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Research on the Factors Influencing the Motivation of Financial Leasing of Listed Companies in Beijing

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Abstract: Financial leasing is a form of financial service that is used to provide corporate or personal funds for the purchase of assets. It is a very effective way of financing can help enterprises to better achieve their strategic goals. In this paper, the factors influencing the motivation of financial leasing of listed companies in Beijing were studied using regression models from 2007-2019. The study shows that: the leverage ratio of enterprises has a positive influence on the financial leasing behavior of enterprises, the higher the leverage ratio of enterprises, the greater the possibility of choosing financial leasing; the cash ratio of enterprises has a negative influence on the financial leasing behavior of enterprises, the higher the cash ratio of enterprises, the less the possibility of choosing financial leasing.

1. Research Background

Financial leasing is a new type of financial industry that integrates financing and material financing, trade and technology renewal. Because of its characteristics of combining financing and material financing, the leasing company can recover and deal with the leased goods when problems arise, thus the requirements for enterprise creditworthiness and guarantee are not high when handling financing, so it is very suitable for small and medium-sized enterprise financing. For listed companies, without a certain amount of capital, the company cannot be successfully listed, so financial leasing is essential. Financial leasing is a financing method to obtain financing by leasing an asset, and this asset refers to the enterprise itself[1].With a certain amount of capital flowing into the enterprise, the enterprise is able to operate better internally. Therefore, this paper starts from the factors influencing the motivation of financial leasing of listed companies in Beijing and conducts an empirical study through regression models to explore on which factors influence the motivation of corporate financial leasing.

2. Financial leasing mode and the reasons for choosing financial leasing

2.1. Financial leasing model for listed companies

1) Direct Finance Leasing

The lessee designates the equipment and manufacturer, entrusts the lessor with financing to purchase and provide the equipment, which is used and rented by the lessee, and the lessor transfers ownership of the equipment to the lessee at the end of the lease term. It is conditional on the lessor retaining ownership of the leased property and collecting rent, so that the lessee obtains the right to possess, use and benefit the leased property during the lease period. This is one of the most typical financial leasing methods[2].

2) Operating Lease

The lessor assumes the risks and benefits associated with the leased property. Enterprises using this method do not aim to ultimately own the leased property and are not reflected as fixed assets in their financial statements. Enterprises may choose the operating lease method in order to hedge the risk of equipment or need off-balance sheet financing, or need to take advantage of some tax incentives.

3) Sale of leaseback

Sale and leaseback, sometimes also called sale and leaseback, leaseback, etc., means that the owner of the object first signs a Sale and Purchase Contract with the leasing company and sells the object to the leasing company to obtain cash. Then, the original owner of the object, as the lessee, signs a Leaseback Contract with the leasing company and leases the object back. The lessee regains ownership of the object after paying back all the rent and the salvage value of the object according to the Leaseback Contract.

2.2. Reasons for listed companies to choose financial leasing

1) Broaden financing channels and operate quickly

Financial leasing provides a new way of financing for enterprises by means of "financing", which broadens the financing channels of enterprises. Bank loans are characterized by high threshold, strict examination, long procedures, complicated formalities and limited amount, especially for some newly established enterprises, small and medium-sized enterprises due to poor credit status, it is difficult to obtain bank loans for financial support[3]. The financing credit review procedure is easy and fast, and the funds can be available quickly.

2) Flexible use of funds

Compared with other financing methods, the use of lease financing is more relaxed in the supervision of the funds provided to the enterprise, which is conducive to the flexible funding arrangements of the enterprise (mainly in the sale and leaseback transactions, as the funds are obtained through the sale of assets, the enterprise can freely use the funds.)

3) No tying up of corporate credit lines

The funds obtained by enterprises through the pilot financial leasing enterprises of the Ministry of Commerce will not be counted in the credit system of the People's Bank of China and will not take up the credit line of enterprises in banks, which is conducive to the all-round and deep-level innovative cooperation between enterprises and banks through the financing platform of leasing companies.

4) Increased flexibility in business operations

Operating leases have the characteristics of flexible leasing methods and can be withdrawn at any time. Enterprises choosing this method of introducing fixed capital can rapidly expand their production scale when market conditions are good and flexibly withdraw when the market shrinks, which is conducive to improving the flexibility of business operation.

5) Improve financial statements

Unlike bank loans or foreign government loans, finance leases are off-balance sheet financing, and the rentals of finance leases are not reflected in the liability items in the financial statements, and the rentals of finance leases can be charged before tax in financial management. When a lessee leases fixed assets by means of a finance lease, it can generally obtain medium- to long-term financing for 3 to 5 years. Compared with the use of bank working capital loans or short-term commercial credit, it can not only improve short-term solvency indicators such as current ratio and quick ratio, but also relatively reduce the lessee's gearing ratio (retaining or improving the lessee's financing capacity) and improve the asset yield indicators, etc.

6) Avoidance of policy and market restrictions

Many units have different aspects of policy restrictions in the acquisition of fixed assets, some from the regulatory authorities, some from the control of the internal management system of the headquarters, and some from the obstacles of market information disclosure and other operations. For example, various banks, credit unions, national asset management companies, insurance companies, listed companies, group branches, etc. adopt financial leasing business, which can effectively evade these restrictions.

7) Accelerated depreciation with tax saving function

According to the Ministry of Finance, the State Administration of Taxation relevant documents provide that "the enterprise technical transformation of leased machinery by way of financial leasing, depreciation may be determined by the lease term and the principle of the short depreciable life of the state, but the shortest depreciable life of not less than three years", indirectly played a role in accelerating depreciation.[4] Enterprises can follow the most favorable principle, depreciation as soon as possible, the depreciation costs to the cost of after-tax loan repayment, compared to the obvious benefits to enterprises.

8) The burden of repaying the principal on maturity is lighter. Bank loans are generally lent out in full and returned in full, while leasing companies can customize flexible repayment arrangements, such as deferred payments, incremental and decremental payments, according to the financial strength and seasonality of sales of each enterprise, enabling lessees to customize the payment amount according to their own business conditions.

3. Study Design

3.1. Data source

Financial leasing data was collected manually from the financial statements of listed companies for the years 2007-2019, and other financial data was obtained from the CSMAR database.

3.2. Selection and interpretation of variables

(1) Background: Finance lease. The value is 1 if the company has a finance lease in the current year and 0 if there is no finance lease.

(2) Explanatory variables: a) whether the firm receives industrial support (policy_support) b) logarithm of total assets of listed firms (lna_last) c) return on investment of listed firms (roal_last) d) market value of firm's stock total replacement cost of firm's assets (tobinq_last) e) leverage (leverage_ (last) f) cash rate (cashratio_last)

4. Regression results and analysis

According to the model estimation results in Table 1, the regression coefficient of the variable Leverage (corporate leverage) is positive, indicating that the higher the leverage of a firm, the more likely it is to choose a finance lease, and this finding holds at the 5% level of significance. （The regression coefficient of the variable Cashratio (cash ratio) is negative, indicating that the higher the cash ratio of an enterprise, the less likely it is to choose a financial lease, with other variables held constant. The conclusion holds at the 10% significance level. (The higher the cash ratio, the weaker the demand for capital and the weaker the incentive to choose financial leasing.)

Table 1: Regression results

lease_dummy	Coef.	Std. Err.	t	P>|t|	[95% Conf. interval	
Policy_support	.0009367	.0145772	0.06	0.949	-.0276671	.0295405
Ina_last	.0046929	.0054489	0.86	0.389	-.0059991	.0153849
Roal_last	-.084339	.1525882	-0.55	0.581	-.3837407	.2150627
Tobinq_last	.0032078	.0047663	0.67	0.501	-.0061448	.0125603
Leverage_last	.0853296	.0423381	2.02	0.044	.0022525	.1684068
Cashratio_last	-.08631	.0494511	-1.75	0.081	-.1833447	.0107246
_cons	-.0813002	.1237654	-0.66	0.511	-.3241568	.1615563

5. Research Conclusion

As a result of the above empirical study, it can be concluded that both the leverage ratio and cash ratio of enterprises have an effect on the motivation of financial leasing of listed companies in Beijing. The effects of whether an enterprise receives industrial support, the logarithm of the total assets of listed companies, the return on investment of listed companies and the replacement cost of the total assets of enterprises' stock market value are not significant. Among them, the leverage ratio of enterprises has a positive effect on the financial leasing motive; the cash ratio of enterprises has a negative effect on the financial leasing motive of enterprises. Leverage ratio is the ratio of bank capital (owner's equity) to total assets in the balance sheet, i.e.: Leverage ratio = equity capital ÷ total assets of the firm. It is a measure of a company's debt risk and reflects the company's repayment ability from the side. Under the condition that the total assets of the enterprise are constant, the higher the leverage ratio represents the more bank debts the company has, the greater the pressure of repayment and the greater the risk of debt. Therefore, enterprises will choose to reduce the risk of debt by means of financial leasing. Cash ratio is an indicator used to examine the liquidity of a company when it has a large amount of accounts receivable due to a large amount of credit sales, and its formula is: Cash ratio = (money + marketable securities) ÷ current liabilities. The higher the cash ratio is, the stronger the liquidity is, so the less likely the enterprise will choose to finance leasing.

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