

The Impact of Trade Credit Usage on Firm's Profitability of Listed Manufacturing Companies in Sri Lanka

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Abstract

Trade credit has been recognized as a crucial source of short-term financing for listed manufacturing companies. A trade credit contract is a legally binding agreement between two parties that allows a buyer to purchase goods or services on account and pay the supplier at a later date. The main purpose of this study to investigate trade credit as a financing source among listed manufacturing companies particularly the influence of short-term credit usage on profitability of the companies and to ensure whether theoretical concepts of trade credit usages are practicable in real business environment. Ordinary least squares (OLS), fixed-effects and generalized method of moments (GMM) system models were used to analyze the data using Eviews. The sample of this study is all the listed manufacturing companies in CSE during the period of 2009 to 2017. Initially there were 41 listed companies in the sample and due to the availability of data 31 listed manufacturing companies were selected for final analysis. The study provides empirical evidence that profitability significantly and negatively influenced by trade credit accounts payable and that short-term debt positively influences. Furthermore liquidity level and firm size are positively related to profitability, while firm age is negatively related to profitability. The present study adds to the literature by using OLS, fixed-effects and GMM system models to analyze a sample in an Asian country where trade credit is considered important financing instruments.

Keywords: Trade credit, Listed Manufacturing Companies, Accounts payable