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EFFECT OF LEASING FINANCING ON ORGANIZATIONAL PERFORMANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES(SMES) IN JIGAWA STATE, NIGERIA

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Abstract

This study examines the effect of leasing financing on the organizational performance of small and medium-sized enterprises (SMEs) in Jigawa State, Nigeria. Leasing financing is operationalised through two dimensions, access to leasing finance and usage of leasing finance, while organizational performance is treated as the dependent construct. A cross-sectional survey research design was adopted. The study population comprised 13,912 SMEs registered with the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in Jigawa State, from which a sample of 400 respondents was determined using the Taro Yamane (1967) formula. A structured questionnaire adapted from validated leasing-finance and organizational performance measures was administered to owner-managers and senior finance and the data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS. The results indicate that access to leasing finance has a positive and statistically significant effect on organizational performance, whereas usage of leasing finance does not have a statistically significant effect on organizational performance. The study concludes that improving SMEs' access to leasing arrangements, rather than the mere possession of leased assets, is the more critical lever for organizational performance in Jigawa State, and the study further recommends that leasing institutions and policymakers simplify access conditions while also building SME managerial capacity to productively deploy leased assets.

Keywords: leasing financing, access to leasing finance, usage of leasing finance, organizational performance, small and medium-sized enterprise

1. Introduction

SMEs contribute significantly to the creation of jobs, innovation and technological advancement, diversification of the economy, among others globally. According to the World Bank (2023), they represent close to 90% of all the firms and make up over half of all the jobs in the formal sector. SMEs have a great significance in reducing the impact of unemployment in emerging economies especially in Africa by creating income opportunities that improves the welfare of individuals (International Finance Corporation, 2017).

In Nigeria, SMEs make up more than 96% of businesses in the country and contributes immensely to the nation's gross domestic product (SMEDAN, 2022). However, access to finance has remained a key factor that affects the performance of

SMEs and their ability to stay in business (Aminu et al., 2021). Access to finance allows firms to acquire factors of productions, adopt modern technology, improve on service delivery and enhance their capacity.

Aminu et al. (2021) and Zylfijaj and Nikoloski (2021) assert that limited access to finance results to poor SME's performance in developing countries. One of the alternative sources of funding for SMEs to obtain critical assets for their businesses is through lease financing. The high interest rate charged, stringent collateral demand, short duration for loan repayment, and long-winding process makes it difficult for SMEs to raise finance from commercial bank. This prevents them from having access to equipment, tools, and other infrastructures necessary for the success of the business and affects their performance.

Lease financing is a contract made between the user and owner of asset whereby the user of an asset (lessee) is given the right to use the asset of another firm (lessor) for a stipulated time in return for payment made regularly (Abdulkarim et al., 2020). Through lease financing, SMEs can have access to equipment, machines, technological, and other assets necessary for their operation without spending a lot of capital which will leave their working capital intact.

Mol-Gómez-Vázquez et al. (2020) analysed the reasons why firms opt for lease financing using data from more than 4,400 SMEs operating in 25 European countries. Their finding revealed that SMEs constrained by a lack of capital were more likely to use leasing to circumvent financing constraints relative to those firms without financial constraints. Leasing has remained resilient to adverse macroeconomic shocks due to its flexibility of use (Abdulkarim et al., 2020).

Despite challenges posed by inflationary economy, unstable foreign exchange rate, tightening of the money supply among others the growth of the leasing sector has been remarkable in Nigeria. The total value of outstanding leases rose by 28.7 percent to N 4.19 trillion in 2023 from N 3.25 trillion recorded in 2022. However, the penetration of lease financing in the Nigerian economy still leaves a lot to desired. Its penetration into the GDP was 0.185 percent, when compared to 1.10 and 0.71 percent between 2019 and 2021 in Morocco and South Africa, respectively (Bank of Industry, 2025).

The twenty years review of leasing industry in the Nigerian economy by Abdulkarim and Mainasara, 2025 show that the success of lease financing is not limited by demand for its service but the absence of enabler institutions, poor information, and limited access to funding. The huge difference between the penetration rate of lease financing into the Nigerian economy and its remarkable growth calls for fully exploiting the role it can play in ensuring firms especially SMEs have access to assets for their businesses at a minimum cost. More so, understanding how it can affect the performance of SMEs in the economy.

Organizational performance refers to the extent to which an organization achieves its objectives through efficient and effective exploitation of existing resources (Abdulkarim & Mainasara, 2025). It comprises variables such as profitability, productivity, operational efficiency, sales growth, market expansion, customer happiness, and business sustainability (Richard et al., 2009). SME success is influenced by various internal and external factors, among which access to finance remains particularly significant.

Leasing finance is believed to boost organizational performance by enabling organizations to access productive assets necessary for efficient operations and

competitive advantage. One key facet of leasing financing is access to leasing finance, the capacity of enterprises to receive leased assets from leasing institutions under attractive and accessible circumstances. SMEs with increased access to leasing possibilities are more likely to obtain contemporary equipment and operating facilities that promote production and efficiency.

Ayyagari et al. (2021) analysed firm-level data across developing countries and found that improved access to finance significantly increased employment growth and investment activity among smaller firms in particular, underscoring the salience of financial access as a determinant of firm-level outcomes. Nonetheless, despite the availability of leasing services in Nigeria, many SMEs still experience difficulty accessing leasing arrangements because of insufficient awareness, inadequate financial information, bad creditworthiness, and institutional impediments.

A second key feature is the usage of leasing finance. Access to leased assets alone may not automatically convert into enhanced organizational performance unless such assets are appropriately employed in productive activity. Effective employment of leasing financing comprises the efficient deployment and management of leased assets to improve operational efficiency, production capacity, and service delivery. Evidence from China's listed firms reveals that financial leasing alleviates finance limitations and, when leased assets are strategically integrated into firm operations, considerably improves investment and innovation output (Lian, 2024). This shows that the performance gains of leasing are conditional on how leased assets are utilized, not only on whether they are accessed, which motivates the treatment of access and usage as conceptually independent categories in the present analysis.

Empirical studies provide broad, albeit geographically varied, support for a relationship between lease finance and organizational success. Akinbola and Otokiti (2012) discovered that lease financing choices favorably influenced the profitability performance of SMEs in Lagos State, Nigeria, by facilitating access to productive assets.

Aremo and Ayorinde (2022) similarly reported that lease finance favorably improved the financial performance of listed manufacturing enterprises in Nigeria by boosting operational efficiency and productive capacity. However, evidence from the oil and gas sector is more mixed: Bugaje et al. (2024), examining listed oil and gas companies in Nigeria, found that the effect of lease financing on firm-level financial-performance indicators was not uniformly positive across all measures, a pattern broadly consistent with other Nigerian capital-intensive-sector studies that report inconsistent or sector-dependent leasing effects on return on assets and return on equity.

This divergence between the predominantly positive SME-level findings and the more mixed findings from large, capital-intensive listed firms suggests that the performance effects of leasing finance may be moderated by firm size, sector, and the extent to which leased assets constitute a genuine solution to financing constraints rather than a routine capital-structure choice, a distinction of direct relevance to SMEs, which are typically far more financially constrained than listed conglomerates.

Despite this growing body of literature, existing studies have focused largely on general financial performance, profitability, or access to finance without specifically disaggregating access to leasing finance and usage of leasing finance as distinct determinants of organizational performance among SMEs. In addition, many previous Nigerian studies were conducted outside Jigawa State, for example in Lagos State (Akinbola & Otokiti, 2012) or among listed manufacturing and oil and gas firms

(Aremo & Ayorinde, 2022; Bugaje et al., 2024), thereby limiting the applicability of their findings to unlisted SMEs operating within Jigawa State's distinct economic and institutional environment. This generates both empirical and contextual gaps in the literature.

In Jigawa State specifically, SMEs continue to face serious challenges associated with inadequate capital, weak infrastructural facilities, limited financial support systems, and restricted access to productive assets, which have adversely affected business productivity, operational efficiency, and overall organizational performance. It is against this backdrop that this study explores the influence of leasing financing on the organizational performance of SMEs in Jigawa State, Nigeria.

The main objective of this study is to examine the effect of leasing financing on organizational performance of small and medium-sized enterprises (SMEs) in Jigawa State, Nigeria. To achieve the main objective, the study seeks to:

i. Examine the influence of access to leasing finance on organizational performance of small and medium-sized enterprises (SMEs) in Jigawa State; and
ii. Determine the effect of usage of leasing finance on organizational performance of small and medium-sized enterprises (SMEs) in Jigawa State.

2. Literature Review

Conceptual Review

Leasing Financing

A corporation can employ productive assets without immediately obtaining ownership of them thanks to leasing financing, an alternative financing structure. In exchange for regular payments, the lessor gives the lessee the right to use an asset for a predetermined amount of time under a lease agreement. Because it gives SMEs access to machinery, equipment, vehicles, and technology without requiring a large upfront capital outlay, leasing has grown in importance as a source of funding (Mol-Gómez-Vázquez et al., 2020). Because the lessor retains ownership of the item, which lowers collateral requirements and makes asset acquisition easier, leasing is especially advantageous for SMEs with limited resources and trouble obtaining traditional credit facilities.

According to recent research, leasing helps businesses retain operational continuity, enhance cash-flow management, and preserve liquidity all of which are important components of enterprise financing. Lian (2024) discovered, using panel data on China's A-share listed companies from 2012 to 2022, that financial leasing supports business operations that would otherwise be hampered by limited access to formal credit by easing financing constraints and encouraging enterprise investment and innovation output.

Access to Leasing Finance

The ability of a business firm to acquire leased assets under favorable and achievable circumstances is referred to as access to leasing finance. It shows how well businesses may use lease agreements to obtain the productive resources required for daily operations. The availability of leasing providers, institutional circumstances, financial limitations, and awareness of leasing alternatives all influence access to leasing finance.

Because leasing gives more flexibility than traditional loans, Mol-Gómez-Vázquez et al. (2020) observed that financially limited enterprises were considerably

more likely to use leasing than unconstrained firms across a sample of 4,425 SMEs in 25 European nations. Better access to lease financing makes it easier for SMEs to purchase cutting-edge machinery and profitable assets that boost their competitiveness and operational efficiency. This reasoning is supported by more extensive data on financial access: Using firm-level data from over 780,000 businesses in developing nations, Ayyagari et al. (2021) demonstrate that increased access to financing greatly boosts investment activity and employment development, especially among younger and smaller businesses that are usually the most credit-constrained.

Usage of Leasing Finance

The degree to which leased assets are efficiently used in corporate operations to accomplish organizational goals is referred to as usage of leasing finance. Although having access to leased assets is crucial, organizational benefits are only achieved when these assets are effectively used in operational, service-delivery, and manufacturing operations. Productivity, efficiency, and resource utilization all rise when leased assets are used effectively.

According to recent research, firms benefit more from leasing when leased assets are strategically integrated into organizational activity. Lian (2024) discovered that financial leasing improves organizational outcomes by lowering financing constraints and increasing firms' capacity to engage in productive investment and innovation-related activities, but only to the extent that leased resources are put to productive use rather than being idle.

Performance of the Organization

The degree to which an organization accomplishes its goals by making effective and efficient use of its resources is referred to as organizational performance. Performance is multifaceted, including non-financial metrics like productivity, operational effectiveness, innovation, customer happiness, and sustainability as well as financial metrics like profitability and revenue growth (Richard et al., 2009). Organizational performance is acknowledged in current SME literature as a crucial indicator of long-term competitiveness and business success. Access to financial resources and productive assets has a major impact on organizational performance results, according to data from recent SME studies (Ayyagari et al., 2021; Zylfijaj & Nikoloski, 2021; Shuaibu & Musa, 2023; Shuaibu & Mohammed, 2023).

Leasing Financing and Organizational Performance

The idea behind the relationship between lease financing and organizational performance is that having access to productive assets improves a company's capacity to meet its operational and strategic goals. Through leasing, SMEs can acquire machinery, technology, and equipment without having to spend a significant amount of money on an outright purchase. This helps businesses maintain working capital while increasing productive capacity and boosting operational effectiveness.

According to studies (Lian, 2024; Mol-Gómez-Vázquez et al., 2020), leasing has a favorable impact on business performance by facilitating asset acquisition, lowering finance limitations, and improving enterprises' capacity to pursue growth prospects. However, evidence from Nigeria's more capital-intensive, listed-firm context is less consistent (Bugaje et al., 2024). This suggests that the strength and direction of the leasing-performance relationship may depend on firm characteristics, sector, and the degree of financial constraint that leasing is being used to relieve. Given that SMEs are, by definition, more resource- and credit-constrained than the listed firms studied elsewhere, this consideration is crucial to the SME context examined in this study.

Therefore, it is anticipated that better access to leasing finance and efficient use of leased equipment will boost organizational performance, particularly for SMEs.

Empirical Review and Hypothesis Development

Access to Leasing Finance and Organizational Performance

Numerous empirical studies have looked at the connection between SMEs' organizational success and their access to financing. Their findings offer valuable insight into the likely role of leasing finance in enhancing corporate performance, even though many concentrate on general access to financing rather than leasing specifically.

The factors influencing lease finance among 4,425 SMEs in 25 European nations were investigated by Mol-Gómez-Vázquez et al. (2020). The study concluded that leasing is an efficient alternative financing mechanism that enables SMEs to acquire productive assets and maintain operations despite limited access to traditional finance. It did this by using logistic regression to find that financially constrained firms were significantly more likely to use leasing finance than unconstrained firms.

Similarly, Ayyagari et al. (2021) used data from over 780,000 enterprises in developing nations to examine the impact of financing availability on firm-level results. The study concluded that access to financial resources continues to be a crucial factor in determining organizational performance, especially for smaller organizations, after using firm-level econometric analysis to find that improved access to financing considerably increased employment growth and investment activity.

In a related study, Zylfijaj and Nikoloski (2021) used logit models on samples of 1,000 formal and 250 informal SMEs to investigate the effects of institutional impediments and financial access on the performance of formal and informal SMEs in Kosovo. The study discovered that financial accessibility had a beneficial impact on productivity and business expansion, and that institutional conditions and financing availability had a considerable impact on SME performance in both sectors, with the effect being larger among formal SMEs.

Abdulkarim and Mainasara (2025) examined two decades (2005–2024) of the Nigerian leasing industry using secondary macro-level data. They found that although funding constraints and low awareness continue to limit its reach, especially among micro and small enterprises, leasing has grown in importance as a source of financing for businesses facing credit constraints and that leasing volumes have demonstrated resilience through periods of macroeconomic shock. Similarly, Aremo and Ayorinde (2022) reported a positive correlation between lease financing and the financial performance of listed manufacturing companies in Nigeria, while Akinbola and Otokiti (2012) found that lease options as a source of financing had a positive effect on the profitability performance of SMEs in Lagos State, Nigeria.

Despite these contributions, there is little empirical data on how access to leasing finance affects SME performance in Jigawa State, Nigeria, and the majority of prior research focuses on general access to finance rather than specifically examining access to leasing finance as a determinant of organizational performance among SMEs. This research aims to close this gap. The following hypotheses is put forth in light of the conflicting results of earlier research, some of which were important and others of which were insignificant or context-dependent:

H1: Access to leasing finance has a significant effect on organizational performance of small and medium-sized enterprises (SMEs) in Jigawa State

Usage of Leasing Finance and Organizational Performance

Empirical research indicates that the efficiency with which leased assets are used has a significant impact on organizational performance in addition to access to leased assets. Only when leased assets are effectively incorporated into business operations can the advantages of leasing agreements be realized. Using panel data on China's A-share listed companies from 2012 to 2022, Lian (2024) investigated the function of financial leasing in lowering financing limitations and encouraging company investment activity. The study concluded that leasing contributes to organizational success when leased assets are strategically deployed to support productive activity after finding that companies that used leased assets effectively saw improvements in investment performance, innovation activity, and operational efficiency.

In a similar vein, Bugaje et al. (2024) investigated how lease finance affected the financial results of Nigerian listed oil and gas businesses. Their results, however, reveal a more complex picture than has generally been assumed in the leasing literature: the impact of lease financing on important performance metrics, such as return on assets, was not consistently positive. This suggests that, in highly capital-intensive and less financially constrained firms, the performance benefits of leasing largely depend on how well leased assets are integrated into operations rather than just the existence of a lease arrangement.

The results of this research imply that the performance advantages of leasing are contingent upon both the acquisition of leased assets and the degree to which those assets are used efficiently. However, there is still a dearth of empirical data directly addressing the use of lease financing by SMEs, especially in developing nations, and the use of leasing finance as a stand-alone factor affecting organizational performance has rarely been explored in previous research. By investigating the impact of leasing financing usage on organizational performance among SMEs in Jigawa State, this study fills this empirical vacuum. The following hypotheses is put forth in light of the conflicting results of earlier research:

H2: Usage of leasing finance has a significant effect on organizational performance of small and medium-sized enterprises (SMEs) in Jigawa State

Summary of Empirical Review and Identified Gap

The empirical studies that have been analyzed offer strong proof that having access to financing and leasing finance improves organizational performance by helping businesses overcome financial obstacles, purchase profitable assets, increase operational effectiveness, and foster business expansion. Three gaps are still visible, though. First, rather than focusing on leasing finance explicitly, the majority of research look at broad access to financing. Second, leasing finance usage is rarely examined as a separate factor from access in determining organizational effectiveness.

Third, the majority of empirical studies whether European (Mol-Gómez-Vázquez et al., 2020), Chinese (Lian, 2024), or Nigerian (Akinbola & Otokiti, 2012; Aremo & Ayorinde, 2022; Bugaje et al., 2024) have been carried out outside of Jigawa State and have primarily focused on listed or large firms rather than unlisted SMEs operating in the unique institutional and economic environment of Jigawa State. Therefore, by investigating the impact of leasing credit availability and utilization on the organizational performance of SMEs in Jigawa State, Nigeria, this study aims to close these empirical and contextual gaps.

Theoretical Review

Resource-Based View (RBV) Theory

This study is grounded on the Resource-Based View (RBV) framework. The theory is regarded most suited since it directly explains how access to productive resources effects organizational effectiveness. Leasing financing offers SMEs with possibilities to acquire and utilize productive assets necessary for business operations, while organizational performance reflects the outcomes obtained from the appropriate deployment of such resources. RBV consequently offers a consistent explanation of the relationship between access to leasing finance, usage of leasing finance, and organizational performance among SMEs in Jigawa State Nigeria.

RBV was originally invented by Wernerfelt (1984) and greatly enhanced by Barney (1991). The theory claims that organizational performance is largely driven by a firm's capacity to acquire, develop, and effectively utilize valued resources. According to Barney (1991), resources that are valuable, rare, inimitable, and non-substitutable (VRIN) offer firms with lasting competitive advantage and superior performance outcomes.

RBV emphasizes that firms achieve competitive advantage not merely through market positioning but through the possession and effective utilization of strategic resources, including physical assets, financial resources, technological capability, managerial expertise, organizational processes, and knowledge assets (Barney, 1991). In a 2021 agenda-setting reassessment of the theory, Barney, Ketchen, and Wright (2021) reaffirm that organizations with greater access to productive resources are better positioned to improve operational efficiency, productivity, profitability, and long-term sustainability, while also calling for the theory to be extended into under-examined contexts such as resource-constrained small firms in emerging economies, a call this study directly answers.

In the context of SMEs, access to important productive assets is typically restrained by low financial capacity and restricted access to conventional credit facilities. Leasing financing provides SMEs with options to buy productive assets such as machinery, cars, equipment, and technology without requiring considerable upfront capital expenditure. Through leasing contracts, enterprises obtain access to resources necessary for operational activity and business expansion, so enhancing their productive capabilities and competitive position (Mol-Gómez-Vázquez et al., 2020).

RBV is therefore particularly relevant to this study because leasing financing enables SMEs to access and utilize productive resources that contribute to organizational performance: access to leasing finance facilitates the acquisition of strategic assets, while effective usage of leased assets enhances operational efficiency and productivity. Consistent with RBV, organizations that successfully acquire and deploy valuable resources are more likely to generate superior performance outcomes than firms that lack such resources (Barney et al., 2021).

Firm level evidence from developing nations gives further support to this logic. Ayyagari et al. (2021) show that firms with better access to finance and productive resources achieve higher employment growth and investment levels than resource-constrained firms, while Zylfijaj and Nikoloski (2021) similarly find that SMEs with improved access to finance record superior performance than those facing binding financial constraints. Leasing financing consequently provides as a tool via which SMEs can overcome resource limits and boost organizational performance, corresponding with the underlying logic of RBV.

Pecking Order Theory: A Complementary Perspective

The RBV shows the link between access to productive resources and performance. However, the RBV does not explain why financially constrained SMEs may prefer leasing over other types of external finance. Another perspective for this research is Myers and Majluf's (1984) Pecking Order Theory. The idea is that there is a hierarchy of funding preferences among firms because of the information asymmetry between the insiders of firms and external financiers. They prefer first internal funds, then debt and (last resort) external equity since external financiers want a premium to cover the risk of unfavorable selection.

Leasing occupies a special place in this hierarchy. Leasing lowers the information-asymmetry issue that normally disadvantages small, opaque enterprises in traditional lending markets because the leased item itself functions as implicit collateral and the lessor retains legal ownership. This helps to the explanation of the empirical trend discovered by Mol-Gómez-Vázquez et al. (2020), which reveals that financially restricted SMEs are substantially more likely to use leasing than unconstrained firms. Leasing acts as a financing strategy that is generally accessible in instances when conventional debt is not. Therefore, Pecking Order Theory complements RBV in this study by illuminating the finance-choice logic that drives access to lease financing, while RBV explains the performance consequences of the resources so gained and their utilization.

Conceptual Framework

Figure 1 shows the conceptual framework of this study. It shows the relationship between leasing financing and organizational performance of SMEs in Jigawa State, Nigeria. The framework considers leasing financing as an independent variable and organizational performance as a dependent variable.

Leasing financing is operationalized into two dimensions; access to leasing finance and usage of leasing finance. The measure of how well SMEs are achieving the desired outcomes in terms of productivity, profitability, operational efficiency, growth and sustainability is referred to as organizational performance.

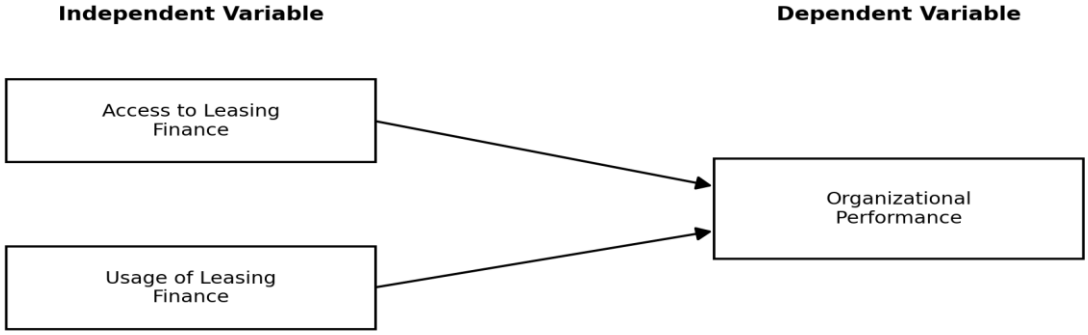


Figure 1. Conceptual Framework of the Study
Source: Developed by the Researchers (2026)

3. Methodology

This study adopted a cross-sectional survey research design, as it was intended to collect data from SMEs operating in Jigawa State at a single point in time. The study

population comprised small and medium enterprises operating in Jigawa State that are registered with SMEDAN, numbering thirteen thousand nine hundred and twelve (13,912) as at the most recent SMEDAN registration record. The Taro Yamane (1967) formula was used to determine the appropriate sample size for the study:

$$N = \frac{N}{1 + Ne^2} \quad \text{therefore,} \quad n = \frac{13912}{1 + 13912(0.05} = 399.9$$

Where n = number of samples, N = total population, e = error tolerance, and 1 = adjusted constant. Therefore, the required sample size is approximately 400.

Random sample of respondents was drawn from registered SMEs in Jigawa State. Data collection was done using a structured questionnaire adapted from validated leasing-finance and organizational-performance measures used in previous studies (Mol-Gómez-Vázquez et al., 2020; Richard et al., 2009) and administered to owner-managers or senior finance staff directly responsible for or knowledgeable about the SME's financing decisions.

The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS in line with the study's hypotheses. This technique is appropriate for this study, as it allows for relatively modest sample sizes, does not assume multivariate normality and allows for the simultaneous estimation of multiple structural paths between the access-to-leasing-finance, usage-of-leasing-finance and organizational-performance constructs (Hair et al., 2019).

The measurement model was assessed for indicator reliability, internal consistency reliability, convergent validity, and discriminant validity, and the structural model was evaluated for path-coefficient significance, collinearity (VIF) diagnostics, and the coefficient of determination (R2), using the two-stage PLS-SEM evaluation procedure recommended by Hair et al. (2019).

4. Results and Discussion

This section presents the results of the measurement and structural model assessments and discusses these results in relation to the study's hypotheses and the extant literature. SmartPLS was used to estimate both the measurement model and the structural model. Figure 2 presents the measurement model after the removal of weak indicators.

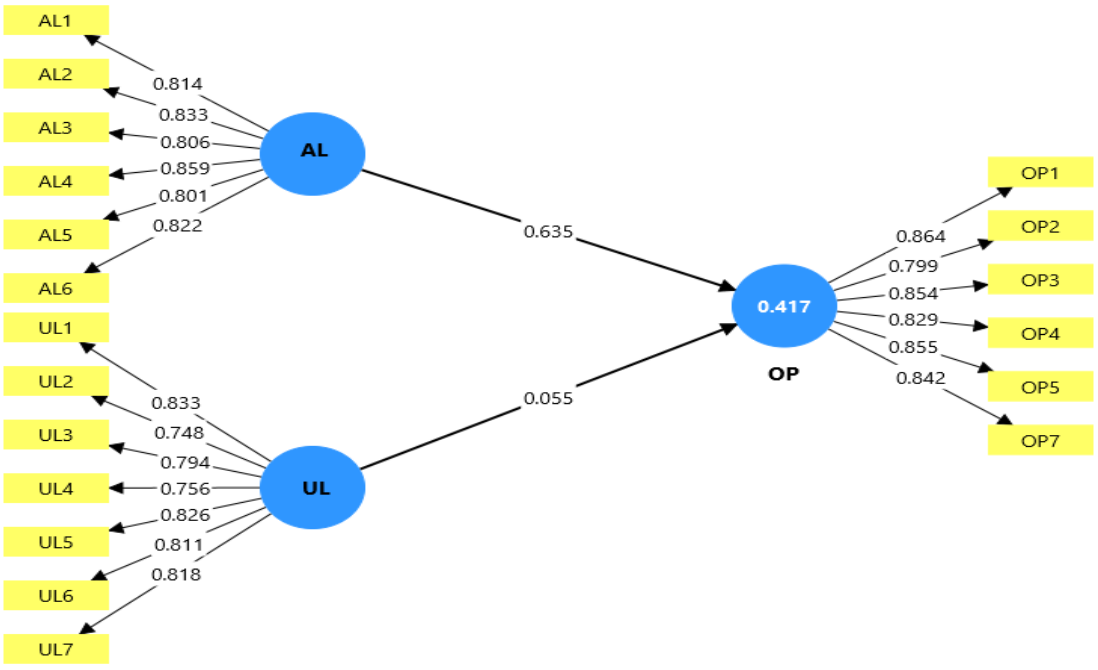


Figure 2. Measurement Model of the Latent Constructs

Source: Researchers' Compilation with PLS-SEM (2026)

Indicator Reliability

The outer loadings of each latent construct are used to assess the reliability of the measures (Hair et al., 2013). An item is deemed reliable when its loading is at least 0.70 (Hair et al., 2011). Two items (AL7 = 0.391 and OP6 = 0.334) of the 20 items that were considered initially for the three constructs were significantly below this threshold and were deleted in an effort to improve composite reliability. This is consistent with the criterion that items with loadings lower than 0.40 be removed from the scale (Hair et al., 2011). The other 18 items were kept with loadings between 0.748 and 0.864, all well above the 0.70 benchmark. Table 1 presents the retained items and their loadings, composite reliability and average variance extracted.

Table 1

Outer Loadings of Measurement Items

Latent Construct	Item	Item Loading	Composite Reliability	AVE
Access to Leasing Finance (AL)	AL1	0.814	0.906 (α); 0.926 (CR)	0.677
	AL2	0.833		
	AL3	0.806		
	AL4	0.859		
	AL5	0.801		
	AL6	0.822		
Organizational Performance (OP)	OP1	0.864	0.918 (α); 0.935 (CR)	0.707
	OP2	0.799		
	OP3	0.854		
	OP4	0.829		
	OP5	0.855		
	OP7	0.842		
Usage of Leasing Finance (UL)	UL1	0.833	0.925 (α); 0.925 (CR)	0.638
	UL2	0.748		
	UL3	0.794		
	UL4	0.756		
	UL5	0.826		
	UL6	0.811		
	UL7	0.818		

Source: Researchers' Compilation with PLS-SEM (2026

Note: *AL = Access to Leasing Finance; OP = Organizational Performance; UL = Usage of Leasing Finance; α = Cronbach's alpha; CR = composite reliability (rho_c); AVE = average variance extracted. Two low-loading items (AL7 = 0.391; OP6 = 0.334) were removed prior to the final estimation reported here.*

Reliability of Internal Consistency

Reliability is the degree to which a scale measures the intended construct accurately and consistently (Ramayah et al., 2018). Table 1 shows that the values of Cronbach's alpha for the three constructs are between 0.904 and 0.917, and the composite reliability (rho,c) values are between 0.925 and 0.935. Both are above the recommended minimum threshold of 0.70 for confirmatory research (Hair et al., 2011). This confirms strong internal consistency reliability for all latent constructs.

Convergent Validity

Convergent validity is the extent to which multiple items measuring a particular construct agree (Hair et al., 2010). The widely accepted measure of convergent validity is Average Variance Extracted (AVE) which is recommended to be at least 0.50 (Hair et al., 2011). Table 1 shows that the AVE values of three constructs ranged from 0.638 (Usage of Leasing Finance) to 0.707 (Organizational Performance) and are well above the minimum criterion of 0.50, indicating a satisfactory convergent validity.

Discriminant Validity

Discriminant validity is the extent to which a construct is empirically distinct from other constructs in the model (Hair et al., 2022). The square root of a construct's AVE must be greater than its correlations with all other constructs in the model (Fornell & Larcker, 1981). Table 2 displays the square root of AVE values and the inter-construct correlations on the diagonal.

Table 2

Discriminant Validity: Fornell-Larcker Criterion

	AL	OP	UL
AL	0.823		
OP	0.644	0.841	
UL	0.160	0.157	0.799

Source: Researchers' Compilation with PLS-SEM (2026)

Note: *AL = Access to Leasing Finance; OP = Organizational Performance; UL = Usage of Leasing Finance. Diagonal values (in bold rows) are the square roots of the AVE for each construct.*

As shown in Table 2, the square root of the AVE for Access to Leasing Finance (0.823) exceeds its correlation with Organizational Performance (0.644) and Usage of Leasing Finance (0.160). Similarly, the square root of the AVE for Organizational Performance (0.841) exceeds its correlations with the other two constructs (0.644 and 0.157), and the square root of the AVE for Usage of Leasing Finance (0.799) exceeds its correlations with Access to Leasing Finance (0.160) and Organizational Performance (0.157). These results confirm that discriminant validity was achieved for all constructs in the measurement model, consistent with the Fornell-Larcker criterion (Fornell & Larcker, 1981; Hair et al., 2011).

Collinearity Assessment

Before assessing the structural relationships, the inner model was tested for multicollinearity using the Variance Inflation Factor (VIF). According to Hair et al. (2019), VIF values below 5 (and ideally close to 3 or lower) indicate that collinearity is not a concern for the structural model estimates.

Table 3

Inner Variance Inflation Factor (VIF) Values

Structural Path	VIF
AL → OP	1.026
UL → OP	1.026

Source: Researchers' Compilation with PLS-SEM (2026)

Both structural paths recorded a VIF of 1.026, far below the conservative threshold of 5 (Hair et al., 2019), indicating that multicollinearity is not a concern in the structural model and that the path coefficient estimates reported below can be interpreted with confidence.

PLS-SEM Structural Model Results

After the measurement model was successfully validated, the structural model was assessed to test the study's hypotheses. A standard bootstrapping procedure with 5,000 resamples was applied to the structural model to obtain t-statistics and p-values for the path coefficients. Figure 3 presents the bootstrapped structural model with the significance levels associated with each path.

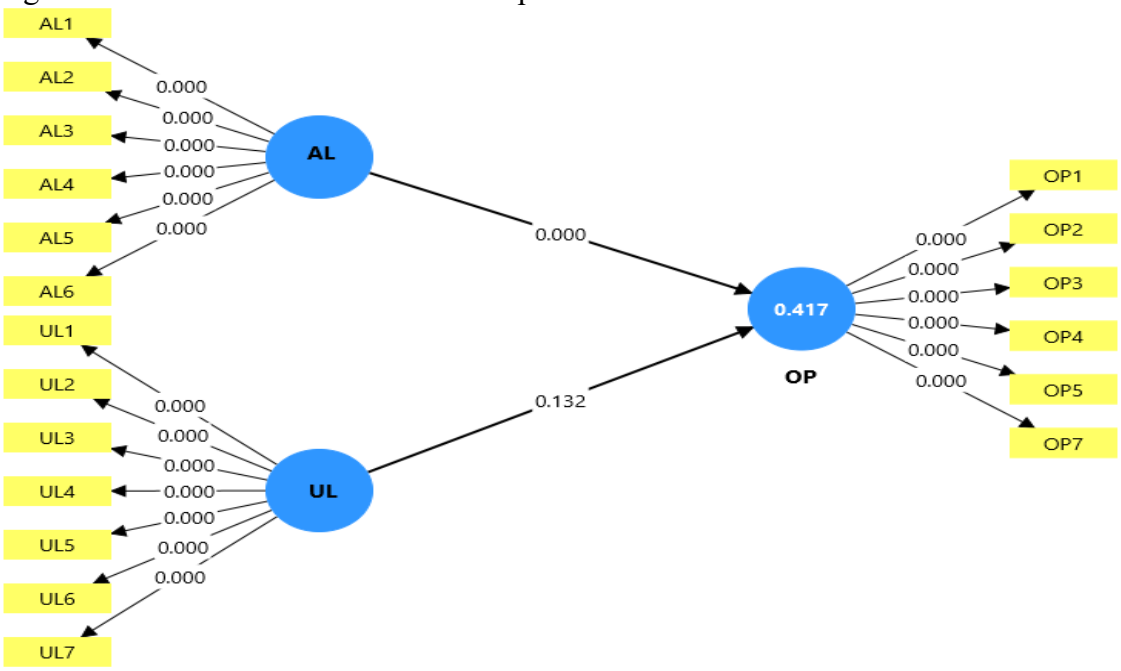


Figure 3. Bootstrapped Structural Model (Path Significance)

Source: Researchers' Compilation with PLS-SEM (2026)

Evaluation of the Significance of Path Coefficients

The importance and applicability of the PLS-SEM structural model were assessed by examining the path coefficients (β), t-statistics, and p-values obtained from the bootstrapping procedure (Hair et al., 2011). Table 4 presents the structural estimates for the two hypothesized paths.

Table 4

Structural Estimates (Path Coefficients)

Hypothesis	Relationship	B	T-statistics	P-value	Decision
Hi1	AL → OP	0.635	20.379	0.000***	Supported
Hi2	UL → OP	0.055	1.505	0.132	Not Supported

Source: Researchers' Compilation with PLS-SEM (2026)

Note: *Significant at $p < 0.05$ (*), $p < 0.01$ (**), $p < 0.001$ (***).*

The results in Table 4 show that access to leasing finance has a positive and statistically significant effect on organizational performance ($\beta = 0.635$, $t = 20.379$, $p = 0.000$), providing strong support for Hi1. The results further show that usage of leasing finance has a positive but statistically insignificant effect on organizational performance ($\beta = 0.055$, $t = 1.505$, $p = 0.132$); Hi2 is therefore not supported at the conventional 5% significance level.

Evaluation of the Coefficient of Determination (R^2)

The coefficient of determination (R^2) reflects the amount of variance explained by the exogenous predictors for the endogenous construct. R 2 values of 0.19, 0.33, and 0.67 were considered weak, moderate, and substantial, respectively. This is in agreement with Hair et al. (2019). The results of the structural model show R2 of 0.417 for organizational performance, indicating that access to leasing finance and usage of leasing finance together explain 41.7% of the variance of organizational performance of SMEs in Jigawa State. This suggests a moderate level of explanatory power based on the benchmark of Hair et al. (2019) and indicates that leasing financing is a significant driver of organizational performance but other unmeasured factors such as managerial competence, market conditions, and firm specific resources account for the remaining 58.3% of the variance and are deserving of future research attention.

Discussion of Results

The study examined the effect of leasing financing (access to leasing finance and use of leasing finance) on the organizational performance of SMEs in Jigawa State, Nigeria. The results of the structural equation model show that one of the two hypothesized relationships (access to leasing finance) is statistically significant and positively related to organizational performance as predicted, whereas the second (usage of leasing finance) is positive in direction but not statistically significant. The following discussion compares these results with those of previous studies.

Access to Leasing Finance and Organizational Performance

In this study, access to leasing finance was understood as the ability of SMEs to acquire leased assets on favorable and attainable terms. It was hypothesized and tested that access to leasing finance shall have a positive and significant relationship with organizational performance. In line with this expectation, the results indicated a strong, positive and statistically significant relationship between access to leasing finance and organizational performance ($\beta = 0.635$, $t = 20.379$, $p = 0.000$). Therefore, hypothesis Hi1 is confirmed.

This is consistent with the results found by Mol-Gómez-Vázquez et al. (2020) who observed that financially constrained SMEs in 25 European countries were significantly more likely to use leasing and that leasing represented an effective channel for acquiring productive assets. It also supports the finding in Ayyagari et al. (2021) that their firm-level evidence on more than 780,000 firms in developing countries showed that improved access to finance significantly improved employment growth

and investment activity, especially among smaller firms. It also supports the finding in Zylfijaj and Nikoloski (2021) that access to finance had a significant effect on SME performance in both formal and informal sectors in Kosovo.

This finding is in line with the situation in Nigeria as reported by Akinbola and Otokiti (2012) who reported that lease options as a source of finance has a positive effect on the profitability performance of SMEs in Lagos State and Aremo and Ayorinde (2022) who found that lease financing has a positive effect on the financial performance of listed manufacturing companies in Nigeria. This further strengthens the conclusion drawn by Abdulkarim and Mainasara (2025) that leasing has emerged as an increasingly important and resilient source of finance for Nigerian credit-constrained businesses.

Consistent with the logic of Pecking Order Theory, the strong positive effect of access to lease finance on organizational performance may be explained by the fact that leasing makes it possible for SMEs in Jigawa State to overcome the stringent collateral requirements and high lending rates associated with conventional bank credit.

The implicit security is the leased asset itself and the lessor retains legal ownership. This enables SMEs to acquire machinery, equipment and other productive assets, which they would otherwise be excluded from accessing in formal credit markets. According to the Resource-Based View theory, these resources, upon being acquired, transform into valuable, firm-specific assets that aid in production, service provision and competitive positioning and thus directly translate into enhanced organizational performance.

Usage of Leasing Finance and Organizational Performance

The present study considered the use of lease finance as the extent to which leased assets are effectively utilized in the operations of SMEs. The hypothesis formulated was that there is a positive and significant relationship between the use of leasing finance and organizational performance. The result however revealed that there is a positive but statistically insignificant relationship between usage of leasing finance and organizational performance ($\beta = 0.055$, $t = 1.505$, $p = 0.132$) which is contrary to expectation. Therefore, hypothesis Hi2 is not supported.

This is different from Lian (2024) who found that financial leasing with strategic integration of leased assets into firm operations significantly promoted the investment and innovation output of China's A-share listed enterprises. However, this is generally consistent with the more mixed evidence found by Bugaje et al. (2024) among listed oil and gas firms in Nigeria. Their findings indicate that the impact of lease finance on key performance indicators such as return on assets was not always positive, implying that the performance benefits of leasing are largely dependent on firm-specific and sector-specific factors, rather than being automatic.

One possible explanation for the insignificant effect of leasing finance usage in this study is that many SMEs in Jigawa State, though able to access leased assets, may not have the managerial capacity, technical skill or complementary infrastructure necessary to deploy those assets to full productive effect. Unlike big, listed firms (e.g. Lian, 2024) which typically have dedicated management structures to integrate leased assets into strategic operations, SMEs in a developing sub-national economy like Jigawa State may view leased assets mostly as a means to overcome an immediate resource constraint, rather than as inputs for systematic optimization.

This is consistent with the Resource Based View theory which posits that having a valuable resource is a necessary but not sufficient condition for superior performance

since the resource also needs to be organized and exploited well (Barney, 1991; Barney et al., 2021). Thus, the result implies that at least for this sample and the constructs in this study, the performance advantage of acquisition of leased assets is more robust and stronger than the performance advantage from the asset utilization efficiency.

5. Conclusion and Recommendations

The study examined the effect of leasing financing on the organizational performance of small and medium-sized enterprises in Jigawa State, Nigeria disaggregated leasing financing into access to leasing finance and usage of leasing finance. The results indicate that availability of leasing finance is a strong positive and statistically significant determinant of organizational performance. This confirms that the capacity of SMEs to purchase leased assets on favorable terms significantly improves their performance outcomes. In contrast, the results indicate that the use of leasing finance is positively associated with company performance, but it is not a statistically significant determinant in this sample.

Access to leasing finance and the usage of leasing finance explain a moderate degree of variance in organizational performance (41.7%). The study therefore concludes that the main performance boosting mechanism of leasing finance for SMEs in Jigawa State is through increased access to leased assets and not through efficiency in their subsequent use, and that Resource-Based View theory as supplemented by Pecking Order Theory provides a coherent explanation for why access constrained SMEs derive more benefits from acquisition and not just management of leased productive resources.

In line with the conclusion of this study, the following recommendations are made:

i. Leasing institutions and financial intermediaries operating in Jigawa State should simplify the conditions attached to leasing arrangements, such as documentation requirements and guarantor conditions, to further widen SMEs' access to leased productive assets, given the strong positive effect of access on performance.
ii. Government agencies, including SMEDAN, should intensify public awareness programmes on the availability and benefits of leasing finance among SMEs in Jigawa State, since limited awareness remains a key barrier to access.
iii. Because usage of leasing finance did not significantly predict organizational performance, SME support agencies and business-development-service providers should design managerial-capacity-building programmes that help SME owner-managers deploy leased assets more strategically and productively, rather than treating leasing purely as a stop-gap financing solution.
iv. SMEs should conduct a deliberate needs assessment before entering leasing arrangements, matching the type of leased asset to specific operational requirements, so that leased resources translate more directly into productivity and efficiency gains.
v. Policymakers should consider targeted fiscal incentives, such as tax relief on lease payments for registered SMEs, to further encourage leasing uptake and help close Nigeria's leasing-penetration gap relative to comparator African markets.

Suggestions for Future Studies

This study has expanded current knowledge in the literature by providing evidence on the effect of leasing financing on organizational performance among SMEs in a Nigerian sub-national context. However, the study is subject to certain limitations that should be addressed by future research. First, the study was restricted to SMEs operating in Jigawa State; although this provides a needed contextual contribution, future studies should extend the analysis to other states or to Nigeria as a whole to enhance generalizability.

Second, the study relied on a cross-sectional survey design, which captures perceptions of leasing financing and performance at a single point in time; future studies could adopt a longitudinal design to examine how the effects of access to and usage of leasing finance evolve over time. Third, the study measured organizational performance using respondents' self-reported perceptions rather than objective financial data; future research could combine survey data with objective firm-level financial records where available.

Fourth, future studies should explore possible moderating or mediating variables, such as managerial competence, firm size, and sector, that may explain why usage of leasing finance did not emerge as a significant predictor of performance in this study and should consider replicating the model in other developing-economy contexts to assess the robustness of these findings.

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