

# **The determinants of leasing decisions: an empirical analysis from chinese listed SMEs. managerial finance**

## **Abstract**

### **Purpose**

– The purpose of this paper is to investigate the determinants of leasing decisions for a sample of China's non-financial small and medium-sized enterprises (SMEs).

### **Design/methodology/approach**

– Pooled ordinary least squares and Tobit models are used to analyze five years of data (2009-2013) on the sample units, to find the determinants of leasing decisions after controlling for industry. In order to assess the robustness of the results, the authors further apply instrumental variables methods.

### **Findings**

– The results suggest that CEO ownership, tax rate, financial distress potential, and firm size are positively related to the operating lease share, whereas debt ratio, profitability, and tangibility are negatively linked to the operating lease share. In contrast, capital lease share increases with debt ratio, profitability, firm size, and strong corporate governance; it decreases with CEO ownership and financial distress potential.

### **Research limitations/implications**

– Using a small sample might not be enough to capture industry effects. Future research may gain more insights using a sufficient sample and considering the types of leases as well as leased assets.

### **Practical implications**

– This study offers evidence to the policy-makers who may adopt the practices to promote the development of the leasing market. Furthermore, these results provide

important implications to lessors in making operating strategy decisions and to potential lessees in making financing decisions.

**Originality/value**

– To the authors' limited knowledge, this is the first study on leasing relies on publicly traded Chinese SMEs. The results of this study enrich the literature on the determinants of leasing in several ways.