influence of farmland leasing on household livelihood on Narok using case study design. He did a survey with eighty respondents selected randomly and ten informants were interviewed. He found that leasing of farmland increased revenue to the farmers who later shifted from pastoralist to doing business.

Vasantha (2012) did a study on capital market frictions, leasing and investments using retrospective design. Sampled data was collected from a panel data of 7012 firms. The agency cost and tax-benefits were significant in firm's adoption of lease financing strategies. Moreover, the study findings revealed that the negative effect of tax-loss carry forwards led to negative influence hence such firms were unable to take full advantages of tax benefits thus were encouraged to lease more. Largest firm's coefficient size measurement revealed negative influence hence leased less as opposed to smaller firms. Tarus (1997) conducted a study on factors influencing the growth of lease in Kenya using descriptive research design. His study findings revealed positive influence of lease financing on performance as highlighted by effective working capital management and low financial distress cost. Letoluo (2003) using case study design conducted a study on the influence of farmland leasing on household livelihood on Narok. The study findings revealed positive influence of leasing effect on performance of farmlands due to increased revenue to the asset owners. This demonstrated the positive effect of risk-return trade off.

From the foregoing empirical studies, the findings focus on private entities while the present study is focused on a public entity. Moreover, the studies have adopted different research designs and have been conducted on different geographical regions hence the findings are not significant in answering the current study objectives. Though the studies sheds important knowledge on lease financing firm's performance across different industries, however knowledge is unknown on the influence of availability of financial resources on the performance of Homa-Bay county government in Kenya.

Eric (2012) conducted a study using case study design on the determinants of choice of lease financing among French SME's for 11436 firms. The variables used were long-term debt, lease, equity, leverage costs, short term assets, short term liabilities, financial acquisition fees, fiscal debt and firm's age. The study findings revealed that there was a strong positive and significant relationship between firm's credit rating gearing cost and the use of lease financing to increase their performance levels.

In Kenya, Mogire (2013) using descriptive design conducted a study on the determinants of lease financing on the performance of small and medium enterprises in Kisii County. The target population included 50 entrepreneurs of small and medium enterprises in Kisii Municipality. The study adopted descriptive research design and analyzed data using Statistical Package for Social Sciences. The study findings revealed that availability of financial resources positively affected performance of SME's and thus firms who utilized lease financing option were geared for growth and profitability.

Muhammad, et al. (2012) using case study design conducted a study on effect of lease financing on firms performance. The study findings revealed that performance of firms is influenced by: Size, availability of financial resources, age in addition to net investments in lease financing. Leverage is measured by the ratio of total debt to equity (Debt/Equity). This ratio shows the degree to which a business is utilizing its borrowed money. This ratio represents the potential impact on capital and surplus of deficiencies in revenues due to financial claims (Adams & Buckle, 2000). Liquidity refers to the degree to which debt obligation falling within a year can be paid from cash or assets that will be turned into cash.

Eric (2012) did a study on the determinants of choice of lease financing among French SME's for 11436 firms using case study design. The results revealed a significant positive influence positive as showed by high profitability due to the leveraged effect of lease financing adoption. The adoption of lease financing ensured leveraged on cost to impact positively on performance. Mogire (2013) using descriptive research design conducted a study on the determinants of lease financing on the performance of SME's within Kisii County. Study findings revealed positive influence of lease financing as showed by increment in profitability levels. This is evident of the importance of the availability of financial resources on adoption of lease financing alternative. Muhammad, et al. (2012) did a study using case study design on effect of lease financing on firms performance. Significant variables of lease financing decisions included taking into consideration the elements of size, availability of financial resources and value of investments returns. Size and net investments had a positive relationship with the profitability of leasing companies while leverage cost and age variables exhibited negative relationship with the profitability of the leasing companies. This highlights the significant effect of lease financing gearing on financial performance of firms to hedge against turbulent market conditions.

From the foregoing empirical studies reviewed, the studies have concentrate on private entities while the present study seeks to determine the effect of lease financing influence on performance of a public institution. The research designs adopted by the above studies have failed to analysis comprehensively and in answering the present study objectives, which the present study seeks to address. While the above empirical studies shed significant knowledge on effect of lease financing on firms performance. However, knowledge is unknown on the effect of cost of borrowing on the performance of Homa-Bay county government in Kenya.

Smith and Wakeman (1985) and Sharpe and Nguyen (1995) using case study design found that leasing aids in alleviating financial costs. They argue that financing with a lease may reduce the cost of external funds that arise due to asymmetric information or from agency problems that give rise to costly monitoring as per Smith and Warner (1979) and Ezzell and Vora (2001). By financing via true lease the firm puts the lease obligation on par with other administrative expenses that have higher priority than normal debt. This makes leasing a highly desirable financial contract in the presence of asymmetric information as it pits leasing at the top of the pecking order of external financing options. Myers and Majluf (1984) argue that information asymmetry influences capital structure of firms. They demonstrate that if managers can issue safe debt, the adverse selection problem due to information asymmetry could be reduced. Pecking orders of capital structure arise in their model, where retained earnings followed by safe debt, risky debt and as last resort equity in that order to finance the operations (Donaldson, 1961).

Consistent with Myers and Majluf (1984) one can argue that leasing, being similar to secured debt should also mitigate the adverse selection problem. Gilligan (2004) argues that leasing may lead to cost reduction and lead to increasing the average quality of goods and services offered. From the above discussions, it is clear that lease helps mitigate the asset substitution problem due to agency and costly external financing due to information asymmetry and hence reduce any excess cost the firm could have incurred if they did not have complete information. Reduction in excess cost will help improve the performance of entities by ensuring quality of goods and services offered.

From the empirical studies reviewed above the concentration on private entities, adoption of different research deigns, different geographical regions brings clear differences with the current study. Consequently, the differences of operations, management and performance measurements knowledge of private entities highlights non-significance of the above studies to address the current research objectives. While the empirical studies have revealed varying results on impact of lease financing on firm’s performance with varying results, however knowledge is unknown on effect on public entities. In addition, knowledge is unknown on the influence of cost reduction on performance of Homa-Bay County Government in Kenya.

In Homa-Bay County, performance has been low due to usage of outright asset procurement to achieve performance targets. A report cited indicated an allocation of Ksh. 230 million for outright vehicles procurement in 2013-14 budgets which caused public concern. Presently only 3.3% have electricity against national average of 23%; paved roads at 4.8% against national average of 9.4%; water connectivity at 38.6% against national average 66.5% which are considered low. Despite concerted efforts to better the performance, however the attainment of high financial performance still remains a challenge. It is thus essential to address the challenges by investigating on the effect of choice of financing method adopted by Homa-Bay county government.

However, despite many studies on the subject of lease financing methods none have covered on choice of financing method to be adopted by Homa-Bay county government. Thus studies on influence of availability of financial resources; influence of cost of borrowing and; influence of cost reduction remains unknown. However this study has therefore addressed itself to this research gaps and sought to determine the effect of lease financing on the performance of Homa-bay County Government in Kenya.

1.2 Statement of the Problem

The main problem facing institutions is on how to finance their assets using cheaper ways. Thus, lease financing has been adopted over the years as a robust method of financing assets by both the private and public sector institutions. Globally more than 60 % of global leasing market is controlled by four countries (US, China, Germany and UK). Africa accounts for 0.08 % of the world lease market and the region showed a significant growth from 6.4 % in 2009 to 8.2 % in 2014 while Kenya lease market stands at less than 0.01% as at 2014. In Homa-Bay County, performance has been low due to usage of outright asset procurement to achieve performance targets. A report cited indicated an allocation of Ksh. 230 million for outright vehicles procurement in 2013-14 budgets which caused public concern. Presently only 3.3% have electricity against national average of 23%; paved roads at 4.8% against 9.4%; water connectivity at 38.6% against 66.5% which are considered low. Despite substantive efforts the attainment of high financial performance still remains a challenge. It is thus essential to address the challenges by investigating on the effect of choice financing method adopted by Homa-Bay county government. However, despite many studies on the subject of financing methods none have covered on choice of financing method to be adopted by the county government. Thus studies on influence of availability of financial resources on the financial performance of Homa-Bay county government; influence of cost of borrowing on the financial performance of Homa-Bay county government and; influence of cost reduction on the financial performance of Homa-Bay county government remained unknown. This study therefore addressed itself to these research gaps and sought to establish the effect of lease financing on the performance of Homa-Bay county government in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective.

The objective of the study was to establish the effect of lease financing on the performance of Homa-Bay County government in Kenya.

1.3.2 Specific objectives of the study

Specifically, this study sought to:

i) Determine the influence of availability of financial resources on the performance of Homa-Bay County Government, Kenya.

ii) Determine the influence of cost of borrowing on the performance of Homa-Bay County Government, Kenya.

iii) Analyze the influence of cost reduction on the performance of Homa-Bay County Government, Kenya.

1.3.3 Research Questions

i) What is the effect of availability of financial resources on the use of lease financing on the performance of Homa-bay county government, Kenya?

ii) What is the effect of cost reduction on the use of lease financing on the performance of Homa-bay county government, Kenya?

iii) To what extent does cost of borrowing on the use of lease financing have on the performance of Homa-Bay County Government, Kenya?

1.4 Scope of Study

The study scope is limited to Homa-Bay County Government. Homa-Bay County Government is one of the 47 counties in Kenya. The subject scope of this study is lease-financing effect on the performance of Homa-Bay County Government in Kenya. Both secondary and primary data from the period 2013/14, 2014/15 and 2015/2016 county government financial year reports was to be used.

1.5 Justification of the Study

The results of the study will contribute to increased knowledge and reference by current policy makers in articulation and upscale of lease financing method. The information that is generated from the study will also help academicians in complementing the much looked-for educational value to the previously conventional bulk of knowledge, with a breakthrough to further and endorse unbroken research in the discipline of lease financing and raise the finance discipline as a whole. The findings and recommendation of the study will therefore be useful to Homa-Bay county government policy makers and other stakeholders in the adoption of a lease financing method to attain higher investments, return on assets and equity.

1.6 Conceptual Framework

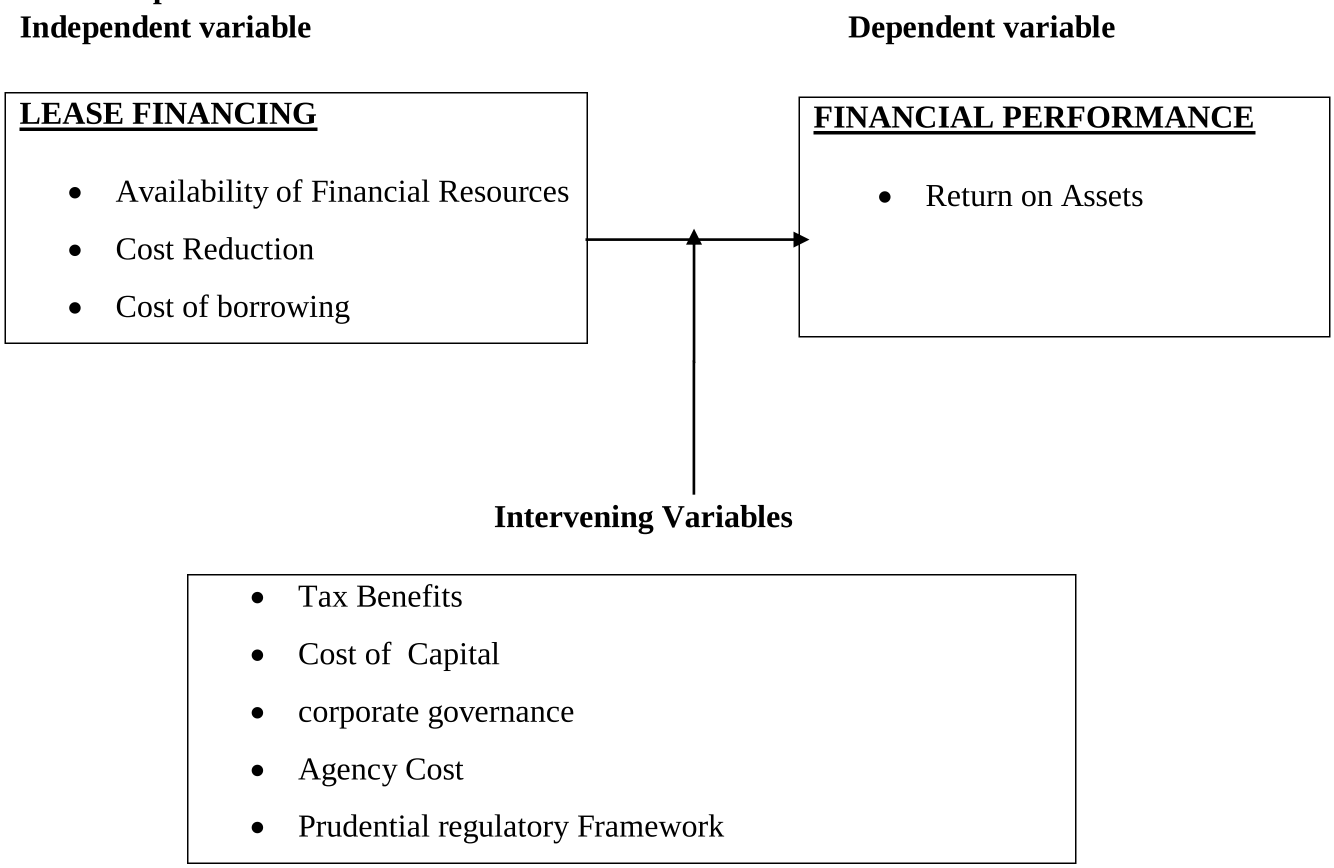


Fig 1: Relationship between lease financing and the financial performance of Homa-Bay County Government, Kenya

Source: Adopted from Ayuma and Munga (2013)

The conceptual framework above is anchored by the financial contracting theory and is modified by incorporating tax benefits, cost of capital, enhanced corporate governance, agency cost and prudential regulatory framework. From the conceptual framework the independent variable that is lease financing (availability of financial resources, cost reductions and cost of borrowing) affect the accomplishment of the dependent variable, that is financial performance (return on assets, return on investments and return on equity). The process is being moderated by intervening variables that is tax benefits, cost of capital, corporate governance, agency cost and prudential regulatory framework.

CHAPTER TWO: LITERATURE REVIEW

This chapter discusses literature related to lease financing effect on the performance of Homa-bay county government. It focuses on two substantive literature aspects. The theoretical reviews and conceptual reviews highlighted in the area of finance; concepts and the empirical review for evidences about lease financing effect on performance in various industries around the world.

2.1 Theoretical Review

2.1.2 Financial contracting theory

The theory that guided this study was the financial contracting theory. It was founded by Jensen and Meckling (1976).The fundamental argument of this theory opines that, if a firm is not in a full tax-paying position purchasing and depreciating an asset may be costly because it can use only low capital or depreciation tax allowance. Therefore, through leasing, the lessor would claim the tax allowance, and the tax benefits could be transferred indirectly to the lessee through lower lease payments. The theory affirms that company characteristics such as business risk and the nature of the investment opportunity should affect contracting costs and thus the choice to lease rather than to out-rightly purchase the asset. Incorporating agency costs into the financial contracting theory means that a firm determines its capital structure by trading off the tax advantage of debt against the costs of financial distress of too much debt and the agency costs of debt against the agency cost of equity. In effect, a firm will adapt its financing behavior and substitute its asset financing strategies in a way that results into net performance benefits in the long run (Ayuma and Munga, 2013). Hence, the substitution effect of asset lease financing can be used to finance more risky investments projects subject to availability of finance to influence performance positively (Isabwa, 2016).Financial contracting theory confides that the choice of financing decisions is based on the ability to contain cost of borrowing while minimizing cost. In effect, the theory enabled a comprehensive understanding of lease financing constructs and its particular influence to the performance constructs under scope of this study.

2.2 Lease Financing Concept

Historically, lease financing was first used in the 1700s in United States to finance horses and wagons. In mid-1800s, lease financing option was popularly used to finance locomotives, cars and other railroad cars (Taylor, 2011). During this time, short-term leases were more preferable and widely utilized in mid-1900s due to specific circumstances such as World War II and high demand of goods from customers and corporations (Taylor, 2011).

Different authors have defined lease financing, however the differences in the definition offers only one common meaning. Aliyu (2012) defined lease financing as an alternative mode or form of financing to the traditional debt and equity capital for the acquisition of capital assets by firms. Munene (2014) and International Accounting Standard 17 conceptualized leasing as an agreement whereby a lessor conveys to the lessee in return for payment or a series of payments with the right to use an asset for an agreed period of time. Consequently, leasing can be viewed as a contract between a lessor the owner of the asset and the lessee, the user of the asset (Pandey, 2014).

The IAS 17 classifies lease financing into two major groupings of finance and operating leases:

Finance lease entails long-term, non-cancellable lease contracts (Sangster, 2012). Financial leasing combines some of the net benefits of leasing with those of ownership. Thus, a finance lease is structured as a non-cancelable agreement, where the leasing company buys the asset, which the lessee has specifically chosen for his particular investment priority for a significant period of its useful life (Anyanwu, 2012).

On the other hand, operating leases involves the lessee only renting an asset over a time period which is substantially less than the asset's economic life. Operating leases normally run for three to over less than five years (Pandey, 2014). The lessor is usually tasked with the responsibility of asset maintenance and insurance. Moreover, this lease is cancellable by the lessee prior to its expiration, and the lessor provides service, maintenance and insurance costs while in most cases the sum of the lease payments does not necessarily for the full recovery of the entire asset.

The net advantages of leasing accruing to a firm includes less costly, lease financing are not fixed, offers protection against risk of obsolescence, offers financial flexibility and convenience and it's also an off balance sheet financing. (Munene, 2014; Miller & Upton, 1976).Thomson (2005) also argues that leasing helps the company maintain lower rates with better service solutions, thereby giving them a better market position and a robust competitive advantage.

2.2.1 Performance and Lease Financing

The performance can be defined as the accomplishment of specified business objectives measured against known standards, completeness and cost (Davis & Cobb, 2012; Thrikawala, 2011).The performance prism was introduced by Neely et al. (2011) based on three fundamentals premises. First, the organization should think about wants and needs of their important stakeholders and endeavor to deliver values to each of them if the organization wants to survive and prosper in the long-term. It is no longer acceptable for organizations to focus on one or two of their stakeholders (Gaughan, 2011).

Secondly, organizations have to align and integrate strategies, processes and capabilities in order to deliver real value to its stakeholders. Finally, the relationship between organizations and their stakeholders is reciprocal. Stakeholders have to contribute to organizations as well as to expect something from them (Alsaadi et al. 2014; Harash et al. 2013).

The measures of financial performance fall into two broad categories: Investor returns and accounting returns. The basic idea of investor return is that, returns should be measured from the perspective of shareholders e.g. value for money, economic satisfaction and increased welfare. Accounting returns of companies moreover focus on how the firm's earnings respond to different managerial policies e.g. ROA and ROE (Munene, 2014). In addition, the financial performance of a company is derived from the accounts of a company or can be found in the company's profit & loss statement or the balance sheet. Mungami (2013) asserts that leasing is an effective tool in achieving rapid economic development. For every 10 % growth in leasing activities leads to a corresponding 1 per cent average growth of GDP of a country.

However, it is essential also to introduce the non-financial measures of performance measurement because they too can be individually measured and verified (Isabwa and Omete, 2016). The non-financial measures are also known as subjective metrics measurements of performance (Mungami, 2013). Therefore, the balance scorecard, a performance and strategic management measurement technique have been adopted in non-profit making organizations and more so, in the public entities (Mullins, 2010).However my study will focus on both financial and non-financial measures to highlight the influence of lease financing on the performance of a public entity.

2.2.2 Homa-Bay County Government Financing Strategy

Homa-Bay County Government growth and development is anchored on effective and efficient robust fiscal strategic plans (CFSP, 2016). Public investments are focused on putting up priority infrastructure and cost cutting measures in asset acquisition and usage. These can be achieved through an analysis and rolling out of resources mobilization, expenditure prioritization, justification and limits implied by law as well as efficient management. Amongst the strategic expenditure policies initiated by Homa-Bay County Government included the rolling out of lease financing across its departments to higher proportions (CFSP, 2016).

According to the forgoing developments, the national government in partnership with county governments has witnessed increased level of asset leasing. These are aimed at reducing high financial cost within the public entities. The leasing industry in Kenya is expected to grow in the coming years as the government changes its policy on the procurement of public assets. The Budget Policy Statement (2013/2014) presented in the National Assembly by the cabinet secretary in charge of finance Hon. Rotich, had provided for an estimated Ksh. 3 billion for leasing of government automobiles and other medical assets (Kihara, 2013).The Public Procurement and Disposal Act Cap 412 C, 22. (1): States that all public procurement shall be in accordance with a system that is fair, equitable, transparent and cost effective.

2.3 Empirical Review

2.3.1 To Determine the Influence of availability of financial resources on performance

Isabwa and Omete (2016) using retrospective research design conducted a study on operating lease financing on the performance of stated owned sugar firms in Kenya. The target population was four state owned sugar firms in Kenya for period 2004-2014. The results of the study revealed negative impact of operating lease on the performance of the state owned sugar-manufacturing firms. ROA revealed a low asset utilization ratio due to applicability of lease financing. The study highlighted that the operations of manufacturing companies was principally geared on the high returns as measured by its effective asset utilization on capital employed.

In Florida USA, Gate (2013) using case study design examined the changes in financial position that might be the potential change in reporting operating lease financing option. The study used current ratio and quick ratio to measure liquidity position of the airline companies. The findings revealed that availability of liquidity of a firm had a positive significant influence on performance of airline firms, which adopted lease-financing option.

Aliyu and Oko (2012) did a study on the problems of equipment leasing among Nigerian firms using cross sectional survey research design. The study examined data across Nigerian and South African firms between periods 2001-2004. Samples were drawn and results analyzed based on differences of mean statistical tool. The study findings revealed negative impact of lease financing, as reduced costs of gearing to increase financing did not influence decisions on the adoption of lease financing method.

In Pakistan Asia, Muhammad (2012) did a study on the factors influencing the profitability of leasing firms using case study research design. They analyzed a pool of data of 28 leasing companies for a period of 2006 through 2008. The variables used to determine performance growth of firms included: size, financial liquidity, age of the existing firms and net benefit in lease financing. The study applied ordinary least squire regression model (OLS) for the analysis of results. The study findings indicated that size, financial availability and net benefits in lease financing had a positive relationship with the performance of firms.

Isabwa and Omete (2016) in Kenya conducted a study using retrospective research design did a study on effect of operating lease financing on the performance of state owned sugar firms. The results of study findings showed no significant influence as performance of firms stemmed from effective resource utilization. The performance pegged against availability of financial resources rested on better ROA measurements. Aliyu and Oko (2012) using cross-sectional research survey conducted a study across equipment leasing among Nigerian firms. His findings showed negative influence on usage of lease financing vis-à-vis performance targets. This was attributed due to non significant influence of financing strategy adopted costs of gearing remained high. Gate (2013) conducted a study using case study research design on changes in financial position within USA airline industry. Muhammad (2012) using case study research design conducted a study on factors influencing the profitability of leasing firms. The study adopted least squire regression model for the analysis of results. The significant influence availability of liquidity played a significant influence on firm's adoption of lease financing alternative. This was evident of the study findings which revealed that size, financial availability and net benefits in lease financing had a positive relationship with the performance of firms.

From the foregoing empirical studies, the findings focus on private while the present study is focuses on analysis of lease financing effect on a public entity. Moreover, the studies have adopted different research designs and on different geographical regions hence the findings are not significant in answering the current study objectives. In addition the study findings have also failed to highlight knowledge on the net strengths of lease financing on performance across public entities which the present study seeks to address. Though the studies sheds important knowledge on lease financing firm's performance across different industries, however knowledge is unknown on the influence of availability of financial resources on the performance of Homa-Bay county government in Kenya.

2.3.2 To Determine the Influence of Cost of Borrowing on performance

Mungami (2013) using descriptive design conducted a study on the determinants of lease financing decisions across a sample population of 40 non-financial firms quoted on Nairobi securities exchange in Kenya. The variables under study included financial cost acquisition, availability of financial resources across the listed firms. The study findings revealed no significant relationship between financial distress and high leverage by firms on the adoption of lease financing decisions.

In the UK Lasfer and Levis (2009) using case study design conducted a study on effect of lease financing on performance firms. The results of the study revealed that firms utilizing lease financing were generally bound to be larger in terms of sales turnover and to exhibit higher gearing ratio and market to book ratios. Firms using lease financing generally had higher gearing levels as measured by additions to other non-current assets. The study findings revealed that firms using lease financing exhibited higher performance levels as evidenced by higher growth.

Munene (2014) carried out a study using descriptive design on effect of lease financing on the financial performance across 62 public listed firms in Kenya. The study findings revealed that lease financing does not have significant influence on the financial performance of the listed firms at the bourse. While the relationship between lease financing was negative, it also failed the significance tests at all the acceptable levels. The R^2 showed that the model explained 2.3 % of variance in ROA and it was not fit as the F-statistics was also insignificant at 5% level of significance.

Mungami (2013) and Munene (2014) using descriptive research design conducted studies on lease financing effect on firms performance. Both study findings revealed negative relationship lease financing decisions on firm's performance as shown by high financial distress cost. Munene (2014) sampled data of 62 listed companies. The study findings showed low ROA and ROE ratios. Other significant variables such as the F-statistics showed unimpressive values at low significance level of 5% .Low ROA indicator was evident non-significant influnce of lease financing on performance of the listed firms as the cost of gearing wiped away the benefit of borrowing. Lasfer and Levis (2009) in did a study on effect of lease financing on the performance of production companies using both case study research design. The findings revealed that firms using lease financing exhibited higher performance levels as evidenced by higher growth. The high cost of gearing of firms using lease financing are greatly improved due to effective risk-return trade-off as witnessed by high returns on investments.

From the above empirical studies reviewed, the studies have concentrate on private entities while the present study seeks to determine the effect of lease financing influence on performance of a public entity. Moreover, the findings could have failed to highlight the net benefits of lease financing across public entities which the present study seeks to determine. In addition, the research designs adopted by the above studies have failed to show cause-effect analysis of lease financing concept on performance. While the above empirical studies shed significant knowledge on effect of lease financing on firms performance. However, knowledge is unknown on the effect of cost of borrowing on the performance of Homa-Bay county government in Kenya.

2.3.3 To Analyze the influence of cost reduction on performance

Akinbola and Otokiti (2012) using cross sectional survey conducted a study on effect of lease financing option as source of finance on the profitability of performance of SME's in Nigeria. The study used cross sectional survey. A sampling population of 300 respondents SME's owners was involved in the study. The study findings revealed a positive relationship between adoption of lease financing and the profitability of SME's due to cost reduction.

In Bangladesh Asia, Salam (2013) did a study on the causal relationship of lease financing on the performance of small and medium enterprises using case study design. The study utilized financial ratio of ROE and ROA to examine the data among 23 medium enterprises and 30 SME's in Bangladesh. The study used content analysis and multi-stage random sampling technique. The findings of the study showed that there was a positive correlation between lease financing adoption and performance as expressed by ROA and ROE through simple regression statistical analysis.

In Kenya, Ayuma and Munga (2013) conducted a study using case study design on factors influencing the use of lease financing in public institutions. They examined data from 293 staff working in the national treasury. The study used case study design technique and descriptive research design. The variables under study included availability of financial resources, cost reduction and firms cost of borrowing. The study established that cost reduction and agency cost had positive influence on the use of lease financing in public institutions.

In USA, Singh (2011) and Branswijck (2011) carried out a study using case study design method by selecting 7 pairs of USA companies varied from different consumer goods production industries. The study objective was to determine the effect of lease financing on the financial performance of SME’s in USA states. The study findings revealed that D/E ratio increased significantly on gearing at 191 % and marginally at 47% in case of adoption of operation lease financing potion.

Salam (2013); Singh and Branswijck (2011) using case study design investigated the effect of lease financing on financial performance of SME’s. The key performance measurements of SME’s indicated high profitability as indicated by high ROA and ROE ratios. The improvement of D/E ratio values revealed positive impact of lease financing on firm’s profitability. Akinbola and Otokiti (2012) conducted a study in Nigeria on effect of lease financing option as source of finance on the profitability of performance of 300 SME’s using cross-sectional survey design. His study findings showed positive significant influnce of lease financing vis-à-vis performance measurement. Financial decisions on operational cost strategies are variables on consideration by SME’s on adoption of lease financing option. Ayuma and Munga (2013) in Kenya did a study on factors influencing the use of lease financing in public institutions using case study resaech design. The study adopted random sampling technique. The findings revealed positive influence of lease financing decisions on performance. The cost-benefit analysis decisions are imperative for public entities to maintain effective and efficiency in performance deliverables and enhancing maximum value to the stakeholders with adoption of more robust financing options.

From the empirical studies reviewed above the concentration on private entities, adoption of different research deigns, different geographical regions brings clear differences with the current study objectives. Moreover, the simple nature of operations, size and performance measurements knowledge of private entities against the current study on a public entity, highlights non-significance of the above studies to address the current research study. While the empirical studies reveal positive influence of lease financing on performance of private firms, however knowledge is unknown on public entities. Moreover, knowledge is unknown on the influence of cost reduction on performance of Homa-Bay County Government in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter covers in details the research methodology. It specifically looks at what comprises the target population, the study area, the research design, sampling technique, sample size, data collection instruments and their reliability and validity.

3.1 Research Design

The study adopted a causal survey research design to collect data within the ministries of Homa-Bay County Government. The design was chosen because it is an efficient method of collecting descriptive data regarding characteristics of a sample of a population, current practices, conditions or needs (Creswell, 2009). The design was used as it allowed the collection of a large amount of data directly from the field in a highly economical way. In addition, it was appropriate in obtaining primary data about individual's perceptions, attitudes, behavior and values (Kothari, 1985).

3.2 Study Area

The study was conducted in Homa-Bay County Government of Kenya. The county is located in the western part of Kenya at 27'33.85 E and 31'43.33 S and covers an area of 3,183.3 sq km with a population of about 963,794 people. It is located 105 km south of Kisumu and about 420 km south-west of Nairobi**;** Homa Bay town is the headquarters of Homa Bay County. The County also borders Lake Victoria to the north and west.

3.3 Target Population

The target population was the staff working within Homa-Bay County Government Ministries within the administrative departments. According to Homa-Bay County Government of Kenya 2016 annual report, there are approximately 230 employees within the five Ministries: Transport, Health, Finance, Trade and Water Services. Thus the target population of this study was 230 respondents. The study concentrated on the five key departments since they are tasked with financial formulation and implementation and thereby provide a better representation of the general population.

3.4 Sampling Size and Sampling Technique

The study adopted stratified random sampling. Kombo and Tromp (2006) assert that this method of sampling is mainly applied where the population is in strata. Random sampling was used to select the specific respondents from the strata. The study adopted the formula suggested by

Yamane (1967) as quoted by Cooper and Schindler (2006) to determine the sample from each stratum. The formula is:

$$n = \frac{N}{\left[1 + N(e)^2\right]} \quad \text{...} (3.1)$$

Where: n=the desired sample size

N=is the population.

e= is the level of precision set at 0.05

$$n = \frac{230}{\left[1 + 230(0.05)^2\right]} = 146$$

Table 3.1: Sample Frame

Ministries	Target Population	Sample size
Transport and Infrastructure	45	30
Health Services	46	25
Finance and Economic Planning	45	31
Water Services and Environment	46	28
Trade, Industry and Investment	48	32
Totals	**230**	**146**

Source: Homa-Bay County Government of Kenya Records, 2016

3.5 Data Collection Methods

Primary data was collected from the employees in the various departments within the five Ministries: Transport, Health, Finance, Trade and Water Services in Homa-Bay County Government. Questionnaires was used to collect primary data. Secondary data from county accounting books, county annual reports, journals, financial statements, budget proposals and internet sources was also used to supplement the primary data.

3.5.1 Data Collection Procedure

Questionnaires were administered through research assistants. The research assistants were used since the area to be covered is large and some of the questions in the questionnaires are technical and will need interpretation. The questionnaires were filled as the research assistants waited and in cases where the respondents were either be busy or unavailable, the questionnaires were dropped and picked after one week.

3.5.2 Reliability of Research Instrument

The questionnaires were tested to ensure reliability and validity. A research instrument is reliable when it has the consistency of measurement (Mugenda and Mugenda, 2003). Reliability gives the internal consistency of data collected. Creswell (2009) asserts that reliability means the findings would be consistently the same if the study were done over again by ensuring that the degree of consistency or stability is high. To achieve this, a pilot study was done within the five Ministries: Transport, Health, Finance, Trade and Water Services in Homa-Bay County Government. The test-retest coefficient will be used to indicate if the data collection instrument was reliable. The instrument was considered reliable if the test-retest coefficient of Cronbach's Alpha threshold of more than 0.7 (Creswell, 2009).

3.5.3 Validity of Research Instrument

Validity of the questionnaires was tested by using the Content Valid Index (CVI). To achieve these, relevant items in relation to the research objectives in the questionnaire was divided by the total number of items (Fisher, 2004). The validity was described as follows:

$$CVI = \text{Relevant items} \div \text{Total number of items}$$

Fisher (2004) indicates that for a research instrument to be valid, the CVI should be more than 0.7. A pilot study was done in Homa-Bay County Government using 5 respondents to determine the validity of the research instrument. The respondents used in the pilot study did not form part of main sample size of the study.

3.6 Data Analysis

Data was analyzed using descriptive and inferential statistics. Descriptively, proportions and percentages were also computed. Inferentially, raw data was put into SPSS spreadsheets then regression run to determine the relationship between the independent and the dependent variables. The regression equation used is as follows:

Operational Performance $_i = \beta_0 + \beta_1 RFR_i + \beta_2 ECR_i + \beta_3 RCR_i + \varepsilon_i$

Where:

Operational Performance of Homa-Bay County Government i was measured by the return on assets, return on investments and return on equity.

β_0 is the constant term (Lease Financing)

β_1 is the slope for Reviewing of Availability of Financial Resources (RFR) for *i*

β_2 is the slope for Reviewing of Cost Reduction (ECR) for *i*

β_3 is the slope for Reviewing of Cost Reduction (RCR) for *i* and

ε_i is the error term which is assumed to be normally distributed.

3.7 Data Presentation technique

The analyzed data was presented through frequency distribution tables, graphs and pie charts to examine the pattern of responses to each of the variable under study. Tabulation condenses a large mass of data and brings out the distinct pattern in a data in an attractive form. It enables comparison to be made easily among classes of data and takes up less space than data presented in narrative form.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study based on the objectives of the study. First, the study presents the response return rate of the respondents followed by demographic characteristics of the respondents. Finally, the study presents the findings based on the objectives of the study with the discussions in the subsequent sections.

4.2 Response Rate

The study sought views from a total of 230 respondents after successfully determining the sample size of 146 respondents from employees of Homa-Bay County Government from the ministries of: Transport, Health, Trade, Finance and Water Services. Table 4.1 presents the results on the response rate from the questionnaires.

Table 4.1 Response Return Rate

Respondents	Frequency	Percentage return rate **F(%)**
Homa-Bay County Employees	146	146 (99.32%)
Total	146	146 (99.32%)

The results in table 4.1 indicate that out of 146 questionnaires administered, 145 were successfully returned as fully answered. This led to response rate of 99.32%, which is satisfactory percentage return.

The second variable of importance among the respondents was the gender of the respondents. The study sought to establish the majority of respondents in terms of gender to establish of nature of employees within HCG, Kenya. The findings are presented as shown in table 4.2.

Table 4.2 Gender of the Respondents

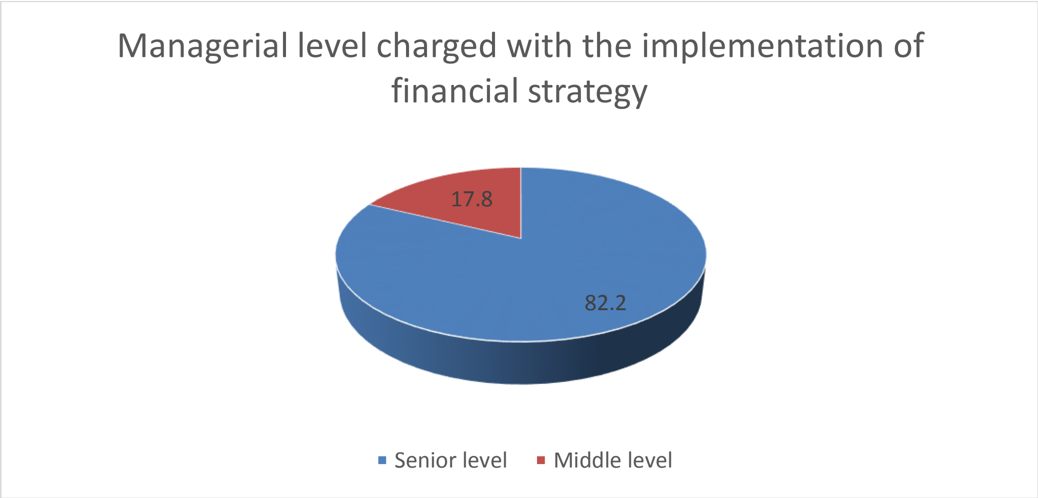
		Frequency	Percent
	Male	77	52.7
Valid	Female	69	47.3
	Total	146	100.0

From the findings, there is clear difference in the gender of the respondents. The findings revealed that majority of the respondents are male respondents 77(52.7%) while 69(47.3%) are female. This implies that there is a good number of female respondents employed within HCG, which is well representation of the third gender rule as envisaged in the Kenyan constitution.

4.3 Managerial level and ministry charged with the implementation of financial strategy

The study also sought information on the managerial level charged with the implementation of financial strategies within HCG, Kenya. These are presented as shown in figure 4.1 using a pie chart.

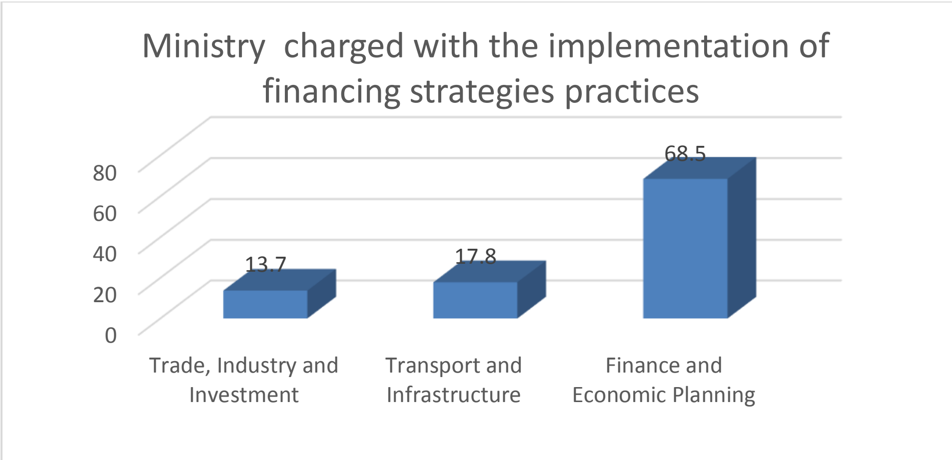
Figure 4.1: Managerial level charged with the implementation of financial strategy



From the findings presented in fig 4.1, it is clear that majority of the respondents, 120(82.2%) were senior level managers followed by 25(17.8%) of middle level managers.

The second variable under consideration included the ministries charged with the implementation of the financing strategies.

Figure 4.2: Ministry charged with the implementation of financing strategies practices



From the findings presented in fig 4.2, it is clear that majority of HCG is conducted by Ministry of Finance and Economic Planning (68.5 %,) followed by 17.8% Ministry of Transport and Infrastructure and 13.7% indicated as Ministry of Trade, Industry and Investment.

4.3 Availability of Financial Resources on Financial Performance of HCG, Kenya

The first objective of the study sought to determine the influence of availability of financial resources on performance of HCG. First, study respondents were asked to give information on the usage of lease financing within HCG. From the responses it was clear that HCG adopted lease financing as an alternative form of asset financing strategy.

Table 4.11 Influence of AFR on Financial Performance of HCG

	NA	LE	M	ME	FE	Mean	Std. d
Usage of lease financing	9(0.06)	16(0.11)	35(0.24)	41(0.28)	45(0.31)	3.76	0.87
AFR usage as basis on the adoption of lease financing strategy	5(0.03)	6(0.04)	44(0.30)	50(0.34)	41(0.28)	3.81	0.92
AFR impact on the nature of asset to be leased by the HCG	10(.07)	14(0.10)	40(0.27)	40(0.270	40(0.27)	3.67	1.01
AFR impact on lease rentals of the assets under lease program	6(0.04)	11(0.08)	40(0.27)	43(0.29)	44(0.30)	3.73	1.00
AFR impact on the economic life of the leased assets in HCG	8(0.05)	9(0.06)	44(0.30)	42(0.29)	45(0.31)	3.81	1.05

The findings in table 4.11 show extent to which lease financing is used in Homa-Bay County government and the influence of availability of financial resources on the financial performance. From the findings, majority of respondents 45(31%) agreed that lease financing was adopted by HCG in its financing strategies. These was also supported by 41(28%) much extent and 35(24%) moderate extent. A mean of 3.76 and standard deviation of 0.87 were also obtained implying that the availability of financial resources largely influenced the adoption of lease financing and thus the financial performance. It is also clear from the findings that efficiency and effectiveness of asset utilization indicated positive adoption criteria on lease financing decisions. Asset economic life utilization revealed a mean of 3.81 and a standard deviation of 1.05 as revealed by the respondents overwhelmingly.

The study therefore sought to determine whether the availability of financial resources on lease financing adoption had an influence on financial performance as measured by return on assets. Simple linear regression model was therefore used to determine this influence through coefficient table 4.3 results below. The predictor variable is availability of financial resources while the outcome is the financial performance as measured in terms of return on assets.

	Un-standardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1(Constant)	.880	.416		.192	.847
Availability of financial resources	.202	.086	.112	2.779	.037

a. Dependent Variable: Financial Performance of HCG

The findings in table 4.3 indicate that availability of financial resources has an effect on financial performance of Homa-Bay County Government, Kenya. This is shown by a significant unique contribution of the predictor (beta=0.112, (26)=2.779, p=0.037). This means that an increase in the availability of financial resources is likely to increase the financial performance of HCG by 0.112 units which is significant. The findings on the variance on return on assets for the predictor variable are presented in table 4.4 below:

Table 4.4 Summary Results on Effect of Availability of Financial Resources on Financial Performance (Coefficient of determination (Regression))

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.65	.81	.75	.21	.81	5.67	1	143	.00

a. Predictor: (Constant), y1 lease financing

The findings in table 4.4 indicates that availability of financial resources usage is positively correlated with the financial performance of Homa-Bay County based on return on assets (R=0.65). An R squire value (R squire=0.81) was also obtained, which indicates the percentage change in financial performance accounted for by the availability of financial resources. After adjustment, availability of financial resources explains 75% variance in financial performance of HCG (Adjusted R squire=0.75) a percentage that is found to be significant as indicated by the model significance, F (1, 143)=5.67, p=0.00. These findings imply that availability of financial resources have an effect on the financial performance of HCG and seek to explain a significant percentage of 75%. This concept helps to answer the research objective that availability of financial resources usage on lease financing has an impact on the financial performance of Homa-Bay County Government, Kenya.

The above findings are consistent with research findings obtained by Tarus (1997), Letoluo (2003), Mogire (2013) and Eric (2012) on the availability of financial resources on usage of lease financing on the financial performance of various entities. These studies revealed that there is positive impact of lease financing on the financial performance of various entities including both private and public sector firms.

4.4 Cost of borrowing of funds on financial performance of HCG, Kenya

The second objective of the study sought to determine the effect of cost of borrowing on the financial performance of HCG, Kenya. The first step in achieving this objective was by analyzing on the cost borrowing strategies adopted by HCG. Therefore, the study respondents of HCG employees were asked to give information on effect of cost of borrowing on usage of lease financing on financial performance of Homa-Bay County. The results of the study are indicated below in 4.6.

Table 4.12 Influence of Cost of Borrowing on Financial Performance of HCG

	NA	LE	M	ME	FE	Mean	Std. d
CB used as basis of lease financing strategy	9(0.06)	16(0.11)	35(0.24)	41(0.28)	45(0.31)	3.76	0.87
CB impact on capital projects under lease financing strategy	5(0.03)	6(0.04)	44(0.30)	50(0.34)	41(0.28)	3.81	0.92
CB impact on performance of leased assets	11(.08)	15(0.11)	40(0.27)	39(0.25)	40(0.27)	3.72	0.98

The findings in table 4.12 shows that Cost of borrowing had an impact on choice of financing strategy adopted (CB as basis of lease financing uptake indicates; mean=3.76, std=0.87; CB impact on projects performance shows; mean=3.81, std=0.92; CB impact on leased assets indicates; mean=3.72, std=0.98). From the table it is clear from the respondents' information that cost of borrowing strategy on usage of lease financing is a key consideration. The study therefore sought to determine whether cost of borrowing basis on lease financing adoption had an influence on financial performance as measured by return on assets. Simple linear regression model was therefore used to determine this influence through coefficient table 4.7 results. The predictor variable is cost of borrowing while the outcome is the financial performance as measured in terms of return on assets.

Table 4.6 Effect of cost of borrowing on the financial performance of HCG

	Un-standardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1(Constant)	0.880	.416		.192	.847
Cost of Borrowing	.140	.214	.171	2.857	.045

a. Dependent Variable: Financial Performance of HCG.

The findings in table 4.6 indicates that cost of borrowing used as basis of lease financing has an important contribution towards the financial performance of HCG, beta=.171, t(26)=2.857, p=0.045. The findings therefore indicate that, the predictor variable (cost of borrowing) has an effect on the financial performance of HCG. Further implication indicates that a change cost of borrowing strategy will automatically lead to an increase in the financial performance within Homa-Bay County.

In effect, it is therefore essential to establish and analyze the variance arising from cost of borrowing usage of lease financing on the financial performance of HCG as expressly shown in table 4.6 below:

Table 4.7 Summary Results on Effect of Cost of Borrowing on Financial Performance (Coefficient of determination (Regression))

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.53[a]	.73	.69	.31	.73	4.87	1	143	.03

a. Predictor: (Constant), y1 lease financing

The findings indicate that cost of borrowing are positively correlated with the financial performance of HCG (R=0.53). This value when squired as indicated in the R squire in table 4.7 shows variance in financial performance (return on assets) which is accounted for by cost of borrowing (R squire=0.73). Through statistical adjustment the R squire is adjusted to a value of 0.69, which is considered a strong estimated of cost of borrowing impact. In effect this means that cost of borrowing accounts for a variance of 0.69 on the return of assets of HCG. These findings are thus significant as indicated by an F ratio value which is statistically generated, F (1, 143) =4.87, p=0.03. Therefore it implies that the model is significant and the F value is not by chance but statistically generated and fits the model. These findings therefore lead to a conclusion that lease financing has an effect on the financial performance of Homa-Bay County Government, Kenya.

The above findings are consistent with those obtained by Muhammad, et al. (2012), Adams and Buckel (2000) and Vasantha (2012), on effect of lease financing usage on financial performance of firms. The study therefore concluded that there is positive impact of lease financing usage on the financial performance of Homa-Bay county government, Kenya.

4.5 Cost reduction influence on the financial performance of HCG, Kenya.

The final objective of the study was to determine the effect of cost reduction on the financial performance of Homa-Bay County, Kenya. First the respondents were asked on their response regarding lease financing effect on return on assets performance. Therefore information was sought from the study respondents on their response concerning cost reduction impact on usage of lease financing on the financial performance of Homa-Bay as a whole. In effect the respondents composed of the employees within the ministries of HCG were asked to give their information through use of questionnaires. The results of the study are presented in table 4.14 below:

Table 4.14 Effect of Cost Reduction on Financial Performance of HCG

	NA	LE	M	ME	FE	Mean	Std. d
CR impact on HCG overall financial health	7(0.05)	9(0.06)	41(0.28)	44(0.30)	45(0.31)	3.81	1.05
CR impact on corporate governance and taxation	6(0.04)	6(0.06)	39(0.27)	46(0.32)	46(0.32)	3.77	1.04
CR impact on budget performance and control	11(.08)	15(0.11)	40(0.27)	39(0.25)	40(0.27)	3.72	0.98

The findings in table 4.14 clearly indicate the extent to which cost reduction on the financial performance of HCG, Kenya. From the table results a large majority of respondents indicated that CR as an impact on financial performance: Full extent 45(31%) (mean=3.81, std=1.05) followed by much extent 44(30%) indicating that cost reduction largely influences financial performance. Cost reduction effect on corporate governance and tax benefits had a response rate of; Full extent 46 %(32%) and much extent 46(32%), mean=3.77 and std=1.04. Finally cost reduction on budget indicated; Full extent 40(27%), much extent=39 followed by moderate 40(27%) with a mean=3.72, std=0.98. In summary, these findings indicate to large extent cost reduction has an impact on the financial performance of Homa-Bay County. The results from the respondents are thus presented in table 4.7

Table 4.6 Effect of cost of reduction on the financial performance of HCG

	Un-standardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	Sig.
1(Constant)	0.880	.416		.192	.847
Cost Reduction	.308	.100	.383	4.29	.002

a. Dependent Variable: Financial Performance of HCG.

The findings in table 4.6 indicates that cost reduction used as basis of lease financing has an important contribution towards the financial performance of HCG, beta=.383, t(11)=4.29, p=0.002. These finding therefore indicates that, the predictor variable (cost reduction) has an effect on the financial performance of HCG. Further implication indicates that a change in cost reduction control will automatically lead to an increase in the financial performance within Homa-Bay County.

In effect, it is therefore essential to establish and analyze the variance arising from cost reduction in usage of lease financing on the financial performance of HCG as expressly shown in table 4.6 below:

Table 4.7 Summary Results on Effect of Cost of Reduction on Financial Performance (Coefficient of determination (Regression))

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.59	.77	.71	.47	.77	5.3	1	143	.03

a. Predictor: (Constant), y1 lease financing

From the above study findings in table 4.7, indicates that there is a positive correlation between cost reduction on usage of lease financing and the financial performance of HCG based on return on assets (R=0.59). In effect this means that the variables under study are statistically correlated. Thus the study findings indicates that cost reduction on usage of lease financing accounts for 71.0% variance on the financial performance of HCG after statistical adjustment. Consequently the study findings were found to be significant as indicated by the significance model, $F(1, 143)=5.3$, $p=0.03$. This therefore implies that cost reduction on usage of lease financing positively influences the financial performance of Homa-Bay County government, Kenya. In effect there is a strong positive impact of lease financing on financial performance of HCG. This leads to the conclusion that usage of lease financing has an impact on the financial performance of Homa-Bay county government, Kenya.

The above findings are consistent with those obtained by Akinbola and Otokiti (2012), Salam (2013), Ayuma and Munga (2013) , Singh and Branswijck (2011) on the effect of lease usage on the financial performance of various entities including within the public and private sectors. In effect the study concluded that lease financing usage has a positive impact on the financial performance of Homa-Bay county government, Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter shows the summary of the research findings, conclusion, recommendations for policy adoption and practice. The chapter also discuses a few limitations encountered as suggestions for further studies within and across various industries.

5.2 Summary of Findings

The study sought to examine the relationship between lease financing and financial performance of Homa Bay county government in Kenya. Primary data was collected and used in the analysis.

With regard to asset financing strategies, the study findings established that Homa Bay county government uses lease financing strategy and outright asset purchase. The study findings established that lease financing strategies affected the performance of Homa Bay county government.

The study established a regression analysis to establish the strength of the factors affecting the performance of Homa Bay County in Kenya with regard to lease financing. From the research findings, the study established that there existed a strong positive relationship between availability of financial resources, cost reduction, cost of borrowing and financial performance of Homa Bay county government in Kenya.

5.3 Conclusions and Recommendation

From the study findings, various conclusions are made from the study objectives.

The first objective findings indicated that availability of financial resources on usage of lease financing was correlated with financial performance of HCG. From the findings, it can be concluded that availability of financial resources had a positive impact on the financial performance of Homa-Bay County. The growth of HCG can increase due to adoption lease financing a robust financing strategy.

Second objective sought to determine the effect of cost of borrowing on usage of lease financing on the financial performance of Homa-Bay County. The results from the study show a positive correlation between cost of borrowing and the financial performance. It can therefore be concluded that lease financing strategy should be adopted by Homa-Bay county government, Kenya in order to realize sustainable growth and development.

Finally, the third objective sought to determine the influence of cost reduction on usage of lease financing on the financial performance of Homa-Bay County. The study revealed positive correlation between cost reduction and the financial performance. In effect, it can therefore be concluded that lease financing proportions should be increased within the ranks of HCG policy makers in order to gain meaningful grounds in terms of economic development and efficient resource utilization.

5.4 Recommendations and implications

The study recommended that there is a positive relationship between lease financing and financial performance which may suggest that high levels of lease financing could be of importance. Therefore it is important for the county government to examine what value lease financing may add to them when other financing options are available.

The study also recommends that the Leasing Association of Kenya, needs to be proactive in marketing and providing information on the leasing products in Kenya. This could be monthly updates on the leasing products, incentives that encourage leasing uptake and costs involved in use of lease. This will go a long way to increase the use of both operating and finance lease which might improve the significance levels of lease financing within other county governments and firms in Kenya.

Lastly, the study recommends that firms should improve on their cost reduction to improve liquidity since there is evidence that higher liquidity may lead to higher financial performance. This is because at present the ratios are low and they significantly affect the financial performance, an improvement of these ratios may therefore improve their performance since more liquidity means that county government can meet their immediate obligations without hurting their working capital. High liquidity ratios can be achieved through reduction of current liabilities.

5.5 Limitation of the Study

Firstly, a resource constraint was a major challenge. Due to financial constraints, the study was under-powered, and thus, did not reach statistical significance as well as time constrained was a challenge. The researcher had however made adequate provisions to reduce the challenges.

5.6 Recommendations for Further Studies

This study was limited to Homa Bay county government of Kenya. This study therefore suggests that further studies should be conducted on the effect of lease financing on the financial performance across public and private sectors.

This study recommends that further studies be done on the influence of governments' policies on lease financing in Kenya. This will also help bring forward the influence of government policy on asset financing in Kenya.

Future studies should also be done on the challenges in lease financing so as to develop ways in which these challenges can be dealt with.

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APPENDIX I: INTRODUCTORY LETTER

MASENO UNIVERSITY

PRIVATE BAG

MASENO, KENYA

DEAR RESPONDENTS,

I am a student of Maseno University pursuing Masters of Business Administration. As part of my study, I am required to collect data on the effect of lease financing on the performance of Homa-Bay County Government. You have been selected to participate in the study, I kindly request for your vivid response on filling the attached questionnaire. Your identity will be confidential for the purpose of the study, otherwise thanks in advance for the response.

Yours faithfully,

ISMAEL OWIRO ODONDI..

APPENDIX II: QUESTIONNAIRE

Dear respondent,

I am Ismael Owiro Odondi, a student of Maseno University pursuing a degree of Master of Business Administration. I am carrying out a research study on "EFFECT OF LEASE FINANCING ON THE FINANCIAL PERFORMANCE OF HOMA-BAY COUNTY GOVERNMENT, KENYA". Be assured that the information you give will be used purely for academic purposes and will be treated with high degree of confidentiality. I shall appreciate if you answer the following questions as honestly as possible.

Name (Optional):

Gender

Male ☐

Female ☐

SECTION A

1. Which managerial level is charged with the implementation of financial strategy, investments and development decisions in the county?

   Senior level ☐

   Middle level ☐

   Lower level ☐

   Others specify if any…………………………………………………………………..

2. Which Ministry is charged with the implementation of financing strategies practices within the county?

   Trade, Industry and Investment ☐

   Transport and Infrastructure ☐

   Finance and Economic Planning ☐

Others specify if any…………………………………………………………..

3. Does the county use lease financing strategy. If {Yes} proceed to question 4

Yes ☐

No ☐

4. To what extent are the following asset financing strategies being used and implemented by the institution?

Use the scale of

1=Not at all, 2=Little extent, 3=Moderate extent, 4=Much extent, 5=Full extent

No	1	2	3	4	5
1. Asset lease financing strategy					
2. Outright asset purchase					
3. Hire purchase					
4. Loans(Debt)					

SECTION B

1. To what extent does the availability of financial resources used as the basis on the adoption of lease financing strategy?

Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Capital budget allocations					
2. Budget ceilings					
3. Budget appropriations					

2. To what extent does the availability of financial resources impact on the nature of asset to be leased by the county?

    Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Ambulances and Fire trucks					
2. Medical equipment and machinery					
3. Heavy commercial and general motor vehicles					

3. To what extent does the availability of financial resources impact on lease rentals of the assets under lease program?

    Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Ambulances and Fire trucks					
2. Medical equipment and machinery					
3. Heavy commercial and general motor vehicles					

4. To what extent does the availability of financial resources impact on the economic life of the leased assets?

    Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
4. Ambulances and Fire trucks					

5. Medical equipment and machinery					
6. Heavy commercial and general motor vehicles					

SECTION C

1. To what extent does the cost of borrowing of funds used by the institution as the basis of choice of lease financing strategy?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Financial cost/Cost of capital					
2. Method of financing					
3. Tax shield benefits					

2. To what extent does the cost of borrowing of funds used impact on nature of capital projects under lease financing strategy?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Capital assets					
2. Recurrent assets					
3. Consumable assets					

3. To what extent does the cost of borrowing of funds used by the county impact on the performance of projects under lease financing strategy?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Capital assets					
2. Recurrent assets					
3. Consumable assets					

SECTION D

1. To what extent does cost reduction objective impact on overall health of the institution due to adoption of lease financing strategy?

    Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5= Full extent

No	1	2	3	4	5
1. Budgeting cost					
2. Cost containment					
3. Tax benefits					

2. To what extent does cost reduction objective impact on the overall budget control due to adoption of lease financing strategy?

    Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5= Full extent

No	1	2	3	4	5
1. Capital budgeting					
2. Operating budgeting					

3. To what extent does cost reduction objective impact on corporate governance, tax benefits and prudential regulatory framework of the county due to the adoption of lease financing strategy?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5= Full extent

No	1	2	3	4	5
1. corporate governance					
2. Financial prudence					
3. Stakeholder value					

SECTION E

1. To what extent does usage of lease financing influence the financial performance of the county?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Return on investments					
2. Return on assets					
3. Return on equity					

2. Has lease financing influenced the return on assets within the county?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Asset replacement cost					
2. Asset maintenance					
3. Asset utilization					

3. Has lease financing influenced the rate of investments within the county?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Resource generation					
2. Resource redistribution					
3. Resource management					

4. Has lease financing influenced the return on investments within the county?

   Use the scale of

1=Not at all 2=Little extent 3=Moderate extent 4=Much extent 5=Full extent

No	1	2	3	4	5
1. Health services					
2. Water services					
3. Electricity connectivity					
4. Emergency services					

Thank you for taking your time to complete this questionnaire and answering honestly!

END

APPENDIX III: OBSERVATION CHECKLIST

NO	SUB-COUNTY VISITED	FACILITIES	STATUS

APPENDIX IV: INTERVIEW SCHEDULE

NO	INTERVIEWEE	DATE	REMARKS
1	DIRECTOR MINISTRY OF HEALTH		
2	DIRECTOR MINISTRY OF TRADE		
3	DIRECTOR MINISTRY OF FINANCE		
4	DIRECTOR MINISTRY OF WATER		
5	DIRECTOR MINISTRY OF ENERGY		

APPENDIX V: RESEARCH PLAN

Activity						
Searching and review of research topic						
Understanding the pilot study						
Field work						
Data collection						
Analysis of the data collected						
Report writing and submission of research report						

APPENDIX VI: RESEARCH BUDGET

ITEMS DESCRIPTION	PROJECTED COST (Kshs)
Internet expenses	10,500
Printing of Research instruments	7,500
Printing of Proposals and binding	10,500
Printing and Binding project books	6,500
Miscellaneous expenses	15,500
TOTAL	**50,500**

APPENDIX VII: HOMA-BAY COUNTY LOCATION MAP (HOMA-BAY, KENYA)

Location of Homa-Bay County (27’33.85 E and 31’43.33 S)