

**LEASING COMPETENCE, LEASE STRUCTURE AND PERCEIVED
PERFORMANCE OF SMEs IN UGANDA**

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Declaration

I, Kampumure Joseph, declare that this dissertation is my original work and has not been published and/or submitted for any award in any other university.

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Approval

This dissertation has been submitted with the approval of my supervisors whose signatures are appended against their respective names below:

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Date:.....

Dedication

I dedicate this piece of work to my precious children; Destiny Aguma Kampumure, Hope Asimwe Kampumure and Peace Ashaba Kampumure. May this research be a source of inspiration to you in the days to come.

Acknowledgment

Completion of this research has been a result of both direct and indirect support of many people to whom I owe acknowledgement. First, I thank my best friend and wife, Rebecca Kampumure for the remarkable sacrifices she has made over time and the steadfast support she has given me without which the contribution of this study to the existing body of knowledge would not have taken place.

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ABSTRACT

Small and medium-sized enterprises (SMEs) make up approximately 90 per cent of Uganda's private sector and contribute two-thirds of national income. In Uganda, leasing has bridged the current financing gap experienced by SMEs, and efforts have been made to improve the leasing competences of SME Managers yet many more SMEs close shop annually. This empirical study sought to establish the relationship between leasing competence, lease structure and perceived performance of SMEs. The research adopted a cross sectional study combined with quantitative approach. A sample one hundred and thirty two (132) SMEs located in Kampala district was conveniently selected. The data was collected using a questionnaire filled in by SME managers and analyzed using SPSS11.0 and excel software.

It was found that there is a significant positive relationship between leasing competence and lease structure, which means that the higher the leasing competence of lessee manager, the more favorable the negotiated lease structure of the lease contract. The study results also showed that there a significant positive relationship between leasing competence and perceived performance. This means that leasing competence of lessee manager leads to improved perceived performance of SMEs. The analysis revealed that there is a significant positive relationship between lease structure and perceived performance, meaning that the more favorable lease structure, higher the perceived performance of lessee SMEs. Regression of leasing competence and lease structure on perceived performance showed that only the latter has a significant prediction on SME performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and medium-sized enterprises (SMEs) form the back bone of the private sector, making up approximately 90 per cent of Uganda's private sector and contribute two-thirds of national income (Badagawa, 2002; Kisaame, 2002). SMEs generate employment, add value, bring in foreign exchange and investment, improve labour skills, and have linkages with large organizations (Sarapaivanich, 2003). Therefore sustainable development and employment can not be achieved without SMEs.

Access to finance tops the list of constraints faced by SMEs every where. Because of the high transaction costs and inability of SMEs to provide collateral banks require, SMEs find themselves starved for funds at all stages of their development ranging from start-up to expansion and growth (Beyene,2002). In Uganda, it is leasing that has bridged the current financing gap experienced by SMEs by providing commercial and industrial equipment as it focuses on the lessee's ability to generate cash flow from the business operations to service the lease repayments rather than on the balance sheet or past credit history (Kisaame, 2007;International Finance Corporation(IFC), 2007). The terms of a given lease contract constitute a lease structure and these include: length of the lease term, operating costs, lease rentals, reviews and incentives and according to H.Stemmet (Personal Communication, March, 2008) and Kisaame(2007), lease structure in Uganda varies from one lease contract to another.

SMEs are predominantly owner–managed and sole proprietorship in the norm, and the leasing competences of managers are cited as one of the key factors that influences the performance of SMEs (Tylor, Thorpe, &Down, 2001). In Uganda, efforts have been made to improve the leasing competences of SME Mangers and/ or owners. Enterprise Uganda in collaboration with Uganda Investment Authority, supported by UNDP and UNCTAD has facilitated training programs focusing on leasing competence development among SMEs managers and within a year, 3500 SMEs had benefited (United Nations, 2006). Also, through the UNIDO Master Craftsman Programme, entrepreneurs from SME associations around the country were selected and trained in an attempt to improve their leasing competence and by 2003, 1500 entrepreneurs had benefited from the programme and the number was increasing (Luetkenhorst, 2004). In addition, Uganda Industrial Research Institute has been and continues to offer training and advisory services to SMEs to improve their competence in lease financing (Jager, 2005).

Firm performance is a multi-dimensional concept; it may be financial or non-financial. In a situation where no proper records about the operations of firms are kept, as is the case with 35 percent of SMEs in Uganda (Okello-Obura, Minishi-Majanja, Cloete, & Ikoja-Odongo, 2007), it's only perceived performance that can be considered. The performance of SMEs in Uganda leaves a lot to be desired. According to Kiingi (2007), the rate at which SMEs are running out of business, which could be due to poor performance, stands now at 50% annually, up from about 35%.

1.2 Statement of the Problem

In Uganda, leasing has become one of the main forms of finance that has bridged the current financing gap experienced by SMEs. In addition, a lot of effort has been made to improve the leasing competence of SME managers through provision of a wide range of business support services. In spite of all that, performance of SMEs in Uganda continues to deteriorate yet without SME development, sustained economic growth is out of question. What remains unclear is the influence of leasing competence of managers and lease structure on the performance of SMEs.

1.3 Purpose of the Study

The purpose of the study was to investigate the influence of leasing competence and lease structure of a lease agreement on performance of SMEs.

1.4 Research Objectives

- i) To assess the lease structure of lessee SMEs.
- ii) To establish the relationship between leasing competence and lease structure.
- iii) To establish the relationship between leasing competence and perceived performance of SMEs.
- iv) To establish the relationship between lease structure and perceived performance of SMEs.

1.5 Research Questions

- i) What is the lease structure of SMEs?
- ii) What is the relationship between leasing competence and lease structure?
- iii) What is the relationship between competence and perceived performance of SMEs?
- iv) What is the relationship between lease structure and perceived performance of SMEs?

1.6 Scope of the Study

Conceptual Scope

The study looked at leasing competence, Lease structure of lease agreements and perceived performance of SMEs. Leasing competences in terms of leasing knowledge, skills and attitude, and lease structure that are relevant to SMEs in a developing country like Uganda were studied. Perceived performance was looked at since most SMEs have little or no proper records.

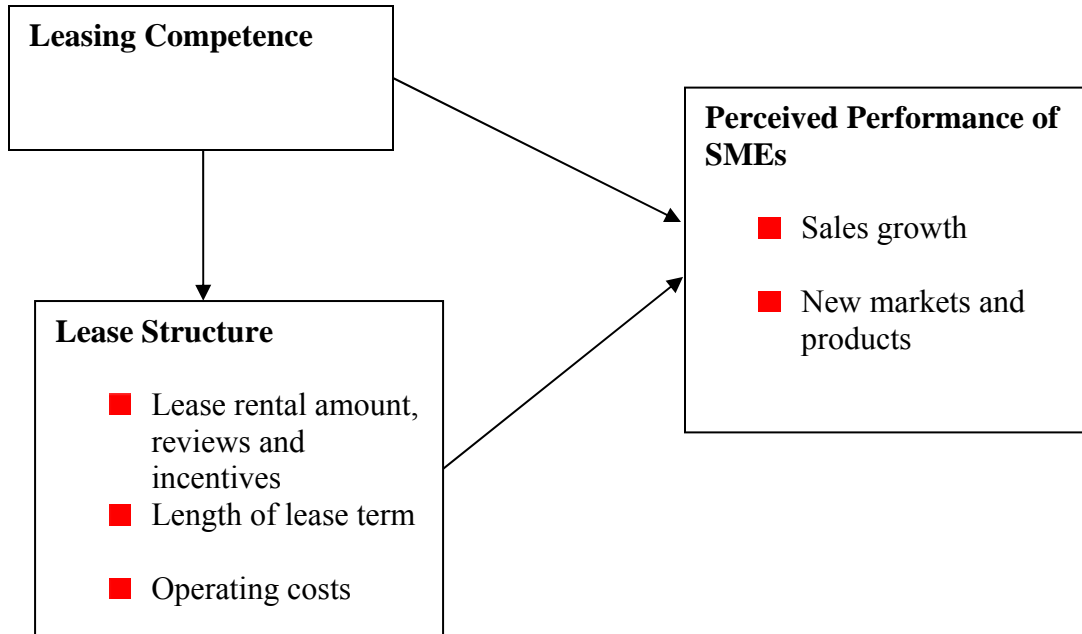
Geographic Scope

The study was carried out in the SMEs that lease finance their assets, located in Kampala district. This is because the majority (57%) of net lease investments and approval by region is highest in Kampala (Kisaame, 2007).

1.7 Significance of the Study

- i) The findings of the study could help the private sector to lobby for Asset lease financing policies that make SMEs thrive in developing countries like Uganda.
- ii) The study will enable the promoters of SMEs to negotiate lease contracts in a way that will help their firms to perform well.
- iii) The findings of the study will bring to light the relevance of leasing competences in achievement of organizational goals at an SME level and will act as a feedback to all existing providers of SME strengthening initiatives such as Enterprise Uganda and Private Sector Foundation that have been involved in training SME Managers in an attempt to improve their competences.

1.8 Conceptual Frame work



Source: Developed from review of extant literature (Abor, 2007; Berk, Stanton, & Zechner, 2007; Laursen, Mahnke, & Vejrup-Hansen, 1999; Ottewill, Jennings, & Magirr, 2000; Taglianvini, 2002; Pansiri & Temtime, 2006; Watson, McCracken, & Hughes, 2004).

The research model demonstrates the influence of leasing competence on lease structure of a lease agreement and perceived firm performance, and the relationship between the lease structure and perceived firm performance. Lease structure is seen to be composed of rental amount, reviews and incentives, length of lease term, and operating costs; while perceived firm performance is seen from the perspectives of sales growth, and new markets and products.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section critically reviews the existing literature on leasing competence, lease structure and perceived financial performance of SMEs. Most of the literature reviewed in this study was cited mainly from studies carried out in developed countries.

2.2 Small and Medium-sized Enterprises

SMEs seem to be an accepted wisdom within the development debate. The definitions of SMEs are arbitrary and vary significantly according to different stages of economic development; economic structures and issues that authors of studies intend to address (Castel-Branco, 2003). Some analyses define them in terms of total revenue, while others use the number of employees as an indicator (World Business Council for Sustainable Development (WBCSD), 2007). Though SMEs definition is individual country specific and is based on size and level of economic development, there is not yet an agreed definition for SME in Uganda. Attempts have been made to define SME in a developing country. For instance Elaina (as cited by Albaladejo, 2002) defines small enterprises as firms that employ between five and nineteen workers while medium enterprises are firms that employ between twenty and ninety nine. Therefore an SME is a business with a head count ranging from five employees to ninety nine employees. This definition appears more realistic in the African context and for purpose of this study, it will be adopted.

2.3 Leasing Competence

In reviewing extant literature, there is much debate and confusion regarding the establishment of a clear and unambiguous definition of the concept of “competence”. In this study the term competence is as defined by Parry (1998, p.60):

“ a cluster of related knowledge, attitudes and skills that affect a major part of one’s job; that correlates with performance on the job; that can be measured against well-accepted standards”. Accordingly, leasing competence has been defined as a set of leasing knowledge, leasing attitudes and leasing skills that a person possesses (Ellstrom, 1997).

2.3.1 Leasing Knowledge

The definition of knowledge can vary depending on the epistemology, the theory of knowledge creation, the reader chooses to follow. Knowledge is an organized combination of ideas, rules, procedures, and information (Bhatt, 2000). Knowledge has two components - the explicit and the tacit (Perez *et al.*, 2002). The explicit knowledge is easy to articulate, capture and distribute in different formats, whereas tacit knowledge is difficult to capture, codify, adopt, and distribute, because individuals can not easily articulate this type of knowledge. For example an expert may not be able to verbalize clearly how he/she reached a conclusion about the causes of a problem, because tacit knowledge is deeply routed in individual work routines (Kogut & Zander, 1992).

Marakas (1999) as quoted by Bhatt (2000) asserts that knowledge, which is meanings, is context dependant, since ‘meanings’ are interpreted in reference to a particular paradigm. In this study the researcher was concerned with the leasing knowledge. It has to be noted that leasing expertise is no longer the purview or the competence of financial institutions

(lessors) only but it is also part of the standard repertoire of the lessees. Managers must have knowledge about leased equipment, lease taxation, lease pricing, terms of the lease, nature of the lease, noteworthy provisions in the lease, benefits of leasing and lease structure (IFC, 2001; IFC, 2006; Inverserve,2008). According to Pierce (2001), estimation of the residual values of the leased equipment is critical and ability to predict residual values is largely dependant on leasing knowledge.

2.3.2 Leasing Skills

Skills are defined as expertness, practiced ability, facility in doing something, dexterity and tact (Glendon & McKenna, 1995; Al-madhoun & Analoui, 2002). Skill encompasses experience and practice, and the gaining of skill leads to unconscious and automatic actions. Skill is more than just the following of rule based actions. The potential downside of such an attribute is that in the absence of knowledge and attitudes, such a ‘skilled’ person may have no ability or capacity to react to situations outside the normal condition. Whereas knowledge is essentially theoretical knowledge, skill implies the proficiency in applying knowledge gained through hands-on experience (Dingle, 1995).

According to Boma Silicon Valley (2008) and TANZALEP (2008), leasing skills include lease negotiations, lease planning, asset management and monitoring, and proper handling of communications with the lessor.

Lease Negotiations

Extensive negotiating skills are vital to closing a commercial lease (Inverserve, 2008). Negotiations need not be adversarial; ideally the party will seek a win-win out come that represents their basic interests of both parties (Bunney *et al.*, 2004). Negotiation consists

of back and forth communications designed to reach an agreement when two sides have both common interests and opposing interests (Kaenel & Teasdale, 2004).

The ability to negotiate helps a lessee to come up with a lease structure that best suits the organization's aims and objectives. According to Fells (1996), the foundation for success in negotiation is the planning that takes place prior to the actual interaction process. He further asserts that it is generally the practice of negotiators to establish objectives and/or minimum positions as per their preparation.

Lease Planning

Research has consistently shown that SMEs don't engage in long term planning (e.g., Orsler, Horgarth-scott and Riding, 2000; Sandberg, Robinson and Pearce, 2001; Beaver, 2003). This is much at odds with strategy literature that dictates that an enterprise must actively plan for the future (Ennis, 1998).

Leasing involves contractual obligations, especially finance leases which are long term in nature, such as payment of rentals, meeting operating costs and tax obligations (Hamilton, Lim & McCluskey, 2005; Baum and Turner, 2003; Kisaame, 2007). Thus lease planning is a critical skill for a lessee SME.

Communication

Communication is the transmission of meaning from one person to another or many people verbally or non-verbally (Barrett, 2006). A popular view of communication is that it is a process by which information about policies, procedures, finance and customer feedback is conveyed to others in organization (Vandenberg, Richardson, & Eastman, 1999). The process of communication includes sending messages, listening and providing

feed back (Bambacas & Patrickson, 2008). According to Barrett (2006), communication capabilities build on core abilities of strategy, writing and speaking are listening, leading meetings, managing teams, interpersonal skills and understanding of cross-cultural skills. Barrett further elucidates that Good communication skills enable, foster, and create understanding and trust necessary to transact business.

In an environment where customer preferences are shifting from standardized products to customer orders and special features, product life cycles growing short, traditional way of communication does not work. Communication tools like e-mail, computers and telecommunication technology can make an organization to lean, flat, agile, responsive and innovative (Huang & Kleiner, 2005).

Mutual sharing of information is required to implement a management philosophy concerning leasing successfully. Giunipero and Percy (2000) identify interpersonal communication as the most important skill required by managers to perform effectively. As put by Clutterbuck and Hirst (2002), communication is central to all leasing competences. All information, whether oral or written, should be well kept and readily available by the lessee (Inverserve, 2008; Boma Silicon Valley, 2008 and TANZALEP, 2008).

2.3.3 Leasing Attitude

Attitude can be defined as a "learned tendency to act in a consistent way to a particular object or situation" (Fishbein and Ajzan, 1999, p. 12). Attitude refers merely to awareness of the existence of a more general environment in which a given skill subsists

(regulations, standards, codes of practice and procedures) (Dingle, 1995). Sanzo *et al.*, (2003) say that attitude consists of three components: cognitive component, affective component and behavioral component. The first refers to beliefs, associations or bonds a person establishes between the object and several attributes ; the second consists of feelings, states of mind, emotions and nervous activity the person experiences in relation to the object while the third component consists of actions a person performs in respect to that object. Haung, Lee, & Ho (2004) and Rani & Valeyudhan (2008) argue that attitude towards leasing influences behaviour of a manager.

Rani & Valeyudhan (2008) argue that if attributes or factors which affect how customers (lessees) rate leasing are appealing, leasing attitudes would stand protected lending support to leasing practices. According to Au and Enderwick (1999), attitude is influenced by perceived difficulty, adoptive experience, perceived benefits and enhanced value. They assert that the degree to which an application (lease financing) is free of efforts, the past experiences with an application, the perceived benefits of leasing and some other forms of benefits relating indirectly to an adoption such as enhanced quality image influence the leasing attitude. In Uganda leasing is still in its infancy and thus the contribution of Au and Enderwick (1999) is very relevant.

Leasing is considered the most difficult aspect of managing commercial property. Unpleasant attitude can destroy a mutually beneficial relationship between the lessee and the lessor (Inveserve, 2008). According to Crosby, Gibson, & Oughton (2001), leasing attitudes concern issues like; commitment to operating with the highest business ethics,

honesty and how leasing as a finance option is perceived in as far as furthering the firm's objectives is concerned.

It has to be noted that competence is not something that can be developed in isolation from its context (McKenna, 1999) but is situation specific reflecting the culture and environment in which these particular entities find themselves (Conway, 1994; McKenna, 2004; Industry Canada, 2007). Competence, then, in the context of SMEs is not the same as competence in the large organization because ownership and control are often exercised by the same individual in the SME (Tweed & Massey, 2000). In the context of the owner-entrepreneur, the competence of a firm can be equated with the competence of the owner (McGregor & Tweed, 2001; Gibb, 2005).

Leasing competences like any other competence can be acquired through formal training and contact with others in the field or experience. Though formal training is not rated highly essential to leasing competence, there is no doubt that it equips managers with practices that can not be got otherwise (McKenna, 2004). More over, individuals learn, gain and accumulate knowledge and know-how through experience (Lefebvre, Lefebvre, & Prefontaine, 1996). Experience can be measured by the number of years of business management and self rating of abilities typically undertaken by managers (Industry Canada, 2007).

Munene *et al.*, (2004) as quoted by Musoke (2007) assert that what third world countries desperately need are tools for management of performance. They argue that such tools

are derived from behavioral competences that aim at role clarity rather than enabling competences that generate methodological as well as ambiguity issues. For this reason, they propose an operant competence model that attempts to demonstrate through action the behavioral competences acquired to get a specific result.

2.4 Lease Structure

Leasing is an alternative means of financing plant, equipment and business vehicles. It is a contract between an owner of equipment (the lessor) and another party (the lessee) giving the lessee possession and use of a specific asset in return for payment of specific rentals over an agreed period. The lessee may or may not be entitled to acquire title to the goods through the exercise of an option to purchase, usually at the end of the lease term. The lessor's role is to finance the acquisition of equipment required by the lessee who will have selected the goods and dealt directly with the supplier in determining their performance attributes and suitability (Kisaame, 2002). There are two main types of leasing, namely: operating and financing leasing. This study focused on these types but in relation to leased equipment.

Lease agreements are drafted differently from firm to firm. The terms of a given lease contract constitutes a lease structure. A lease structure is an important finance decision firms are confronted with (Abor, 2007). This position was also emphasized by Roland (2000) who asserted that lease clauses influence rental value because they shift opportunities, responsibilities and risks between two parties.

2.4.1 Lease Rentals, Reviews and Incentives

The factors that affect the rental amounts include: inflation, firm-specific asset, the prospective lessee, the rate of technological advances associated with the asset and the quality of maintenance of the asset(s). Rental amounts are arrived at by comparing recent market values, adjusting for distinguishing features, the perceived uncertainties associated with lease receipts and lease clauses (Metawa, 1995 and Rowland, 2000).

However, due to competitive pressures; the lessors don't have complete freedom in raising their lease rates. Rental payments can be structured to be monthly or quarterly depending on the nature of business and its cash flow profile (East African Development Bank, 2004). In practice most of the lease transactions are suitable for monthly rental payments in which case the number of rentals is the same as the lease period expressed in months.

Leasing incentives are concessions given to lessees to entice them into signing new leases. In a competitive leasing industry, lease incentives are perceived as an important factor in luring and keeping clients. According to Jefferies (1994), lease incentives are not a temporary phenomenon nor a vogue symptom but a result of market restructuring. Lease incentives include abnormal rent free periods and caps to rent increases on review.

Leasing contracts contain clauses that allow review of the terms at a future date, usually after five years. The decision to lease requires that the entity considers the risks of review through out the term of the lease (Robinson, 1999). A review may be to the advantage of

one party over the other. For instance, due to the rapid technological changes, the asset's susceptibility to technological obsolescence has increased (Metawa, 1995). Thus the lessee may want a review clause that will enable him to swap the old machinery with the latest model so as to safe guard his competitive advantage.

In an academic paper by Ward, Hendershott, & French (1998), most leases have option-like features that are relevant to their valuation at each of the review points. The most reviewed aspect of a lease contract is the lease amount or rate. However, due to the confidentiality of financial lease detail, it is often difficult to establish the true market rental value and consequently, it becomes hard to forecast the likely course of events at a future rent review (Jefferies, 1994). According to Robinson (1999), a rental review must be provided for by any of the ways: a specific underpinning clause, review with "cap and collar", or no reviews. Research carried out by Hamilton, Lim, & McCluskey (2005) demonstrated that lessees require rent reviews to market value. This means that the rental reviews are either increased, or decreased, or not changed at all throughout the lease term. Whatever the clause on rental reviews, there is an implication on cash outflow and subsequently the financial performance of the entity.

2.4.2 Length of Lease term

The lease term refers to the initial contract lease period (Tse, 1999). The length of a lease contract is determined by particular needs of the two parties involved. Generally, length of a lease term varies from country to country. In the USA, leases are typically for five to ten years and so are the German leases; in France , leases are usually for nine years with three year break options , while Swedish leases are three to five years and in Uganda,

leases range from two to five years (Hamilton, Lim and McCluskey, 2005; Baum and Turner, 2003; Kisaame, 2007). Generally, lessors are well served by longer leases and tenants argue for short leases with one or more options to renew (Rowland, 2000; Tse, 1999).

For a finance lease, the lessee uses the asset for a significant period of its useful life while in an operating lease; the contract is for a short term use of a piece of equipment the leasing company has at hand (Deelen and Bonsu, 2002). It should be noted that even in a finance lease, the agreement may be for a short term. Over the years, there has been a significant and detectable trend towards not only shorter but also more diverse lease length with no particular standard length of term. The length of the lease affects the amount of the lease payments, with a longer lease term meaning a lower rental rate (All business, 2007).

2.4.3 Operating Costs

Market rental values may be gross or net. Operating cost of an asset under a lease contract is the difference between the gross and net values (Rowland, 1996). Operating costs include maintenance costs, insurance cost, taxes and management costs (Rowland, 1996; Deelen and Bonsu, 2002). The lease covenants reveal whether these responsibilities are borne by the lessee or lessor. The rents will presumably tell the responsibilities of the parties.

Operating costs are uncertain and as such, risk averse lessors are willing to give them up if the lessee accepts responsibility for them (Rowland, 2000). This is mainly applicable in a finance lease where lessee has to carry the risk cost of maintaining the asset. On the

other hand, the lessor may carry out the management and maintenance of the asset but recovers the cost by way of a service charge paid by the tenant as is the case with operating leases (Deelen & Bonsu, 2002). Many lessees fear that landlords overspend when they can recover the full or increased cost from the lessee. Although leases which lead to lessee neglect or lessor overspending are common, there appears no easy way to price this aspect (Rowland, 1998).

2.5 Leasing Competence and Lease Structure.

It is not surprising that lessors design lease structures that favor them though they are willing to negotiate with the lessees (Bunney, Greenberg, & Bondard, 2004). It is thus important that an SME managers involved in leasing understands how leasing works. According to ICSC Professional Development Opportunities (2008), understanding the leasing and how it works helps in coming up with a favorable lease structure. For instance according to Bunney *et al.*, (2004), leasing competences help lessee managers to come up with a win-win agreement designed to meet the basic needs of both parties. However, according to Tweed and Massey (2000), from the evaluation point of view, the impact of leasing competence on a subsequent business result is a difficult construct to objectively measure. It is this unsettled debate that warranted further research.

2.6 Perceived Performance of SMEs

Firm performance is a multi-dimensional concept; it may be financial or non-financial. Since the vast majority of SMEs are unable or unwilling to provide financial information (Griffiths, 2002), only perceived firm performance was measured. Perceived firm

performance can be measured by sales growth, and development of new markets and products (Taglianvini *et al.*, 2002).

2.6.1 Sales Growth

A sale is the pinnacle activity involved in **selling** products or services in return for money or other compensation. It is an act of completion of a commercial activity. Sales growth is often used as a measure of performance. The assumption is often made that if sales increase, profits will eventually follow (Thomas & Mason, 2007). A key determinant of success is a firm's growth in sales, provided, of course, that the profits and cash flows generated from sales are adequate to cover the costs incurred in generation of the revenue.

2.6.3 Development of New markets and Products

New markets do not emerge nor do they appear but they are made by the activities of the firms (Anderson and Gatignon, 2003). New markets are created when firms correctly sense a latent need and communicate their solution to that need. A new market can be created by either carrying out marketing activities (product design, branding, promotion, pricing, sales and distribution) of established products or innovating new products (Pawakapan, 2000).

Innovation increases public welfare and as such new markets are thought to rise because buyers recognize they will be better off (Anderson & Gatignon, 2003). For most firms, successful new products are engines of growth (Cohen, Eliashberg, & Ho, 1997). New products generate future profitability and prevent obsolescence of the firm's product line

(Pauwels, Silva-Risso, Srinivasan, & Hanssens 2004). Indeed aggregate evidence suggests that profitable firms do innovate (Pauwels *et al.*, 2004).

2.7 Leasing Competence and Perceived Performance

The assertion is made that managers who possess and deploy leasing competences produce superior performance in a job (Thompson, Stuart, & Lindsay, 1997). With globalization adding to already competitive environment, the importance of having managers with appropriate leasing competence has been recognized as fundamental to the success of a firm (Watson *et al.*, 2004). Tan & Mahoney (2005) also assert that leasing competence contributes to growth of a firm through raising productivity and facilitating the adoption and use of new technologies, upgrade production, financial capabilities and flexibly respond to market forces. This opinion was later reechoed by Watson, McCracken & Hughes (2004), whose research on SMEs in Scotland revealed that businesses with leasing competence are on average more profitable. Egyptian Banking Institute (n.d) asserts that there is broad consensus on the significance of leasing competence as a driving force for SMEs to develop.

However, the relation between leasing competence and SME performance remains highly unresolved. Closer inspections of carried out studies reveal a frequent failure to distinguish between competence that is functionally relevant for organizational actions and competences that merely accompanies actions or justifies them retrospective. Tweed & Massey (2000) remark that from evaluation point of view, the impact on leasing competence and a subsequent business result is a difficult construct to objectively measure. According to O'Connor (2006), there is no hard, convincing public evidence

that developing leasing competence impacts on the bottom and top-line of a firm and those who have attempted to measure the impact of leasing competence on performance have been largely subjective and not statistically robust. This unsettled debate warranted further research.

2.8 Lease Structure and Perceived Performance of SMEs

The trade off theory supports the opinion that leasing leads to tax allowable and thus high financial performance (Modigliani & Miller, 1958). More over, additional debt reduces agency cost, frees cash flow for use in making interest payments. A recent research conducted by Abor (2007) on Ghanaian SMEs shows that long-term debt has a significantly positive relation with good performance. This means that long term leasing could have a significant positive relation with financial performance of SMEs. However, in Uganda, this is not the case. According to Africa Economic Outlook (2004), leasing is one of the main forms of finance in Ugandan SMEs yet their performance continues to deteriorate (Kiingi, 2007). There remains no empirical evidence on the influence of lease structure on the performance of SMEs in Uganda.

2.9 Conclusion of Literature Review

The review of extant literature shows that limited research has been done concerning leasing in general and asset financing in particular. Subsequently, the existing body of knowledge on the same is highly limited. Moreover, there is no conclusive agreement on the effect of leasing competence and lease structure on SME performance yet SMEs are unanimously considered to be critical in the economic development of any economy.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This section gives a strategy that was used to accomplish the research undertaking outlined above. It proposes the research design, study and target population, geographical scope, sampling method, data collection, data analysis, measurement of study variables and limitations.

3.2 Research Design

The research adopted a cross sectional study. This was combined with quantitative approach. The study involved the development of a leasing competence profile for lessee SME Managers. They were interviewed to identify the key result areas and the critical out puts of a lessee SME Manager. The questionnaire was then developed and administered.

3.3 Study Population

The study population was composed of 200 SMEs located in Kampala that lease finance their assets (X Bank Uganda Ltd, 2008). These SMEs are in sectors; agriculture, energy, medical, construction, printing, information technology, education, foods and beverages, horticulture, wood, pulp, paper and printing, and transport.

3.4 Sample Size and Selection

Out of a population of 200 SMEs, the researcher used a sample of 132 SMEs. This is in accordance with the rule of the Krejcie & Morgan (1970).

Convenience sampling was used to select the respondent SMEs. This is because information of SMEs that lease finance their assets, obtained from X Bank Uganda Ltd, had some SMEs that had telephone contacts and others that didn't have any telephone contacts. The available telephone directories were not useful in getting further telephone contacts of SMEs. Thus only the SMEs that had a telephone contact were considered in selecting the respondent SMEs because the researcher needed to call the SME managers in advance to arrange an appointment. The unit of analysis was a lessee SME while the unit of inquiry was the lessee SME manager. The response from the respondents was 120 SMEs representing almost 91% of the sample size. This high response may have resulted from careful design and rigorous pre-testing of the questionnaire, and also from the apparent interest in the study since studies concerning leasing are hitherto highly limited.

3.5 Data Sources

■ Primary Data

Primary data was obtained from the SMEs under study using questionnaires to get data on study variables. Thus, the researcher was able to capture information on the leasing competence of managers, lease structure and perceived performance of SMEs.

■ Secondary Data

This was obtained from the lease agreements, reports and publications of lessors like Stanbic bank Uganda Ltd and DFCU bank, and Enterprise Uganda.

3.6 Method of Data Collection

Questionnaire

The questionnaire was used to obtain data on the leasing competence of managers, the lease structure used by SMEs that lease assets and the perceived performance of the selected firms. The questionnaires were hand delivered to the respondents to avoid the possible delays and losses by the postal system.

3.7 Measurement of Variables

The variables measured were: leasing competence and lease structure as independent variables and perceived performance as the dependent variable.

Leasing competences were captured through the use of competence profiles. The respondents were required to state whom they interacted with, their content of discussion, decisions made, frequent problems and flexibility exhibited in their jobs. From the competence profiles the researcher was able to develop the self administered questionnaire where the competences were measured on a four point Likert scale ranging from very untrue to very true.

Lease structure was measured by considering lease rental amount, reviews and incentives, length of lease term and operating costs (Roland, 2000; Deelen and Bonsu, 2002). Perceived performance was measured by considering the sales growth, and development of new markets and products (Taglianvini *et al.*, 2002). On these variables (Lease structure and Perceived performance), a four point Likert scale ranging from strongly disagree as response 1 to strongly agree as response 4.

3.8 Reliability and Validity

Validity of the research instrument was ensured by calculating its content validity index (CVI) which was found to be above 0.5. To ensure reliability of the instrument and to build confidence that the instrument yielded good results, the researcher performed cronbach's alpha tests on the Likert scales used in the instrument. Table 3.1 below shows the findings.

Table 3.1: Reliability coefficients

Variables	Cronbach's alpha coefficients
Leasing competence	0.6316
Lease Structure	0.7215
Perceived performance	0.8797

Source: Primary data

From the above table 3.1, Cronbach's alpha coefficients for leasing competence, lease structure and perceived performance are all above 0.5 indicating that the Likert scales used to measure the variables were consistent and reliable.

3.9 Data Processing and Analysis

After the data had been collected, the researcher carefully edited, coded and checked for accuracy and relevancy. Then it was analyzed using excel spread sheet and SPSS 11.0 programme using statistical description, factor analyses, correlation and regression tests. Descriptive and inferential statistics were used to compute the relative frequency distributions of all variables and Pearson's correlation coefficient was used to determine

the degree of relationship between the variables. Factor analysis was used to identify a number of factors that explain a variance observed in the study variables and regression analysis was used to predict the impact of leasing competence, lease structure on the performance of SMEs.

3.10 Limitations of the study

- The limited nature of the sample used, which was drawn from one region of Kampala district, may not completely represent all the regions of Uganda. For instance, there is a substantial size of lessee SMEs in eastern Uganda -Mbale and Soroti (Kisaame, 2002) whose business behaviour may be different from the one in Kampala. Thus the findings of this study may not be entirely representative of lessee SMEs in the entire country.
- This cross sectional research method used may limit the accuracy of the results that this study has shown. This is because leasing competence is not only useful at the time of making the lease agreement but more so afterwards as the contract is executed. There may be an effect on the results had the study used a longitudinal approach.
- Most of the studies previously carried out about the same were in developed countries from which research instruments and measurements were adopted with modification. Thus the results of this study should be cautiously used.

- The convenience sample selection that was used can be biased. Thus the selected sample may not give a complete representation of the population. Thus affecting the accuracy of the results of this study.

CHAPTER FOUR

ANALYSIS AND PRESENTATION OF THE FINDINGS

4.1 Introduction

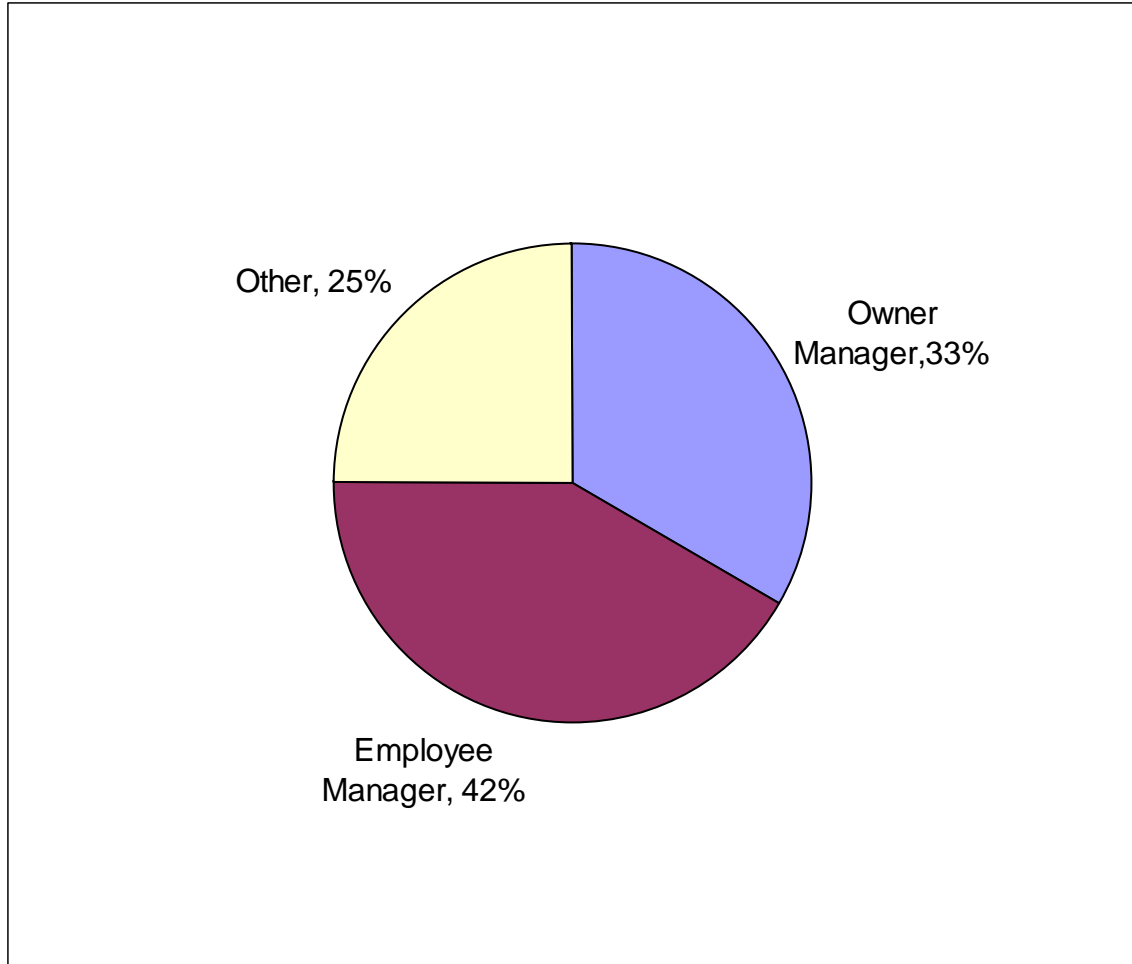
This chapter analyses and presents the findings of the study. It begins with descriptive analysis, factor analysis, correlation analysis and regression analysis.

4.2 Sample Characteristics

This section presents the general characteristics of the respondents specifically highlighting the status of the manager, age of the respondents, gender, type of lease agreement, sector of the firm, size of the firm in terms of number of employees and highest qualification of SME managers. Pie charts and Bar graphs were used to indicate variations in respondents' characteristics.

4.2.1 Status of the Respondent

Pie Chart 4.1: The Status of Manager

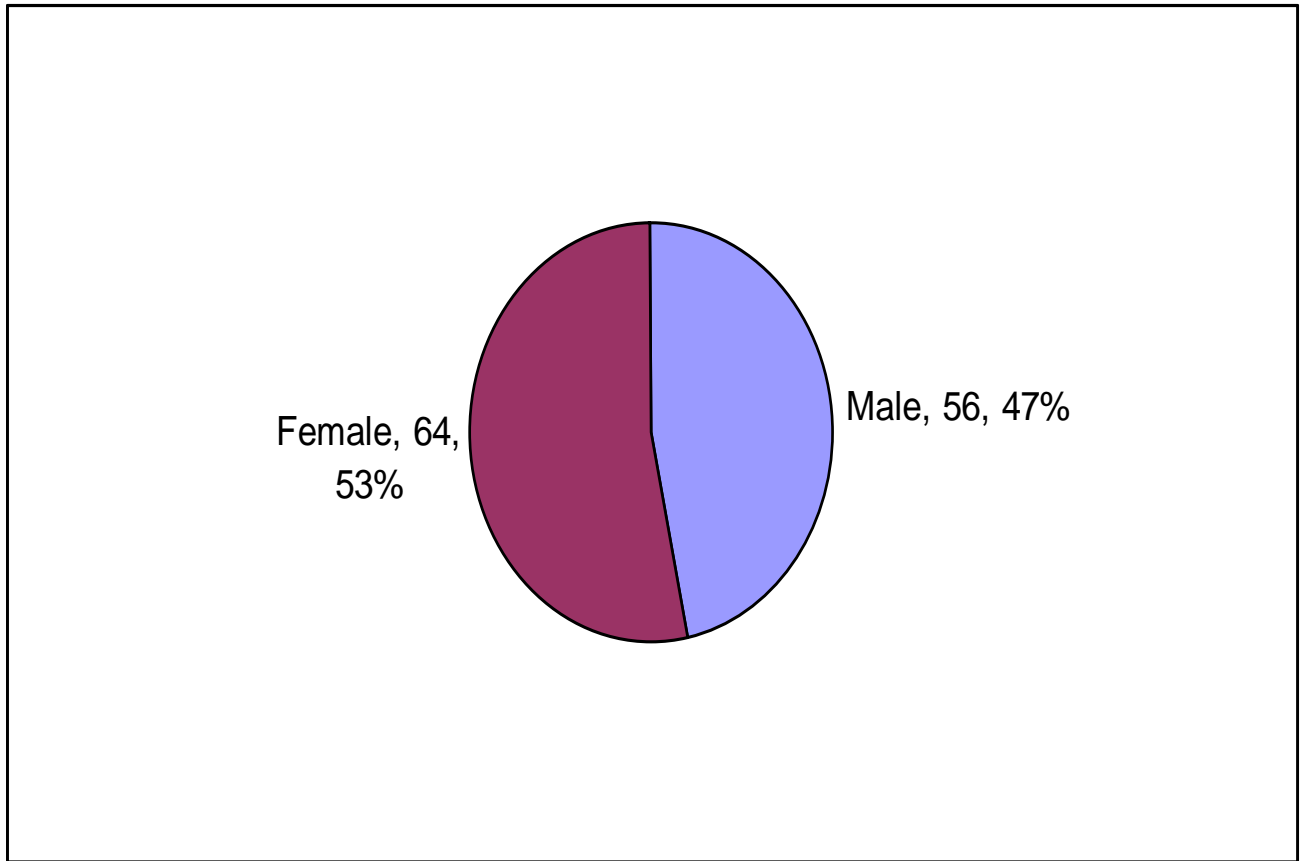


Source: Primary data

The results of Pie Chart 4.1 above show that the majority (42%) of the SME managers are employee-managers while the owner-managers constituted about 33%. This means that the majority of the entrepreneurs have employed managers to carry on the day-to-day management on their behalf.

4.2.3 Gender Distribution

Pie Chart 4.2: Gender Category of the Respondent

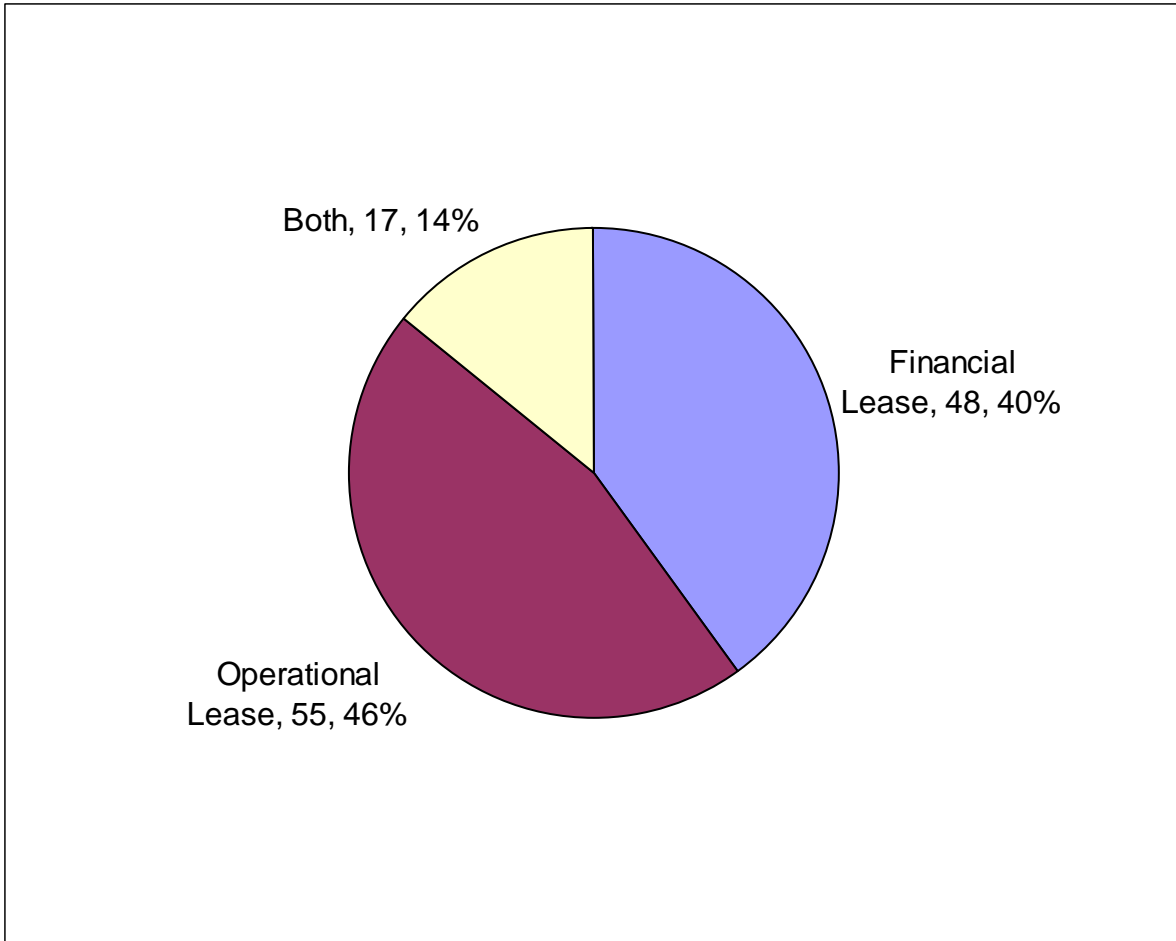


Source: Primary data

From Pie Chart 4.2 above, 53% of the respondents were female. The male respondents accounted for about 47%. This is because the majority of the male respondents were found to be generally hostile and too “busy” to fill the questionnaires. The female were found to be more cooperative than their male counterparts.

4.2.4 Type of Lease Agreement

Pie Chart 4.3: The type of Lease Agreement contracted

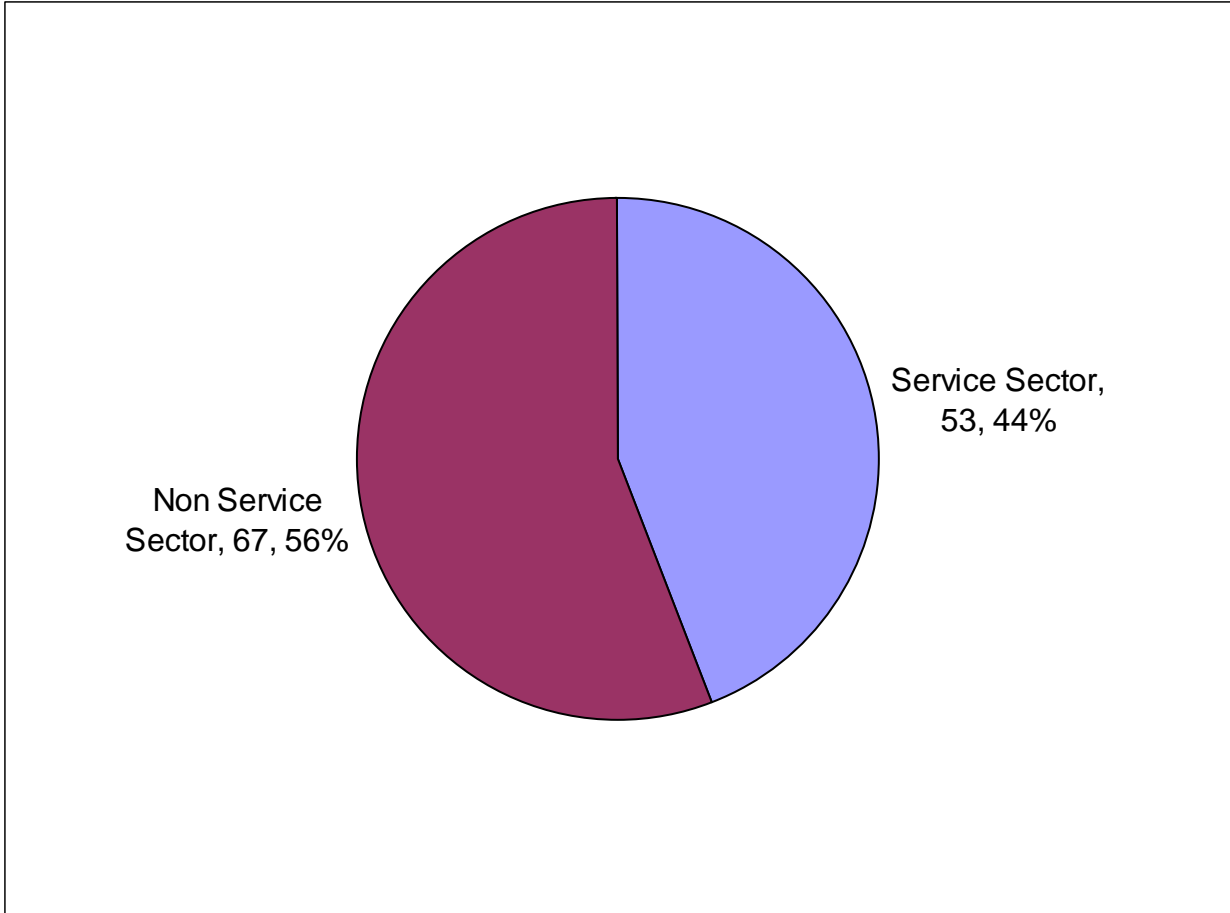


Source: Primary Data

From Pie Chart 4.3 above, 46% use operational leases as opposed to 40% who use financial lease. Those who use both types of leases accounted for approximately 14% of the respondents. This could be due to the type industry or sector in which the SMEs are. Non-service sector SMEs generally lease assets to last the period of the project.

4.2.5 SME Sector

Pie Chart 4.4: Sector of the Organization

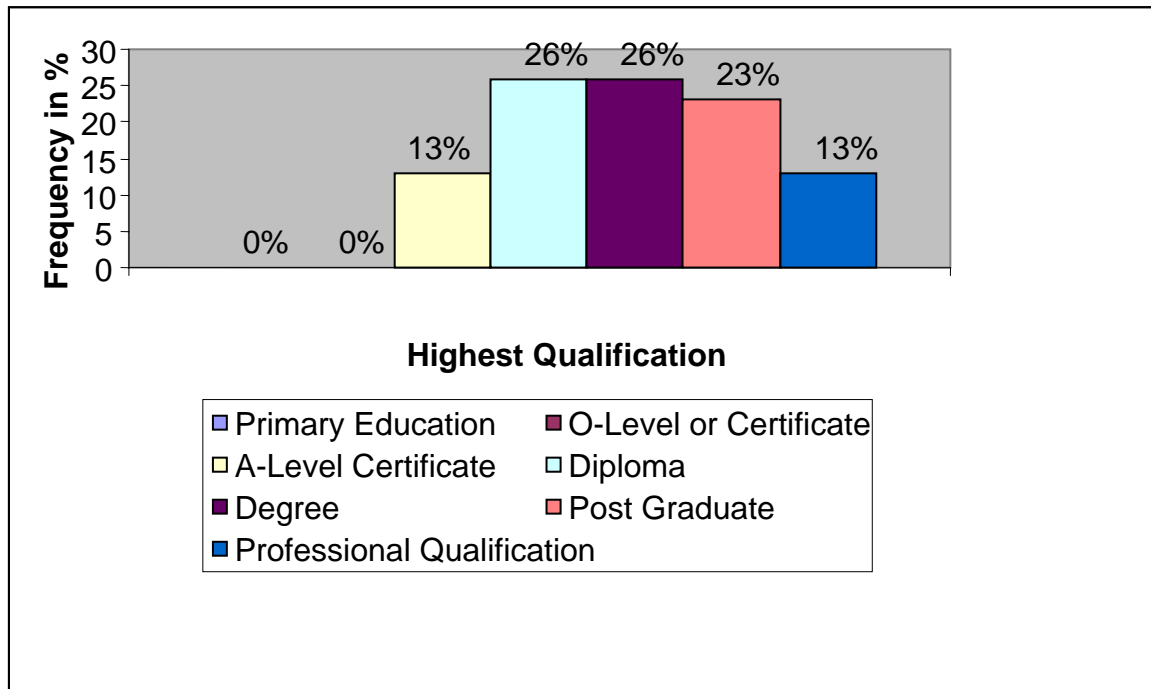


Source: Primary data

Pie Chart 4.4 above shows that the about 56% of the respondents are in non-service sectors while almost 44% are in the service sector. This means that the non-service sectors like agriculture, construction, foods and beverages, horticulture, wood and pulp dominate the leasing industry in Uganda.

4.2.7 Highest Qualification of SME Managers

Bar graph 4.5: Highest qualification achieved

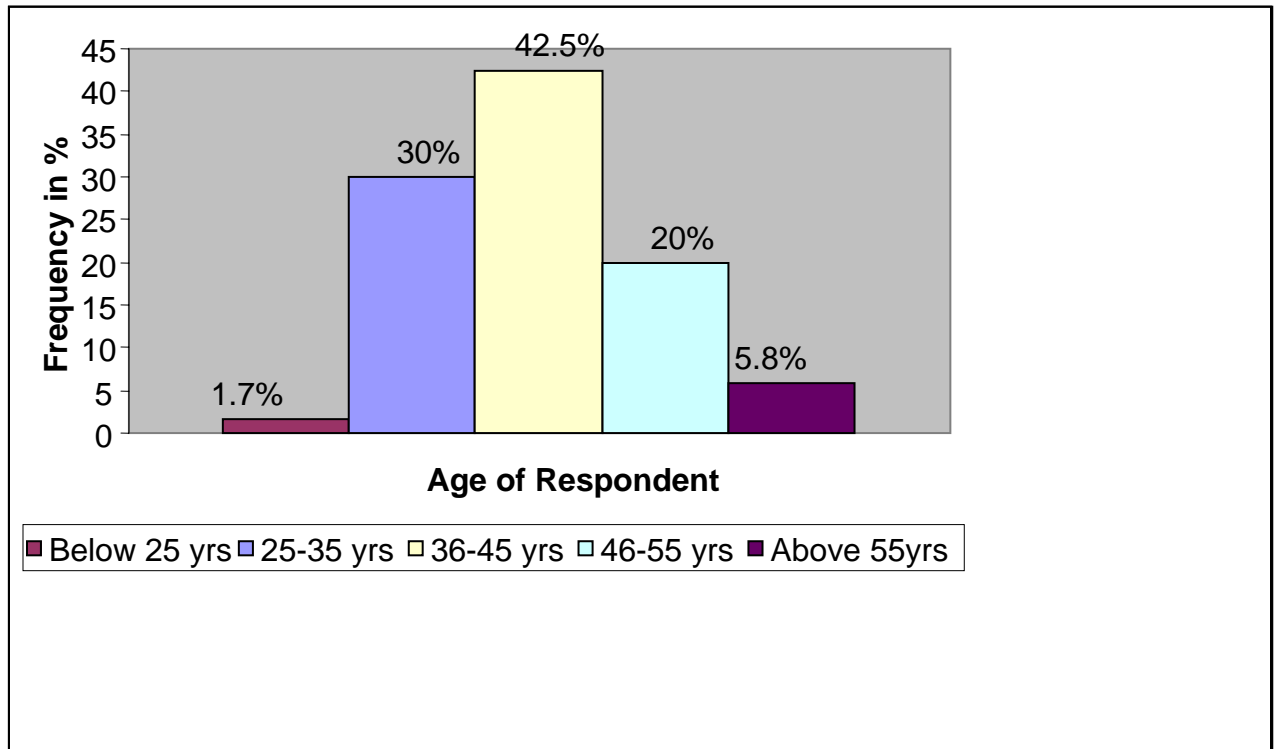


Source: Primary data

From graph 4.5, the majority of the respondents had either a diploma or a degree as the highest level of qualification, each at 26%. Those with a post graduate qualification made almost 23%, those with A-level certificate accounted for 13% and so are those with professional qualifications. There was no body with the highest qualification equal or below O-Level certificate. This means that the lessee SME managers are generally well schooled. This position is supported by Stevenson & St-Onge (2005) and Walter et al (2003) who reveal a much higher incidence of entrepreneurial activity among more highly educated Ugandans.

4.2.2 Age of Respondents

Bar graph 4.6: Age of the Respondent

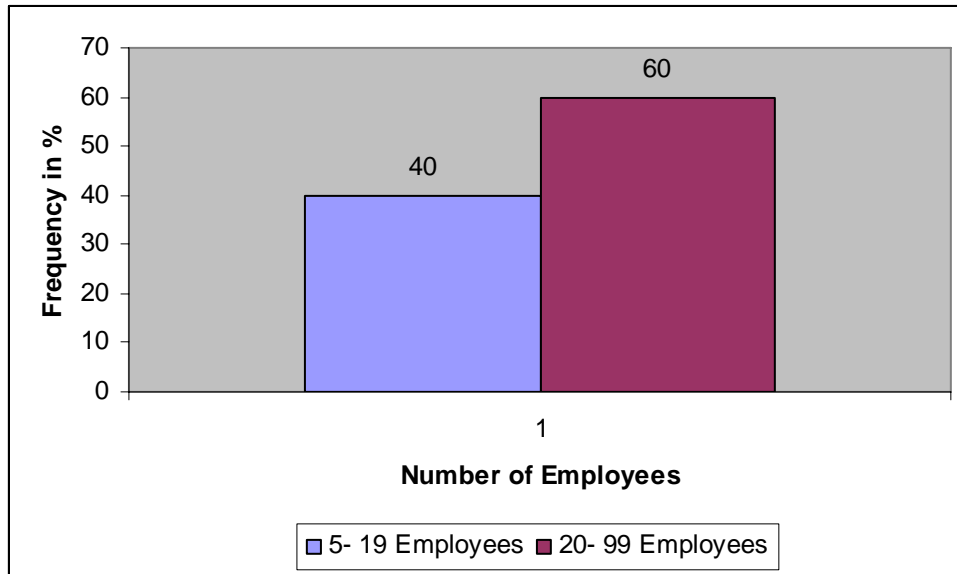


Source: Primary data

Graph 4.6 above reveals that the majority (approximately 43%) of the SME managers are aged between 36-45 years, followed by those aged between 25-35 years at 30%. Those who are below 25 years are the least. This shows that people who are engaged in managerial responsibilities are mainly between 25-55 years, beyond or below which the numbers become smaller. This means the between 36-45 years, workers take on managerial responsibilities either as owner-mangers or as employee- managers.

4.2.6 Size of the Firm

Bar graph 4.7: Size of firm in terms of Number of Employees



Source: Primary data

From graph 4.7 above, 60 % of the respondents employ 20-99 employees while 40% employ 5-19 workers. This implies that the majority of SME that lease finance assets are of medium size. This could be because medium sized enterprises are more aware of the lease financing option and are better organized and qualified than the small size enterprises to benefit from leasing.

4.3 Descriptive Statistics

Table 4.8 Mean and Standard Deviation

	N	Minimum	Maximum	Mean	Std. Deviation
Age of the respondent	115	1.00	5.00	2.9652	.9074
What is the size of your firm in terms of number of employees?	115	1.00	2.00	1.6000	.4920
Valid N (listwise)	115				

Source: Primary data

From table 4.8 above, the standard deviation for the age of the respondents is less than one (i.e. 0.9074). This means that the average age of 3 (i.e. 36-45 years) is not far from each individual age of the respondent. The size of each firm is also not far from average firm size 2 (i.e. 20-99 employees) with a standard deviation less than one (0.4920).

Table 4.9: Analysis of Variance (ANOVA) across Firm size

	N	Mean	Std. Deviation		
				F	Sig.
Lease Structure	5-19	2.6830	.4378	.333	.565
	20-99 employees	2.7435	.6147		
	Total	2.7193	.5495		
Leasing Competence	5-19 employees	3.0052	.3665	7.432	.007
	20-99 employees	3.1958	.3679		
	Total	3.1196	.3775		
Perceived Performance	5-19 employees	2.6775	.4295	.154	.695
	20-99 employees	2.7186	.6152		
	Total	2.7022	.5468		

Source: Primary data

There were no significant differences in lease structure across the firm sizes ($F=0.333$, $Sig =0.565$). Variations were higher in the bracket of 20-99 employee SMEs (Medium-sized) than those SMEs that employ 5-19 employees (Small Enterprises). In addition, there was a significant difference in leasing competences across the size of the firm

($F=0.7432$, $Sig =0.007$). Differences in leasing competences were high in firms with 20-99 workers (Medium-sized Enterprises) with a mean of 3.1958 compared to firm with 5-19 workers with a mean of 3.0052.

Table 4.9 above further reveals that there was no significant variations in perceived performance across the SME size ($F=0.154$, $Sig =0.695$) albeit variations were higher in medium sized enterprises than small enterprises.

4.4 Factor Analysis

This was used in data reduction to identify factors that explain most of the variance observed in the study variables. Factor loadings explain how closely the variables are related to each of the factors discovered.

4.4.1 Findings on the leasing Competences of SMEs managers.

Factor analysis was used to extract factors that measure leasing competences using rotated component matrix rotation and principal component method. The outcomes are presented in table 4.10 below. Relationship of variables has been coded as:

- 1- Prepare cash flow plans and remit lease rentals to the lessor
- 2- Maintain, Repair and Safe guard the leased assets
- 3- Participate in lease agreement negotiations and reviews
- 4- Identify appropriate asset to lease.
- 5- Communicate to the lessor (bank)

Table 4.10: Rotated Component Matrix for leasing competence

	Component				
	1	2	3	4	5
Prepare expected cash flows plans.	.883				
Relate periodic rental repayments to the way a firm generates its cash flows.	.875				
Generate expected operating costs of the leased assets.	.858				
Relate periodic rental repayments to the way a firm generates its cash flows.	.851				
Promptly pay the lease rentals to the lessor (Bank).	.838				
Appoint a competent person to operate the leased asset.		.927			
Maintain and repair the leased assets according to the manufacturer's requirements.		.820			
Monitor the way the leased assets are used to ensure their rightful used.		.767			
Ensure that leased assets are kept in physically secure places.		.665			
Negotiate the leasing agreement to suit the firm's unique needs.			.864		
Evaluate the leasing terms of other lessors in the market before concluding a lease contract.			.850		
Seek clarification on any clause of the lease contract that is not clear			.796		
Participate in lease reviews to ensure that they are reasonable.			.755		
Identify the current and future needs of the firm				.877	
Relate the capabilities of the available assets to the needs of the firm.				.789	
Determine the availability of spare parts and competent mechanics for the available assets on the market.				.675	
Keep a record of all written communications with the lessor.					.781
Disclose all the necessary information to the lessor.					.654
Inform the lessor of any anticipated delays in remittances of lease rentals.					.587
Percentage of variance explained	23.436	18.553	13.805	6.112	3.445
Cumulative Percentage of variance explained	23.436	41.989	55.794	61.906	65.351

Source: Primary data

From table 4.10 above, factor analysis yielded five components, namely: prepare cash flow plans and remit lease rentals to the lessor (23.436%), maintain, repair and safe

guard the leased assets (18.553%), participate in lease agreement negotiations and reviews (13.805%), Identify appropriate asset to lease (6.112%) and Communicate to the lessor (3.445%) explaining about 65% of the leasing competence.

4.4.2 Findings on the Lease Structure.

The first research objective was to assess the lease structure of lessee SMEs. Factor analysis was used to extract factors that measure lease structure using rotated component matrix rotation and principal component method. The outcomes are presented in table 4.11 below.

Table 4.11: Rotated Component Matrix for lease Structure

	Component		
	Lease rentals, Reviews and Incentives	Length of lease term	Operating costs
The lease reviews are done usually after a long period	.898		
The lease period relates to length of my firm's project(s)	.880		
The lease rentals depend on the income cycle of my firm	.744		
The lease rentals paid cause financial constraints to my firm	.719		
My firm's lease agreement provides for grace periods	.643		
The length of the lease agreement is spread over most of the useful life of the asset		.395	
My firm participates in the review process of the lease agreement		.893	
My firm is allowed to rearrange the terms of lease rental payment with the lessor in case it is necessary		.699	
There are ceilings to rent increases on review		.687	

Table 4.11 Continued			
There is a provision for rent review(s) in my firm's lease agreement		.646	
My firm pays lease rentals promptly		.558	
The length of my firm's lease agreement is long		.496	
My firm meets the operating costs of the leased asset(s)			.944
The operating costs of the leased asset(s) keep changing			.689
The lessor (bank) monitors the way my firm carries out maintenance on the leased asset(s)			.640
Percentage of variance explained	52.540	13.192	6.916
Cumulative Percentage of variance explained.	52.540	65.732	72.648
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			
A Rotation converged in 6 iterations.			

Source: Primary data

From table 4.11 above, it is observed that lease rentals, Reviews and Incentive (52.540%), length of the lease term (13.192%) and operating cost (6.916%) explain almost 73% of the lease structure.

Six item scales loaded on the component termed lease rentals, Reviews and Incentive. The item with the highest loading is that lease reviews are done usually after a long period (0.898). This means that the lease contracts may not be reviewed at all during the entire length, especially when the assets leased do not include commercial buildings. The item of lease rentals depend on the income cycle of my firm (0.744) shows that lease rentals match with the pattern of cash inflows of the firm. Then the item of lease rentals paid cause financial constraints to my firm (0.719) shows that several SMEs may not be managing their cash flows properly and subsequently, they find themselves financially struggling upon paying the lease rentals.

My firm's lease agreement provides for grace periods with a factor loading of 0.643 shows that lessors allow a reasonable period of grace to the lessee immediately after the latter has possessed the asset before remitting the first rental installment. This practice helps the lessee to install and operate the leased asset, and generate adequate revenue from which to pay the lease rental.

The component of length of lease term has seven loadings, five of which are concerned with lease rentals, reviews and incentives. The item of length of the lease agreement is spread over most of the useful life of the asset (0.395) and that of the length of my firm's lease agreement is long (0.496) mean that many of the leases are finance leases as it is under such type of a lease that an asset is leased over a long period of time, usually almost the entire useful life of the asset.

Further more, three items loaded under the component of operating costs. There were: my firm meets the operating costs of the leased assets(0.944), the operating costs of the leased asset(s) keep changing(0.689) and the lessor (bank) monitors the way my firm carries out maintenance on the leased assets(0.640). These items mean that the lessee manager takes the risk of maintaining the assets so that he/she is not overcharged. When the lessor undertakes to meet the operating costs, which are later passed on to the lessee, there a tendency to over absorb the costs. However, since the lessor keeps a monitoring eye on the maintenance done on the leased assets, it implies that the quality of maintenance is not compromised.

4.4.3 Findings on the perceived performance

Factor analysis was used to extract factors that measure perceived performance of SMEs using rotated component matrix rotation and principal component method. The outcomes are presented in table 4.12 below.

Table 4.12: Rotated Component Matrix for perceived performance of SMEs

	Component	
	New Markets and New Products	Sales Growth
My firm has increased its number of outreach points	.891	
There is an increase in quantity of sales of my firm	.871	
There are new clients whom my firm is serving	.860	
My firm's stocking frequency has gradually increase because of increased customer demand.	.797	
My firm's sales revenue is growing	.784	
The number of orders my firm's clients are placing is increasing	.720	
My firm has introduced new products to meet a new demand	.717	
My firm has employed more workers because of the high demand of the firm's product		.890
The commission paid to the sales personnel is increasing due to increased sales		.742
Percentage of variance explained	54.478	17.592
Cumulative Percentage of variance explained.	54.478	72.070
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. A Rotation converged in 3 iterations.		

Source: Primary Data

From table 4.12 above, it is observed that new markets and new products (52.540%) and sales growth (17.592%) explaining about 72 % perceived performance of SMEs.

4.5 Relationships between Variables

Pearson's correlation coefficient was used to determine the degree of relationship between leasing competence, lease structure and perceived performance. Results of the correlation test are presented in table 4.13 below:

Table 4.13: Pearson's Zero Order (Bi-Variate) Correlations Matrix

	1	2	3
Leasing Competence(1)	1.000		
Lease Structure(2)	.508**	1.000	.
Perceived Performance(3)	.632**	.689**	1.000

**correlation is significant at .01 level (2-tailed)

Source: Primary Data

4.5.1 Leasing Competence and Lease structure

The second objective of the study was to establish the relationship between leasing competence and lease structure. Results from table 4.13 above show that there is a significant positive relationship between leasing competence and lease structure ($r = 0.508^{**}$, $p \leq 0.01$). The findings mean that the higher the leasing competence of lessee manager the better the lease structure for his firm.

4.5.2 Leasing Competence and Perceived Performance of SMEs.

The third objective of the study was to establish the relationship between leasing competence and perceived performance of SMEs. Results from table 4.13 above indicate that there is a significant positive relationship between leasing competence and

perceived performance($r = 0.632^{**}$, $p \leq 0.01$). This means that leasing competence of lessee manager leads to improved performance of SMEs. This is convincing empirical evidence that developing leasing competence impacts on the bottom and top-line of a firm which leads to improved performance of SMEs.

4.5.3 Lease Structure and Perceived Performance of SMEs.

The fourth objective of the study was to establish the relationship between lease structure and perceived performance of SMEs. Results from table 4.13 above show that there is a significant positive relationship between lease structure and perceived performance($r = 0.689^{**}$, $p \leq 0.01$). This means that a more favorable lease structure of a lease agreement leads to improved performance of lessee SMEs.

4.6 Regression Analysis

This revealed the extent to which leasing competence and lease structure predicted performance of SMEs as shown in the Table 4.14 below:

Table 4.14: Regression of leasing competence and Lease structure on Perceived Performance

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	-.420	.264		-1.595	.113
	Leasing Competence	.465	.090	.320	5.178	.000
	Lease Structure	.607	.062	.605	9.775	.000
R=0.791, R Square=0.626, Adjusted R Square=0.619, F= 97.778 ,Sig.= .000						
A Dependent Variable: Perceived Performance						

Source: Primary Data

From table 4.14 above, a combination of leasing competence and lease structure predict up to 61.9% of the SME performance. The regression further shows that only lease structure has a significant prediction on SME performance. The findings show that a unit change in lease structure brings about a 0.605 positive change in perceived performance of SMEs while a unit change in leasing competence brings 0.320 positive change in perceived performance of SMEs.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the discussions, conclusions and recommendations arising out of research findings in chapter four and suggests areas of further research.

5.2 Discussion of the findings of the Study with respect to study objectives

5.2.1 Lease Structure in SMEs

The first research objective sought to assess the lease structure of lessee SMEs.

The findings of the study revealed that lease rentals, Reviews and Incentives explain up to 52.540% of lease structure, followed by operating costs at 13.192% and length of lease term with 6.916%. This confirms what Beyene (2002) contributed. He argued that because of high transaction costs and inability of SMEs to provide collateral banks require, SMEs find themselves starved for funds at all stages of their development ranging from start-up to expansion and growth. SMEs are desperate to get the much needed assets to meet their objectives. They are therefore more concerned with rentals, reviews and incentives than with the length of the lease term and the operating costs like insurance, taxes, repairs and maintenance costs.

The findings are also supported by Metawa (1995) and Rowland (2000) who say that due to competitive pressures; the lessors don't have complete freedom in raising their lease rates. Jefferies (1994) asserts that in a competitive leasing industry, lease incentives are perceived as an important factor in luring and keeping clients. Therefore, the high contribution of the lease rentals, Reviews and Incentives could be influenced by

increasing competition among the increasing number of lessors in Uganda, which are mainly banks.

5.2.2 Leasing Competence and Lease Structure

The second objective was to establish the relationship between leasing competence and lease structure. The findings indicate that there was a significant positive relationship between the two variables. This means that the higher the leasing competence of lessee manager, the better the perceived performance of the firm. This position is supported by Bunney *et al.*, (2004) who assert that leasing competence is an important ingredient in lease structure negotiation. Moreover, ICSC Professional Development Opportunities (2008), underscores that understanding the leasing and how it works helps in coming up with a favorable lease structure.

5.2.3 Leasing Competence and Perceived Performance

The third objective was to establish the relationship between leasing competence and perceived performance of SMEs. The findings showed that there was a significant positive relationship between leasing competence and perceived performance of SMEs. This means that leasing competence of lessee manager leads to improved performance of SMEs. This is convincing empirical evidence that developing leasing competence impacts on the bottom and top-line of a firm which leads to improved performance of SMEs. This view is consistent with Watson *et al.*,’s (2004) findings who asserted that leasing competence has been recognized as fundamental to the success of a firm. Tan & Mahoney (2005); Watson *et al.*, (2004) and Egyptian Banking Institute (n.d) assert that there is broad consensus on the significance of leasing competence as a driving force for SMEs to develop.

5.2.4 Lease Structure and Perceived Performance

The fourth objective of the study was to establish the relationship between lease structure and perceived performance of SMEs. Results from the study indicated that there was a positive significant relationship between the two lease structure and perceived performance of SMEs. This goes to explain that when the lease structure of a lease agreement is favorable to the lessee firm, the same firm will perform better.

Results from this study agree with earlier theorists. The trade off theory supports the opinion that debt (leasing) leads to tax allowable and thus high financial performance (Modigliani & Miller, 1958). More over, additional debt reduces agency cost, frees cash flow for use in making interest payments. In addition, a recent research conducted by Abor (2007) on Ghanaian SMEs shows that long-term leasing has a significantly positive relation with good performance.

5.2 Conclusions

SMEs are starved of the much needed funds to finance their activities and thus they are desperate to find a solution. This combined with the competition driven incentives by the lessors (banks); SMEs consider lease rentals, Reviews and Incentives as the most important factor when crafting the lease structure of a lease agreement.

SME managers with a high level of leasing competence are better placed to negotiate a favorable lease structure for their firm. In addition, leasing competence positively impacts on the bottom and top-line of a firm thus improved perceived performance of

SMEs. Therefore the current high failure of SMEs in Uganda could be explained by other factors other than Leasing competence and lease structure.

5.3 Recommendations

There is need to aggressively improve the leasing competences of SME managers. SMEs, lessors (banks) and providers of SME strengthening initiatives such as Enterprise Uganda and Private Sector Foundation should invest more in improving the leasing competence of SME managers. This will lead to better customized lease contracts (lease structure) and improved SME performance and ultimately a better economy.

It is proposed that lessee managers should not be blurred by the need to have their firm's financing needs meet, rather care should be taken that all the terms involved in the lease contract are favorable to their firms. This is because the length of the lease term, the operating costs, and lease rentals, reviews and incentives are not mutually exclusive. They all depend on each other.

In the light of the findings of this study and the contribution of SMEs to the economy (SMEs form the backbone of the private sector, making up approximately 90% of Uganda's private sector and contributes two-thirds of the national income), the government of Uganda should put in place a specific law to regulate and govern the lease transactions as there is currently none. In addition, the government should consider putting in place tax exemptions for SMEs that lease finance their assets.

5.5 Area for further Research

The study concentrated on leasing competence, lease structure and perceived performance of SMEs. However there is need for research in the following areas:

- The influence of Managerial Competence on performance of SMEs in Uganda
- The influence of Operational leasing on performance of SMEs in Uganda.
- The effect of Finance leasing on performance of SMEs in Uganda.
- The impact of size of the firm and Lessee SME Industry on performance of SMEs in Uganda.

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7.1 Appendices

Appendix 1

Research questionnaire

Dear respondent (Manager), your organization has been selected to participate in the study that is intended to capture issues on Leasing competence, Lease structure, and Perceived firm performance. The information is purely for academic purposes and will be treated with utmost confidentiality.

Background Information, (Please tick where appropriate)

1) The status of the manager (please state if other)

Owner-Manager	Employee- Manager	Other

2) Age of the respondent

Below 25 years	25-35 years	36-45 years	46-55 years	Above 55 years

3) Gender category of the respondent

Male	Female

4) The type of Lease agreement contracted

Financial Lease	Operational Lease	Both

5) What sector is your organization?

Service Sector	Non-Service Sector

6) What is the size of your firm in terms of number of employees? (Please state if other).

5-19 employees	
20-99 employees	
Other	

7) Tick the appropriate highest award you have achieved, please state if other.

Primary Education.	
O-Level or Certificate	
A-Level certificate	
Diploma	
Degree	
Post graduate	
Professional qualification	
Other	

A) The leasing competence

The table below shows the alternative responses. Please evaluate the statements and tick the appropriate response.

KRA1: When you prepare cash flow plans and remit lease rentals to the lessor (bank), how well do you do the following?

Leasing Competence	This is very untrue	This is untrue	This is true	This is very true
Statement				
Prepare expected cash flows plans.				
Carry out tax planning related to the leased assets.				
Generate expected operating costs of the leased assets.				
Develop the new lease rentals on review of the lease terms.				
Relate periodic rental repayments to the way a firm generates its cash flows.				
Promptly pay the lease rentals to the lessor (Bank).				

KRA2: When you participate in lease agreement negotiations and reviews, how well do you do the following?

Leasing Competence	This is very untrue	This is untrue	This is true	This is very true
Negotiate the leasing agreement to suit the firm's unique needs.				
Evaluate the leasing terms of other lessors in the market before concluding a lease contract.				
Participate in lease reviews to ensure that they are reasonable.				
Seek clarification on any clause of the lease contract that is not clear				

KRA3: when you communicate to the lessor (bank), how well do you do the following?

Leasing Competence	This is very untrue	This is untrue	This is true	This is very true
Disclose all the necessary information to the lessor.				
Report to the lessor (Bank) any serious accidents that occur to the leased asset.				
Keep a record of all written communications with the lessor.				
Inform the lessor of any anticipated delays in remittances of lease rentals.				
Inform the lessor of substantial changes in nature of business and other matters that pertain to the entity.				

KRA 4: When you repair, maintain and safe guard the leased assets how well do you do the following?

Competences	This is very untrue	This is untrue	This is true	This is very true
Ensure that leased assets are kept in physically secure places.				
Appoint a competent person to operate the leased asset.				
Ensure that the conditions under which the assets are kept are appropriate.				
Maintain and repair the leased assets according to the manufacturer's requirements.				
Monitor the way the leased assets are used to ensure their rightful use.				

KRA 5: When you identify the asset to lease how well do you do the following.

Competences	This is very untrue	This is untrue	This is true	This is very true
Identify the current and future needs of the firm				
Identify a reliable supplier of the needed assets				
Relate the capabilities of the available assets to the needs of the firm.				
Determine the availability of spare parts and competent mechanics for the available assets on the market.				

B) Lease Structure

The table below shows the alternative responses and the number assigned in each response. Please evaluate the statements by ticking in the box that corresponds to a number that best suits your company.

1- I strongly disagree; 2- I disagree; 3-I agree; 4-I strongly agree

	1	2	3	4
Lease rentals, Reviews and Incentives				
The lease rentals paid cause financial constraints to my firm.				
The lease rentals depend on the income cycle of my firm.				
My firm pays lease rentals promptly.				
There is a provision for rent review(s) in my firm's lease agreement.				
The lease reviews are done usually after a long period.				
My firm participates in the review process of the lease agreement.				
My firm's Lease agreement provides for grace periods.				
My firm is allowed to rearrange the terms of lease rental payment with the lessor in case it is necessary.				
There are ceilings to rent increases on review.				
Length of lease term				
The length of the lease agreement is spread over most of the useful life of the asset.				
The lease period relates to length of my firm's project(s).				
The length of my firm's lease agreement is long.				
Operating costs				
My firm meets the operating costs of the leased asset(s).				
The operating costs of the leased asset(s) keep changing.				
The lessor (bank) monitors the way my firm carries out maintenance on the leased asset(s).				
The lessor (bank) monitors the way my firm carries out repairs on the leased asset(s).				

C) Perceived performance

The table below shows the alternative responses and the number assigned in each response. Please evaluate by ticking in the box that corresponds to a number that best suits your company.

1- I strongly disagree; 2- I disagree; 3--I agree; 4-I strongly agree

	1	2	3	4
Sales Growth, and New Markets and New Products				
There is an increase in the quantity of sales of my firm.				
My firm's sales revenue is growing.				
The number of orders my firm's clients are placing is increasing.				
My firm has employed more workers because of the high demand of the firm's products.				
My firm's stocking frequency has gradually increased because of increased customer demand.				
The commission paid to the sales personnel is increasing due to increased sales.				
There are new clients whom my firm is serving.				
My firm has increased its number of outreach points.				
My firm has introduced new products to meet a new demand.				

Thank you for your time and responses.

Appendix 2

Leasing competence profiling

The purpose of this interview is to obtain information that describes the role of the lessee manager in a leasing contract. The interviewer will solicit three kinds of information. The first will be the main key result areas. These are the aspects of the lessee manager's job where one must get results in order the job to be fulfilled.

The second are competences, which a lessee manager should have in order to get results. The leasing competences will require you to describe behavioral examples that indicate good performance, moderate performance ad poor performance. The third set of information defines the critical dimensions in the result areas which demonstrate that the lessee manager has fulfilled a specific result area.

Section 1

Name of the institution.....

Job title.....

Length of time in the job.....

Mission of the Department / Section.....

.....

.....

Role of a lessee manager. Please tell me, in one sentence, the role of a lessee manger

.....

Section 2: Key Result Areas

A key result area gives specifically what you have to do in order to fulfill your role as a lessee manager. A key result area is given in one sentence beginning with an **active verb** such as prepare, produce, plan, schedule, test , maintain, develop, monitor , ensure.

Example

Ensure that lease rentals are paid promptly.

- 1.....
- 2.....
- 3.....
- 4.....
- 5.....
- 6.....
- 7.....
- 8.....
- 9.....
- 10.....

The context and competences in each key result area:

The second context describes the climate under which the result area is accomplished or the working environment surrounding the area. It describes the factors influencing the attainment of results in that area. I shall discuss the work climate of each area separately and under several characteristics.

Result area 1(the following interview is prepared for each of the result above)

.....

.....

Interaction with other people

a) Please specify the people you interact with when accomplishing this result area.

1.....

2.....

3.....

4.....

5.....

b) Describe the nature of our interaction with each of the people above (provide a specific and real life episode or the instance to indicate your experience in the interaction).

Number 1 above

.....
.....

Number 2 above

.....
.....

Number 3 above

.....
.....

Number 4 above

.....
.....

Number 5 above

.....
.....

Difficult Decisions

a) Describe the decisions you have to make in bringing to fruit, this result area

.....
.....
.....
.....

b) real life examples

.....
.....

Common Problems

a) Besides lack of resources, what kind of problems do you regularly meet while accomplishing this result area?

.....
.....
.....
.....

b) real life examples

.....
.....
Flexibility

Describe the amount of flexibility you need to accomplish this result area. Again, narrate the most memorable experience where the importance of flexibility was demonstrated in carrying out the result area. What happened ?

a) flexibility

.....
.....
.....

b) real life episode

.....
.....

Competencies required in order achieving results in the result area you have just discussed.

Please indicate **what you need to know** in order to achieve results

.....
.....
.....
.....
.....

Can you describe **what you actually do** to achieve these results.

.....
.....
.....
How do you do what you do?
.....
.....
.....

Performance Levels

Very competent person:

Which kinds of behavioral and technical outputs indicate a high level of competence?
Please be specific with real life example. In other words what would some one who is very competent in this area do? Give real life incidents

.....
.....
.....
.....
.....
.....
Poor performer

Which kind of out put actions or behaviors would indicate a poor performer in this competence?

.....
.....

Critical Dimensions Check list

Now we have identified the necessary competences in carrying out the role of a lessee SME manager in this area. I would like to know the signs that indicate the accomplishment of this area. These are the critical indicators. They answer the question “how do you know that you have performed your role in each of the result area”. They are two types: out put and out come indicators. Out put indicators show what you have done such as a report written or tasks accurately delegated. Outcome indicators show the results of using the specific checks (results of your actions) such as improved morale and motivation.

In thinking of these critical indicators, I would like you to think of a check list which you would use, say, at the end of each month, or each quarter or each financial year to assess whether you have done what you know you are supposed to do. Please think of an out put and an out come check list. What would you include on these check lists?

Out put critical check list/ indicators

.....
.....
.....
.....

Out come critical check list/ impact indicators

.....

.....

.....