


Chapter 9

Financial Determinants Affecting Leasing Policies: Empirical Evidence From the Airline Industry

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ABSTRACT

Airline companies have started to develop strategies to increase their market share and expand their network structure with the effect of globalization. In this process, one of the most important sources of airline companies to achieve competitive advantage is aircraft. Airline companies have to increase the number of aircraft in the fleet to expand their network structure. On the other hand, the high price of aircraft has led airline companies to adopt new financing strategies. Leasing is one of the financing methods used frequently by airline companies recently. Therefore, this study focuses on the leasing policies of airline companies. In this study, it is aimed to reveal the factors affecting the leasing policies of airline companies. In this context, 26 airlines operating in the period 2000-2017 were analyzed empirically. Panel data analysis was used as the method in the study. The empirical findings of the study indicate that return on assets, asset structure, tangibility, leverage ratio, and liquidity affects the leasing policies of airline companies.

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INTRODUCTION

Since the deregulation act went into effect in the US in 1978, the air transport market has become liberalized, and the competition between airlines has significantly increased (Fu et al., 2010). In this process, the network structure of airline companies has been globalized, and airlines have started to offer flights to new destinations, which has increased the needs of airlines and their need for resources to buy aircraft. It is difficult for the airline companies to finance the aircraft investments that require large cash outflows and capital investments by using their equity capital. Therefore, airline companies have turned to alternative financing methods to reduce the risks and costs associated with aircraft acquisition. One financing method frequently used by airline companies for aircraft operations is financial leasing.

Financial leasing is an agreement on the right of airline companies to obtain aircraft usage rights for a certain period instead of buying the aircraft they need (Vasigh et al., 2015). Thanks to financial leasing, airline companies have the opportunity to strengthen their financial statements, reduce capital costs, and reduce market risk. From a historical point of view, the number of aircraft acquired by the airline companies through financial leasing has increased significantly, which makes examining their financial leasing activities crucial.

In this study, the financial factors affecting the rental/operating lease expense of airline companies are examined. The main objective of the study is to empirically examine the financial factors that determine the leasing activities of airline companies in the context of airline companies. The remainder of our study is designed as follows. The second section discusses the importance of leasing for airline companies, while the third section reviews the literature related to leasing. The fourth section focuses on the research design, the description of variables and the data set, and the presentation of the empirical models. The last section discusses the main findings.

AIRCRAFT LEASING IN THE AIRLINE INDUSTRY

A lease is an agreement between the lessee and the lessor for a specified period. In this agreement, the ownership of the asset is given to the lessor, and the right to use is given to the tenant (lessee). The lessee pays the lessor periodically for the asset he or she leases. The most important leasing asset in air transport is the aircraft. Therefore, in the air transport industry, airline companies rent the aircraft they need, and in return, the lessee makes payments to the lessor under the specified conditions.

Businesses resort to leasing to make their financial statements appear stronger to investors and lenders, to use more foreign resources by reducing their cost of capital, and to benefit more from the tax shield effect. In this way, companies can

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