What Determines the Firm's Net Trade credit? Evidence from Macedonian Listed Firms

Fitim Deari
South East European University
Macedonia
f.deari@seeu.edu.mk

Abstract: This paper analyzes the net trade credit and its determinants for a sample of 23 non-financial firms for the year 2011. The sample is derived from Macedonian Stock Exchange. The net trade credit is the dependent variable. Dependent variable is defined as the difference between trade receivables and liabilities, and then this difference is divided by total assets. Maturity structure of assets, size, profitability, inventory investment, and cash to assets ratio, long-term financing, total debt financing, and converting sales into cash are the independent variables. Both types of variables, dependent and independent are quantitative variables. Both are expressed on their book values.

Variables are transformed and necessary post-selection adjustments will be done. Data and results are checked using Shapiro-Wilk W test for normality, Kernel density estimation, Cameron & Trivedi's decomposition of IM-test and Breusch-Pagan / Cook-Weisberg test for heteroscedasticity, Variance Inflation Factor for multicollinearity, the model specification link test for single-equation models, and the regression specification error test for omitted variables. Relevant conclusions are drawn based on Spearman and regression analysis. Obtained results show that firms with more net trade credit are more profitable. Firms with higher portion of current assets are bigger firms and invest more in inventory than counterparties. Bigger firms have more inventory than smaller firms. Firms with higher leverage ratios are less able to convert sales into cash. Net trade credit is negatively significant associated with inventory to assets ratio, leverage ratio, and net cash flows from operating activities to sales. Net trade credit is positively significant associated with current assets to total assets ratio. Profitability is found statistically significant determinant, but with beta and standard error equal zero. Results show that net trade credit ratio on average is slightly small, but positive. A positive net trade credit indicates that on average trade receivables are higher than trade payables. With other words, analyzed firms for the analyzed period have sell more than have bought on credit.

Keywords: net trade credit, accounts receivable, accounts payable, financial ratios, regression.