

LEASING AS A FORM OF FINANCING IN ROMANIA. FROM THEORY TO PRACTICE

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Abstract

The increasingly pressing presence of today's financial difficulties is leading top management, and not only, to identify new opportunities for economic revitalization, which implies the operationalization of a higher level of cash flow compared to previous periods and, why not, the orientation towards new business directions of companies operating in the current economic environment.

Thus, the principal focus of this article is on respondents' perceptions of the use of leasing as a form of financing, given that more and more companies are using this form of financing (leasing) to purchase cars. This research also contributes to the literature on the concept of leasing as a form of financing.

The authors' expectations are aimed at confirming a high level of leasing's appreciation as a financing instrument and valuable in companies' strategy setting.

In this article the authors carried out a questionnaire that was distributed to 100 respondents, accounting professionals and not only, on the basis of which we can investigate their (the respondents') appreciation of leasing as a form of financing, as well as to identify some stereotypes on how accountants and not only accountants act in the current economic environment.

Among the results obtained, 70% of respondents appreciate leasing as a form of financing. However, leasing as a instrument for setting objectives is appreciated to a lesser percentage. Also, the relevance of the accountant plays an important role in the process of advising companies, with 70% of respondents appreciating this aspect.

Keywords: *Leasing, strategy, accountant, economic growth, options*

Clasificare JEL : *M40, M41*

1. Introduction and context of the study

Accounting is an internationally standardised communication instrument between various institutional actors (government, employees, management, suppliers, etc.) that have a strong impact on the business environment, and it is considered a key element in establishing the potential directions of economic development of any company. Therefore, in order to have greater credibility and comparability, it is necessary to have a single set of standards with which current or potential investors can act. Having a single set of standards makes for a much clearer and more reliable analysis on which investors can act in an informed way.

This paper focuses on respondents' perceptions of leasing as a form of corporate finance, as well as identifying potential stereotypes present in the current economic environment.

Furthermore, accounting information must be continuously evaluated by management so that it is relevant to all categories of stakeholders. This approach can be quite challenging if sometimes "management may consider an investor to be inconsequential or minor one day and the same investor to be considered important to management on another day" (Stephens et al., 2011).

This approach encouraged the emergence of the use of various accounting perspectives that presented the action or inaction of people in various situations, translating from theory to practice as well as practice to theory, with the main objective of presenting a true and fair view of the company throughout a financial year.

The true and fair view is considered as the basis for analysing the evolution of a company, the results of which are the focus of attention of institutional actors as well as any other third parties directly or indirectly interested in the company (Feleagă and Feleagă, 2007).

Among the emerging countries of Central and Eastern Europe (CEE) we identify Romania, a country that has been in the spotlight through numerous reforms based on strong influences from the international space, but especially with Romania's accession to the European Union (EU) (Albu et al., 2011). After 1989, Romania was marked by a prolonged period of reform that brought to light numerous problems including political, economic and social ones. Romania's accession to the European Union as well as sustained external legislative efforts led the national regulator to pay attention to the implementation of international standards and regulations such as accounting standards, auditing, corporate governance, reporting and regulation of the profession (Albu et al., 2014; Ionașcu et al., 2014). These emerging changes of orientation towards strong influences from the international space have started to be analysed (Jamali and Neville, 2011), but the historical evolution and the national context provide a favourable and interesting environment for research due to the numerous changes in the economic, political and social environment, making the legislation, practices and information provided constantly improving.

According to the IASB, "IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model that requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance and the approach to IFRS 16 on lessor accounting remains substantially unchanged from its predecessor, IAS 17."

The objective of this research is to determine the level to which leasing can be assessed as a financing instrument to determine current and potential economic development strategies within a company.

2. Leasing as a form of financing in Romania. From theory to practice

Developments at the micro and macro economic level have favoured the emergence of various approaches to target setting in order to maximise profit rates by the capital providers present in each company. This fact, also encouraged by the true and fair image, has favoured the emergence of leasing as a form of financing (Vakhitov Damir R. and Zamaletdinov Aidar, 2015).

This evolution has directly influenced the way information is reported in the financial statements. Also, management's desire to list the company on the stock exchange has further accelerated the quality of financial and accounting information reporting.

The trend towards globalisation of companies favoured the emergence of accounting standards in which professional judgment was the main key (Albu and Albu, 2014).

2.1. Use of leasing as a form of financing

Leasing as a form of financing has generated numerous user approaches, starting from the form of financing, the leasing period, as well as the company's own development strategy, thus raising real interest for users.

Wei-Ting Chen et al. (2018) present the use of leasing as a form of financing in airlines to increase the competitiveness of the industry and the desire of companies to modernize their fleet.

This can be confirmed by Sylvain Bourjade et al. (2017) who found the lowest growth of airlines from 1996-2011 compared to other industries, but still the profits of these companies were significant. However, airlines achieved similar profits regardless of the strategies used.

Mitchell et al. (1997) appeal to the stakeholder relevance theory. By stakeholder relevance is meant the impact they exert with power, legitimacy and urgency in a company. In recent times

(30 years) stakeholder evidence has become, a basic instrument used to identify, assess and prioritise stakeholders, thus having important theoretical and managerial implications.

The study by Qaiser Munir et al. (2017) outlines the potential constraints that arise when the CEO has influence over investors. These constraints are based on the constant attempts to identify opportunities to increase remuneration based on performance indicators, as well as keeping a stable job.

Power is defined as the ability of stakeholders to influence organisational decisions and the distribution of value (Lépineux, 2003). The use of power from a stakeholder perspective is also supported by neo-institutional theory, whereby coercive pressure has strong influences on management decision-making (Pedersen, 2011). Legitimacy is how a group's actions, given the context of the social system, are broadly perceived (Morsing et al., 2006). Legitimacy is often linked to power, as most managers will only pay attention to a powerful actor who is considered legitimate. Another issue brought into question is urgency and is the extent to which a stakeholder group considers its statements to be time sensitive or critical (Mitchel et al., 1997).

The application of accounting policies may create uncertainty as to how leases are recognised in the financial statements, but also a temptation to manipulate certain economic and financial indicators (liquidity, solvency).

The study by Su-Jane Hsieh and Yuli Su (2015) highlights the preference of companies to use operating leases because the financial effort is lower compared to finance leases. This is justified by the presence of depreciation or other maintenance expenses in finance lease. Also, this preference may hide a desire of management to obtain increased remuneration based on company performance.

Freeman (1984) is of the opinion that managers should identify all stakeholder groups, should determine the level of importance specific to each group as well as the manner in which their requirements are currently being met by the entity and, based on the findings, should modify the entity's policies so as to remedy situations that have not been met by the company.

From 2019 leasing has a new regulatory standard that changes the way it is analysed, from the lessee's perspective, on the presentation in the financial statements. Thus, the lessee classifies the lease according to the lease term (short term and long term). This will result in a much clearer analysis of the financial ratios without the need for further adjustments. From the lessor's perspective, IFRS 16 addresses the same specific treatment as IAS 17.

This approach is also found in Japan, where the differentiation of finance and operating leases does not influence the assessment of credit risk (Masaki Kusano, 2017).

2.2. Respondents' perception of leasing as a form of financing

Nowadays, the mimetic behaviour of consumers can be a sign of appreciation of the quality of products and services offered. In this respect, it is important to identify, notice and improve these products if we want to achieve higher economic benefits than in previous periods. In this sense it is important to know the opinion of the respondents, accounting professionals and others, about leasing as a form of financing, so that we can identify the potential habits encountered in the current economic environment with regard to this form of financing (leasing). In this way the authors, based on the studied materials and the results obtained with the questionnaire, can make a transition from theory to practice of leasing as a form of financing.

2.3. Research methodology

The research methodology aims to assess the appreciation of leasing as a form of financing by respondents, both accounting professionals and people working in other fields. 100 respondents with 15 years of experience in the field were selected for this research. They were asked to rank on a Likert scale from one to five, where one is very low and five is very high, ten questions about leasing as a form of financing.

Respondents were classified into two categories, accounting professionals and people working in other fields.

Grouped by gender, the respondents show a share of 26 men (26%) and 74 women (74%). Divided by the two categories, accounting professionals and others, we identify a share of 9 men (9%) and 41 women (41%) for accounting professionals, while people working in other fields have a share of 17 men (17%) and 33 women (33%).

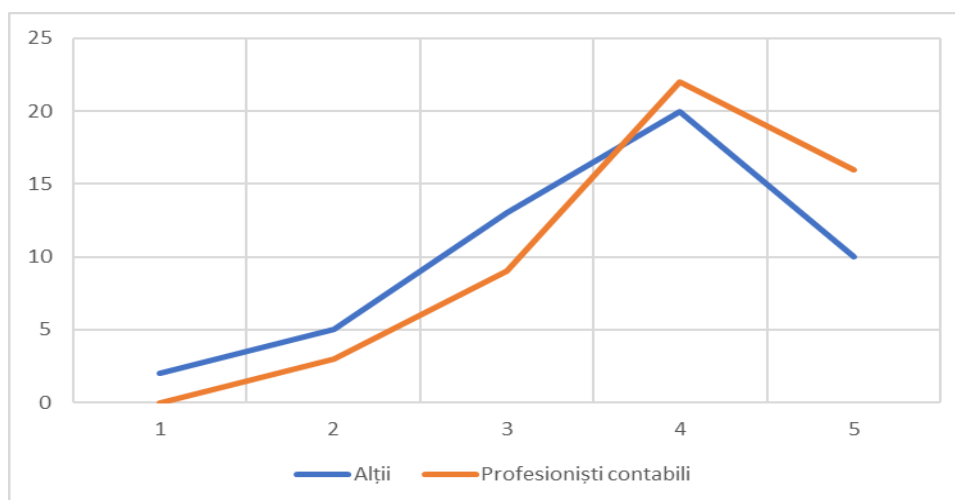
In terms of educational levels, we identify only one woman (1%) who has completed a post-doctoral degree and belongs to the category of accounting professionals. Of the respondents who have completed a PhD we identify 2 women (2%) in the accounting professionals category. 43 respondents (43%) have completed a Master's degree. In the category of accounting professionals we identify 26 respondents who have completed a master's degree (26%), while in the category of people working in other fields we identify 17 respondents (17%). 46 respondents (46%) have a bachelor's degree as their last education. Divided by the two research categories we identify 21 respondents (21%) in the category of accounting professionals and 25 respondents (25%) in the category of people working in other fields. It should be remembered that at the time this form of education (bachelor's degree) was of long duration (predominantly 4 years). Only 8 respondents (8%) have only a high school diploma, and they are in the category of people working in other fields.

2.4. Analysis results

Based on the questionnaire sent to the respondents we obtained the following results:

1. Accountants see themselves as the main source of advice when companies need guidance and support in the financing process, with trust being the main determinant for companies in establishing the level of influence the accountant has on the financing decision taken.

Figure 1. The accountant as a source of advice

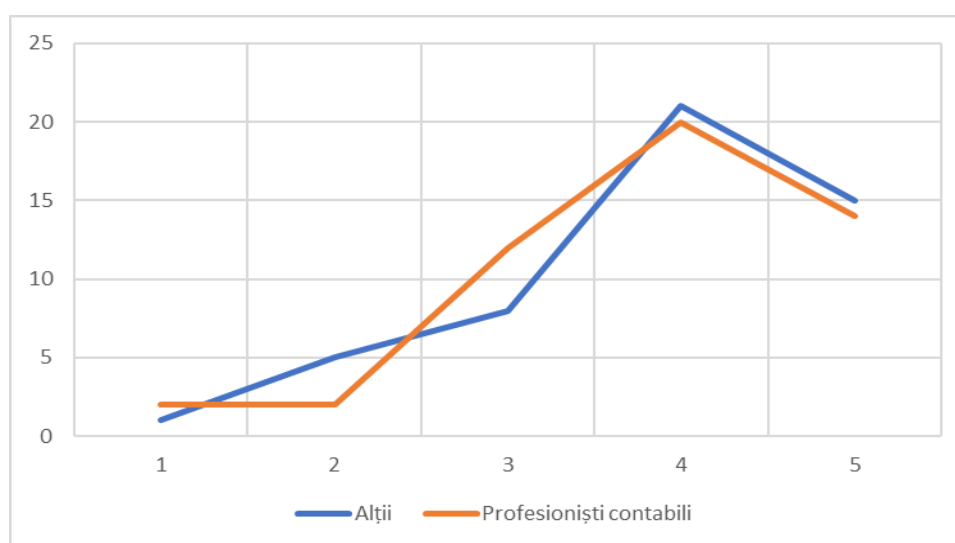


Source: Question 1 of the questionnaire

The first question, the accountant as a source of advice, in the questionnaire is highly valued by 42 respondents (42%). Of these respondents, a difference of 2 respondents in favour of professional accountants can be identified. 26 of the respondents (26%) highly value the accountant as a source of advice. Within this ranking a difference of 6 respondents in favour of accounting professionals can be identified. 22 respondents (22%) rate the accountant neutrally as a source of advice. Divided by the two research directions we identify a difference of 4 respondents in favour of people working in other fields. 8 respondents (8%) rate the accountant as a source of advice to a lesser extent. Of these respondents, a difference of 2 people in favour of people working in other fields is identified. 2 respondents (2%) rate the accountant as a source of advice very low. These 2 respondents fall into the category of people working in other fields.

2. Accountants recommend leasing as a form of financing for companies because of the low risk of this form of financing.

Figure 2. Leasing recommendation as a form of financing

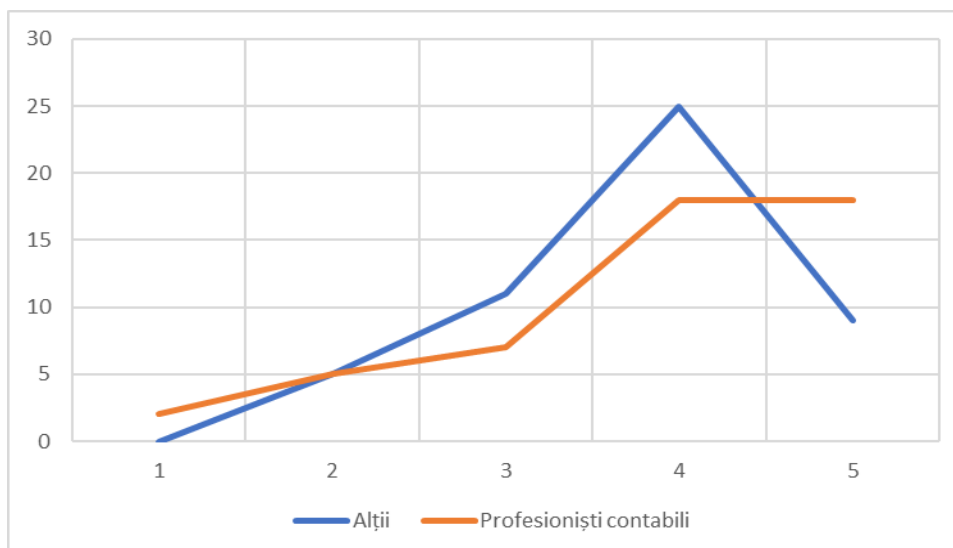


Source: Question 2 of the questionnaire

The second question in the questionnaire is highly valued by 41 respondents (41%). Of these, a difference of one respondent is identified in favour of people working in other fields. 29 respondents (29%) rate highly the recommendation of leasing as a form of financing. Of those who belong to this category we identify a difference of one respondent in favour of people working in other fields. 20 respondents (20%) rate the advice of accountants on the choice of form of financing by companies as neutral. In this category we identify a difference of 4 respondents in favour of professional accountants. 7 respondents (7%) give a low rating to this advice. Within this classification, a difference of 3 respondents in favour of people working in other fields is identified. 3 respondents (3%) rate the recommendation of leasing as a form of financing very low. Of these, a difference of 1 respondent is identified in favour of accounting professionals.

3. Accountants take tax issues into account when advising companies on their choice of financing and preferably recommend leasing as a form of financing rather than the traditional bank loan, as it has no impact on VAT.

Figure 3. Fiscal impact in choosing the form of financing

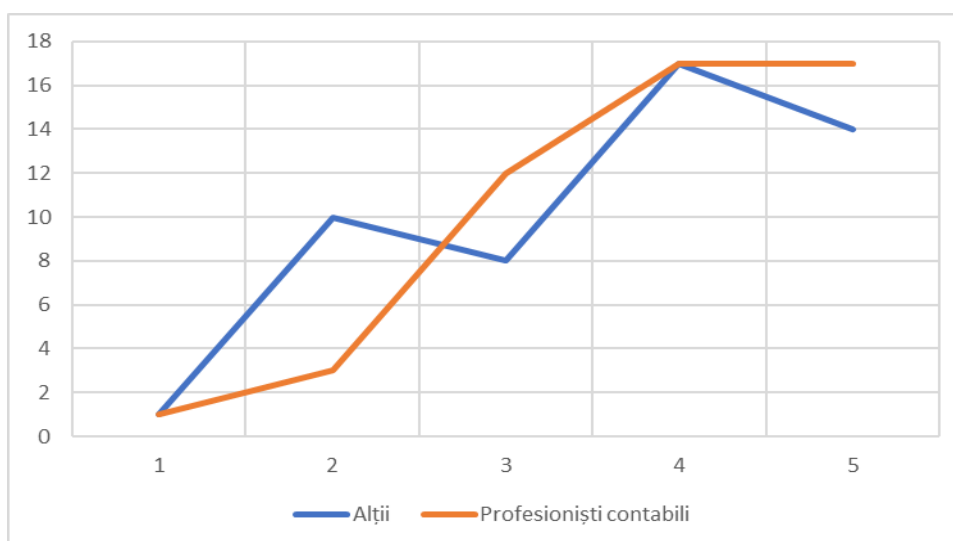


Source: Question 3 of the questionnaire

In question number three of the questionnaire 43 respondents (43%) highly value fiscal aspects when choosing the appropriate form of financing. Of these, a difference of 7 respondents is identified in favour of people working in other fields. 27 respondents (27%) value these tax aspects very highly. When broken down into the two categories, accounting professionals and others, there is a difference of 9 respondents in favour of accounting professionals. 18 respondents (18%) rate the tax impact neutrally. Of these respondents a difference of 4 is identified in favour of those working in other fields. 10 respondents (10%) have a low appreciation of the tax aspects when choosing the form of financing. Within these categories an equal ratio (5 respondents) is maintained for each category. 2 respondents (2%) have a very low appreciation of the influence of taxation. Respondents in this category are exclusively accounting professionals.

4. Accountants recommend leasing as a possible alternative form of financing because the flexibility is much greater than with traditional bank financing.

Figure 4. Leasing flexibility as a form of financing

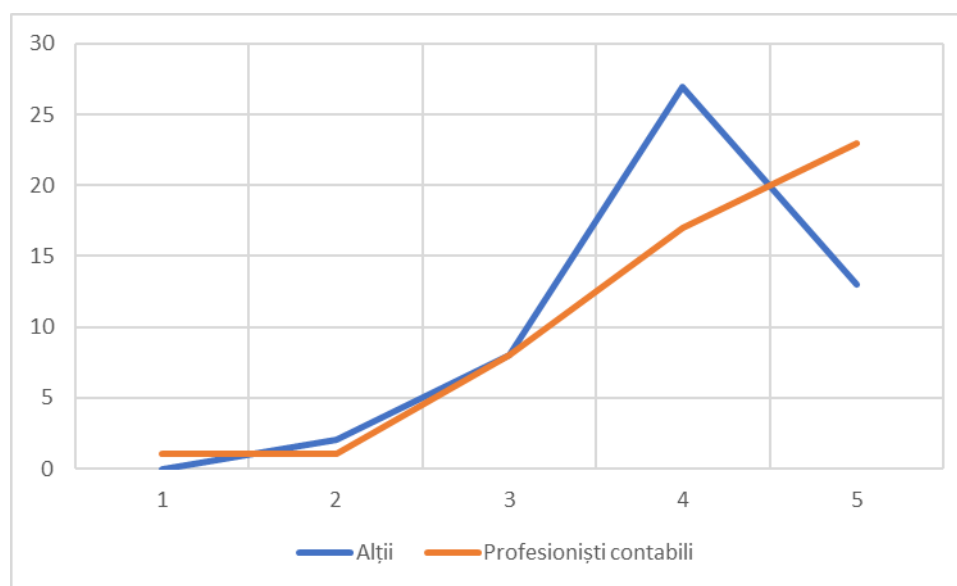


Source: Question 4 of the questionnaire

In question four of the questionnaire 34 respondents (34%) highly value the flexibility of leasing as a form of financing. Within this category an equal share of 17 people remains. 31 respondents (31%) rate the flexibility of leasing very highly. Of these there is a difference of 3 respondents in favour of professional accountants. 20 respondents (20%) rate the flexibility of leasing as a form of financing neutrally. In this category there is a difference of 4 respondents in favour of professional accountants. 13 respondents (13%) have a low opinion of the flexibility of leasing. Of these, a difference of 7 respondents is identified in favour of people working in other fields. 2 respondents (2%) value very little the flexibility of leasing as a form of financing. Within these respondents one respondent is identified for each category.

5. Accountants recommend financial leasing because it includes both the option to buy the asset and additional flexibility.

Figure 5. Financial leasing recommendation

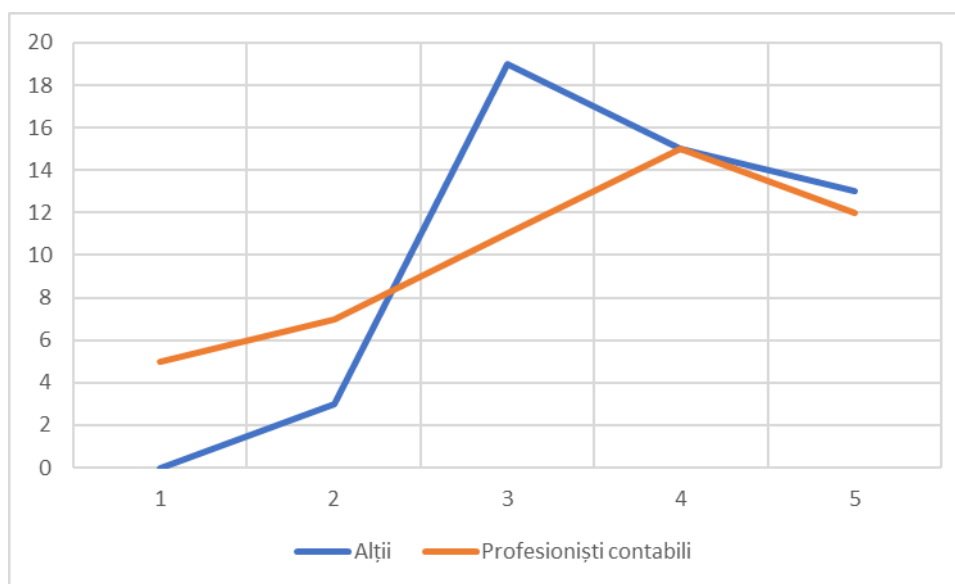


Source: Question 5 of the questionnaire

In question five of the questionnaire, 44 respondents (44%) gave a high rating to the recommendation to use leasing as a form of financing. Within this category we identify a difference of 10 respondents in favour of people working in other fields. 36 respondents (36%) highly rate the use of financial leasing. Of these respondents we identify a difference of 10 people in favour of accounting professionals. 16 respondents (16%) rate the use of financial leasing as a form of financing neutrally. Among these respondents we identify a share of 8 persons for each category. 3 respondents (3%) have a low appreciation of the use of financial leasing. Of these we identify a difference of one respondent in favour of accounting professionals. 1 respondent (1%) has a very low appreciation of financial leasing as a form of financing, and this is from the accounting professionals category.

6. Accountants tend to preferably recommend an operating lease as a form of finance as it involves little worry and risk on the part of companies and nowadays offers the possibility of including the option to purchase the asset.

Figure 6. Operating lease recommendation

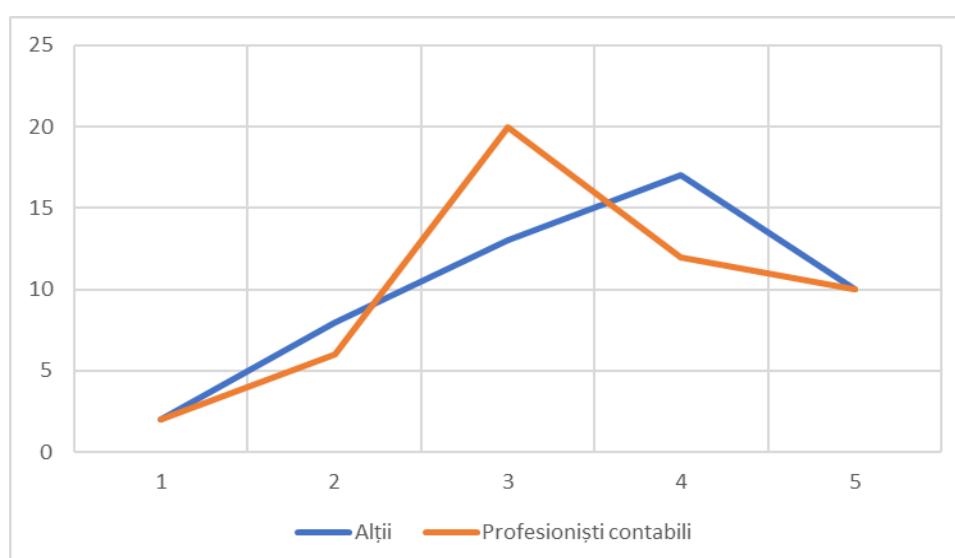


Source: Question 6 of the questionnaire

In question six of the questionnaire 30 respondents (30%) rate the use of operating leases as a form of financing as neutral. Of these, a difference of 8 respondents is identified in favour of people working in other fields. 30 respondents (30%) have a high opinion of the use of operational leasing as a form of financing. Of these, 15 respondents are identified for each category. 25 respondents (25%) highly value the use of operational leasing. Divided by the two categories, accounting professionals and others, a difference of one respondent is identified in favour of people working in other fields. 10 respondents (10%) value the use of operating leases as a form of financing to a low extent. Of these, a difference of 4 respondents is identified in favour of accounting professionals. 5 respondents (5%) have a very low opinion of the use of operational leasing. These respondents belong only to the category of accounting professionals.

7. Accountants tend to use leasing as a instrument for setting objectives and strategies within a company.

Figure 7. Leasing as a instrument for setting objectives and strategies

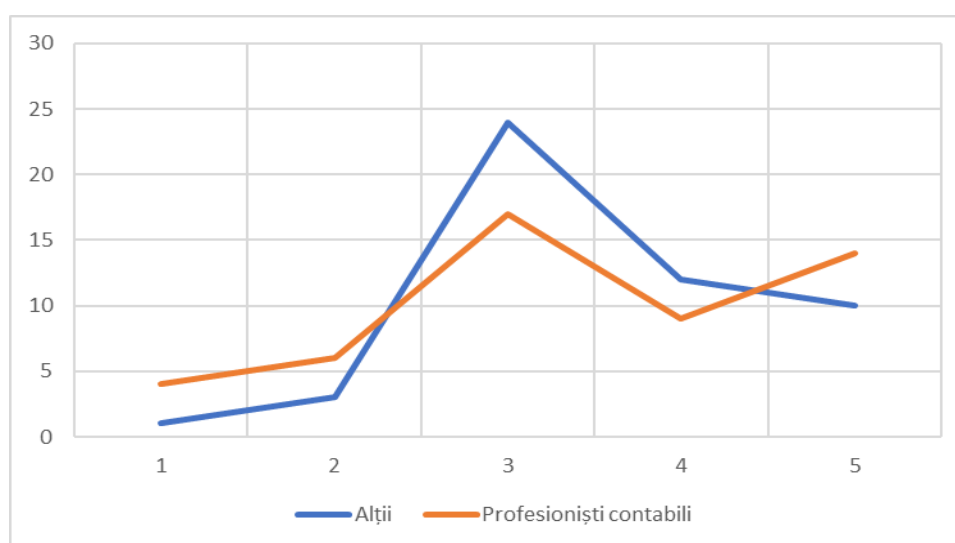


Source: Question 7 of the questionnaire

In question seven of the questionnaire 33 respondents (33%) rate leasing as a neutral instrument for setting objectives and strategies within a company. Of these, a difference of 7 respondents is identified in favour of accounting professionals. 29 respondents (29%) have a high opinion of the use of leasing as a instrument for setting objectives and strategies. Within this category there is a difference of 5 respondents in favour of accounting professionals. 20 respondents (20%) value the use of leasing very highly. Within this category we identify 10 respondents for each category. 14 respondents (14%) rate the use of leasing as a instrument for setting objectives and strategies as low. Within this category we identify a difference of 2 respondents in favour of people working in other areas. 4 respondents (4%) have a very low appreciation of the use of leasing as a instrument for setting strategies and objectives. Within this category 2 respondents from each side are identified.

8. Accountants appreciate the exemption from recording the lease with a small (\$5000) asset value. It will thus be recorded directly in the profit and loss accounts.

Figure 8. Exemption from registration of leases under USD 5000

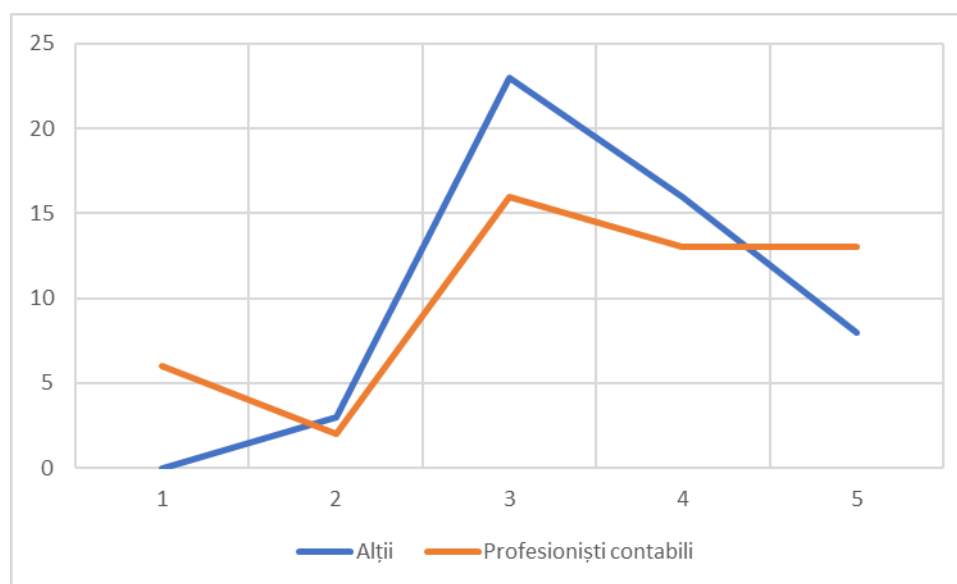


Source: Question 8 of the questionnaire

In question number eight of the questionnaire, 41 respondents (41%) consider it neutral to exempt leases under USD 5000 from being recorded directly in the profit and loss accounts. Of these we identify a difference of 7 respondents in favour of people working in other areas. 24 respondents (24%) strongly favour the exemption from recording contracts under 5000 USD. Within this category we identify a difference of 4 respondents in favour of accounting professionals. 21 respondents (21%) highly value the exemption from registration of leasing contracts. Of these, there is a difference of 3 respondents in favour of people working in other fields. 9 respondents (9%) value the exemption from registration of leases under 5000 USD to a small extent. Within this category we identify a difference of 3 respondents in favour of accounting professionals. 5 respondents (5%) have a very low appreciation of this exemption. Of these we identify a difference of 3 respondents in favour of accounting professionals.

9. Accountants appreciate the exemption from recording short-term leases. Short-term leases are therefore recorded directly in the profit and loss accounts.

Figure 9. Exemption from registration of short-term leasing

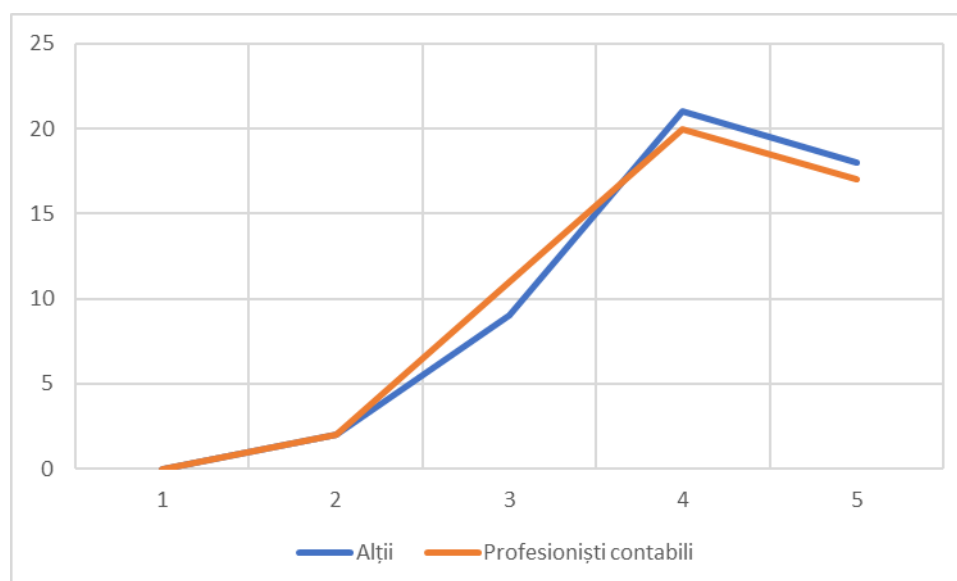


Source: Question 9 of the questionnaire

In question nine of the questionnaire 39 respondents (39%) rate the exemption from registration of short-term leasing as neutral. Of these, a difference of 7 respondents is identified in favour of professional accountants. 29 respondents (29%) rate the short-term lease exemption highly. Within this category a difference of 3 respondents is identified in favour of people working in other fields. 21 respondents (21%) value this exemption very highly. Of these, a difference of 5 respondents is identified in favour of accounting professionals. 6 respondents (6%) value the exemption from registration of short-term contracts very highly. These respondents are exclusively in the category of accounting professionals. 5 respondents (5%) have a low opinion of the exemption from short-term registration. Of these, there is a difference of one respondent in favour of accounting professionals.

10. The accountant can be considered a key element in setting financing decisions.

Figure 10. The accountant as a key element



Source: Question 10 of the questionnaire

In the last question of the survey 41 respondents (41%) highly value the accountant as a key element in setting financing decisions. Of these there is a difference of one respondent in favour of people working in other fields. 35 respondents (35%) rate the accountant very highly as a key element. Within this category a difference of one respondent is identified in favour of people working in other fields. 20 respondents (20%) rate this question neutrally. Divided into the two categories, accounting professionals and others, a difference of 2 respondents in favour of accounting professionals is identified. 4 respondents (4%) rate the accountant as a key element to a lesser extent. Of these, 2 respondents are identified for each category studied.

3. Conclusions

The main objective of this study is to assess how leasing as a form of financing is valued. In addition to this objective it is possible to identify the behaviour of the accountant with regard to the use of various forms of financing.

A first conclusion that stands out in this study is the positive trend in the use of leasing as a form of financing. About 70% of the respondents in this study value leasing as a form of financing. However, leasing as a instrument for setting objectives is less appreciated by respondents. This may be due to prudent behaviour, directly influencing the appreciation of leasing as a target setting instrument within a company. This prudent character can also be seen in the exemption of low value contracts (5000 USD). Here again, prudent behaviour is marked by 40% of respondents. They gave a neutral rating to these contracts (up to USD 5000).

The second conclusion concerns the relevance of the accountant in advising companies. Some 70% of respondents value this aspect highly and very highly. They recommend leasing as a form of financing because the level of risk is low compared to other forms of financing. Also, the importance of an accountant in the advisory process is even more pronounced when tax issues are brought into the discussion.

The third conclusion is that 80% of respondents are oriented towards financial leasing as a form of financing. Here again, we can identify a prudent behaviour regarding the choice to purchase the asset at a favourable price.

It should be noted that the respondents analysed have 15 years of experience in the field, and their results, based on the experience gained, help us to present that leasing is a form of financing to be approached in companies, given its flexibility and low level of risk (leasing).

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