INTERNATIONAL JOURNAL OF ECONOMICS AND FINANCE STUDIES
Vol: 16 **No:** 01 **Year:** 2024 **ISSN:** 1309-8055 (Online) (**pp.** 470-486) **Doi:** 10.34109/ijefs.202416121
Received: 11.12.2023 | **Accepted:** 22.05.2024 | **Published Online:** 30.06.2024

-RESEARCH ARTICLE-

DETERMINANTS OF TRADE CREDIT SUPPLY: EVIDENCE FROM SOUTH ASIAN EMERGING ECONOMIES

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Citation (APA): Khan, M. N., Qureshi, M. U., Azeem, M., Bchennaty, B. (2024). Determinants of Trade Credit Supply: Evidence from South Asian Emerging Economies. *International Journal of Economics and Finance Studies*, 16(01), 470-486. doi: 10.34109/ijefs.202416121

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—Abstract—

Trade credit is a form of short-term credit that suppliers extend to their clients, allowing them to purchase goods or services on credit with the balance payable later. For many firms, trade credit serves as a vital source of financing. Drawing upon financial advantage theory, commercial motive theory, and operating flexibility motive theory, this study investigates the determinants of trade credit supply in three South Asian emerging economies: Pakistan, India, and Bangladesh. Using fixed effects regression on a panel dataset of 4,417 firm-year observations from 2009 to 2020, sourced from DataStream, the findings reveal that suppliers offering high-quality products extend credit terms to allow customers to verify product quality before payment. In contrast, larger and more established firms rely on their reputations, reducing the need to extend credit guarantees. The results support the price discrimination theory of trade credit, suggesting that suppliers use trade credit to differentiate prices among customers. Additionally, firms that achieve sales growth or possess sufficient internal resources tend to exhibit opportunistic behaviour by reducing the provision of credit to customers. The identified determinants exhibit strong consistency among Pakistani and Indian firms, aligning with the overall sample results. However, Bangladeshi firms demonstrate divergent patterns, although some findings are consistent with trade credit studies in other emerging markets. This research enhances the understanding of trade credit supply by developing a theoretical framework, identifying key determinants, validating and refining existing theories, and contextualizing findings within specific economies. Understanding the factors influencing accounts receivable provides crucial practical insights that can affect a firm's financial performance, liquidity, risk management, and strategic decision-making. By leveraging these insights, firms can optimize operations, improve cash flow, and build robust customer relationships, thereby driving sustainable growth and profitability.

Keywords: Trade Credit; Accounts Receivable; Credit Policy; Emerging Economies

JEL Codes: G30, G31, G32

INTRODUCTION

The trade credit agreement involves the provision of capital by suppliers to buyers, primarily aimed at facilitating business expansion. Within the framework of financial institutions, suppliers possess an in-depth understanding of market dynamics, enabling them to gain greater advantages over banks and other financial entities (Daripa & Nilsen, 2005). Theories suggest that the trade credit cycle is defined by a reciprocal interaction between buyers and suppliers. Buyers depend on acquiring goods or commodities to operate their businesses effectively, while suppliers seek to leverage

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these transactions to enhance their sales and broaden their market presence. As suppliers are embedded within the same industry, their intimate knowledge of the challenges faced by buyers provides them with a strategic advantage in fostering mutually beneficial relationships.

Accounts receivable play a crucial role in providing short-term financing for many customers of a company, even in highly developed financial markets such as the United States. Trade receivables constitute a significant portion of the assets of various firms. For example, Rite Aid, a leading pharmacy chain, reported that trade receivables comprised 11% of its current assets. General Electric, a global conglomerate, had customer receivables accounting for 52% of its total assets. Ford, a major automobile manufacturer, held trade receivables representing 42% of its assets. The Minnesota Mining and Manufacturing Company had invested three million dollars in receivables, amounting to 14% of its total assets. DuPont Company reported trade receivables constituting 17% of its assets, while Intel Corporation's receivables made up 5% of its total assets in 2007. These examples, among others, underscore the extensive use of accounts receivable in both developed and developing economies. In the early 1990s, accounts receivable constituted a substantial share (17.8%) of all assets employed by American companies (Rajan & Zingales, 1995). Similarly, studies by Guariglia and Mateut (2006) and Kohler et al. (2003) indicate that in the United Kingdom, trade credit represented 75% of all short-term debt and 55% of total credit received by businesses. This widespread reliance highlights the critical role of accounts receivable in financing business operations across diverse economic contexts. Trade credit is often extended during periods of financial constraint, as suppliers perceive the risks associated with granting credit to be lower than those faced by financial institutions. Suppliers also enjoy specific financial advantages; as Ono (2001) notes, suppliers can readily assess the financial performance and reputation of their clients through ongoing business relationships, providing them with insights that banks may not have.

In contrast, Niskanen and Niskanen (2006) argue that banks must invest resources to obtain information about borrowers, whereas suppliers can exert direct control over repayments by discontinuing supply or repossessing goods in cases of non-payment. Separating the delivery of goods and services from their payment helps reduce transaction costs by allowing customers to consolidate payments on a quarterly or semi-annual basis rather than paying for each transaction individually. The theory of price discrimination, as outlined by Petersen and Rajan (1994), suggests that suppliers employ differential pricing by offering discounts to early-paying customers while charging full prices to those who pay later. This concept is widely accepted among researchers, including (Cunningham, 2005; Delannay & Weill, 2004; Deloof & Jegers, 1996), and many more.

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Emerging economies often face underdeveloped capital markets, which restrict access to external financing sources. Limited capital market access forces firms to rely on trade credit, owner financing, and short-term bank loans. This issue is particularly critical for less developed and evolving economies. Previous research on trade credit has primarily focused on developed countries, as highlighted by studies from (García-Teruel & Martínez-Solano, 2007, 2010; Niskanen & Niskanen, 2006). This paper seeks to examine the extent to which factors influencing investment in accounts receivables remain consistent across both developed and developing countries, considering the variations in technological, social, cultural, institutional, and regulatory environments.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

Numerous scholarly studies have investigated the factors influencing accounts receivable to assess the relevance, significance, and application of credit sales (Cheng & Pike, 2003; Niskanen & Niskanen, 2006; Petersen & Rajan, 1997). Total cost (TC) is crucial in financing policy, with receivables viewed as an investment in current assets. (Giannetti et al., 2011) reported that firm from European had about 25% of their total assets in accounts receivable. Receivables from suppliers are a key external financing source, especially in developing economies with limited capital market access (Beck et al., 2008; Ge & Qiu, 2007). Firms with higher creditworthiness often prefer credit purchases as a means of external financing, as they can exploit early payment discounts, making this option more cost-effective (Giannetti et al., 2011). Jain (2001) argues that credit sales function as an alternative mechanism to bridge the gap between firms and financial institutions. This approach benefits both suppliers and customers, especially in contexts where financial markets are inefficient (Frank & Maksimovic, 1998). Petersen and Rajan (1994) further highlight that buyers with weaker relationships with financial institutions are more likely to engage in a greater number of credit transactions and display higher levels of trade credit in their financial statements compared to those with strong financial institution ties.

Theoretical Background

The widespread use of trade credit across different countries has sparked investigations into the reasons why sellers and buyers engage in credit transactions, despite being aware that alternative financing options, such as bank credit, often incur lower costs. Many scholars have examined the motives behind the demand for accounts payable and the supply of accounts receivable in trade credit. The subsequent section outlines the theories that explain these motivations.

Financial Advantage Theory

Financial literature shows that suppliers often outperform traditional lenders in assessing creditworthiness and managing receivables, offering cost advantages in credit

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provision. This advantage allows financially robust non-financial companies with favourable access to capital markets to act as intermediaries for firms that cannot access these markets and are therefore more reliant on credit sales and credit ratings (Mian & Smith Jr, 1992; Petersen & Rajan, 1997). Long et al. (1993) argue that larger corporations, due to their strong reputations, do not need to offer product guarantees and consequently rely less on receivables to boost sales. Additionally, Ahmed et al. (2014) found a negative correlation between company size and accounts receivable (AR). The dataset includes countries with comparable economic conditions, leading us to expect a negative relationship as well.

H1: *There is negative relationship between size and AR.*
H2: *There is negative relationship between age and AR.*

The financial motive theory suggests that firms with strong internal resources, like cash flow, are better positioned to offer trade credit. Consequently, this leads to a positive relationship between cash flow and AR.

H3: *There is positive relationship between ability to internal resources generation and AR.*

Commercial Motive Theory

The theory of commercial motive comprises two key elements: price discrimination and product quality. Suppliers may continue to offer credit sales to their customers even in the absence of financial advantages compared to financial institutions. According to the theory of price discrimination, sellers can use differential pricing strategies, such as extending credit, to boost demand for their products. Sellers with products that have higher profit margins are particularly incentivized to seek additional sales, as these contribute to increased profitability. Firms can manipulate product pricing through two primary strategies: offering higher cash discounts to customers who pay early and extending credit periods to those who prefer delayed payments. Some customers are motivated to make early payments to benefit from cash discounts, while others may prefer delayed payments due to limited access to affordable funds. Price discrimination thus allows firms to accommodate both types of customers, potentially enhancing sales (Pike et al., 2005). Firms with high profit margins or unique products can leverage trade credit to generate additional profits by catering to customers with less financial stability. Consequently, a positive correlation between gross margins and AR is anticipated.

H4: *There is positive relationship between price discrimination and AR.*

Sellers may use credit sales to offer implicit assurances about their products to buyers. (Smith, 1987) suggests that sellers can convey the value of their products by providing credit terms that allow buyers to evaluate them. In cases where assessing product quality

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is difficult, suppliers may be more inclined to offer extended credit terms. Lee and Stowe (1993) argue that credit sales ensure product quality, while (Long et al., 1993) find that younger, smaller firms use trade credit more to demonstrate product value than larger, established firms. Therefore, it is reasonable to expect that companies offering high-quality products will have higher levels of AR.

H5: *There is negative relationship between product quality and AR.*

Operating Flexibility Motive

Emery (1984) identified operational flexibility as a reason for offering credit, particularly when demand is variable. During periods of fluctuating or seasonal demand, companies may face various operational challenges, including changes in production rates, unit prices, and inventory management. Offering trade credit can help stabilize demand by attracting customers who are facing cash flow issues. Ferris (1981) introduced the concept of the transaction cost motive, which suggests that trade credit helps reduce overall trading costs, including those related to searching, negotiating, acquiring information, monitoring, and enforcing agreements. By consolidating trading partners, trade credit minimizes the need for firms to hold precautionary funds, thus reducing the opportunity cost of un-invested cash. Additionally, the study considers sales growth as a factor to account for potential fluctuations in production and sales that may affect receivables.

Table 1: Accounts Receivable Determinants

Determinant Factor for AR	Expected Relationship with A/R	Proxy Used in this study	Abbreviation Used
Firm Size	Negative	Log of Total Assets	*SIZE*
Firm Age	Negative	Log of 1+Years of Incorporation	*AGE*
Product Quality	Negative	Asset Turnover	*TURN*
Price Discrimination	Positive	Gross Margin	*GPROF*
Capacity to Generate Internal Resources	Positive	Operating Cash Flow to Sales Ratio	*CFLOW*
Sales Growth	Positive	Dummy Variable for Positive Sales Growth	*PGROWTH*
Cost of External Finance	Negative	Finance Cost Divided by Long Term Debt	*FCOST*

H6: *There is positive relationship between sales growth and AR.*

García-Teruel and Martínez-Solano (2010) suggest that firms with high external finance costs are likely to be reluctant to offer trade credit. It is expected that there will be a

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negative correlation between the cost of external finance and AR. Specifically, organizations are likely to limit their provision of trade credit if the cost of obtaining funds surpasses the profit margin from their sales.

H7: *There is negative relationship between cost of external finance and AR.*

METHODS

Data and Sampling

The study utilized panel data from the DataStream database spanning eleven years, from 2009 to 2020, and covering all non-financial enterprises in the emerging South Asian economies of Pakistan, India, and Bangladesh. Sectors were classified according to the Industry Classification Benchmark (ICB). To ensure the accuracy of the analysis, companies with extreme values and data errors were excluded. Consequently, the dataset comprises 441 firms with a total of 4,417 observations: 61 companies with 492 observations from Bangladesh, 190 companies with 1,954 observations from India, and 190 companies with 1,971 observations from Pakistan.

Table 2 displays the descriptive statistics for the sample. The mean value for REC is 44.5%, indicating a substantial investment in receivables by the sample firms. This high level of investment supports the research question regarding the factors driving such extensive use of receivables, with further explanations to be provided by the regression analysis. Table 3 shows no significant correlations among independent variables, addressing multi-collinearity concerns and ensuring reliable estimates.

Table 2: Descriptive Statistics - Full Sample

	Obs.	SD	Mean	Max.	Min.
REC	4,808	0.966	0.445	7.147	0.008
AGE	4,808	0.167	1.459	1.845	0.778
CFLOW	4,808	0.274	0.042	1.156	-1.487
TURN	4,808	0.784	1.054	4.549	0.024
GPROF	4,808	0.226	0.227	1	-0.501
SIZE	4,808	0.786	6.464	8.384	4.793
FCOST	4,417	3.573	0.968	28.869	0
PGROWTH	4,808	0.468	0.676	1	0

Note: Mean Represents the Arithmetic Average. SD Stands for Standard Deviation. Min is Minimum and Max is Maximum Value.

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Table 3: Correlational Matrix

		1	2	3	4	5	6	7	8
1	REC	1							
2	AGE	-0.089**	1						
3	CFLOW	-0.127**	0.007	1					
4	TURN	-0.325**	-0.039**	0.006	1				
5	GPROF	-0.004	-0.070**	0.260**	-0.203**	1			
6	SIZE	-0.135**	0.168**	0.164**	-0.110**	0.096**	1		
7	FCOST	0.003	-0.023	-0.016	0.030*	-0.026	-0.057**	1	
8	PGROWTH	-0.171**	-0.037*	0.093**	0.174**	0.117**	0.088**	-0.030*	1

* And ** Denote Significance at 5% and 1% Respectively.

Statistical Analysis

The study uses descriptive statistics (mean, standard deviation, range) and Pearson correlation coefficients to analyse variable relationships. To test the hypotheses, the study employs multiple regression analysis. The equation was regressed to derive the determinant model for the entire sample, as well as analysed separately for industry-specific results. The regression analysis, conducted separately for Pakistan, India, and Bangladesh, identifies similarities and differences in factors influencing accounts receivable across these South Asian economies. Given the balanced nature of the panel data, the study employed pooled ordinary least squares (OLS) regression, which assumes no unobserved variation affecting the cross-sectional units and time series, and facilitates analysis of a large number of observations. Chao and Hausman diagnostic tests are utilized to assess fixed effects, random effects, and OLS models to determine the most effective estimator. The primary conclusions of the study are drawn from the OLS analysis. This approach is theoretically justified, accounting for industry effects, company-specific effects, and time effects. To address these, the regression equation includes time and industry variables as control variables. However, since accounts receivable—central to this study—exhibits less variation across firms and more variation across industries, the study incorporates both fixed and random effects models to enhance the robustness of the results. Furthermore, to manage the impact of outliers, independent variables are subjected to winsorization.

$$REC_{it} = B_0 + B_1AGE_{it} + B_2SIZE_{it} + B_3CFLOW_{it} + B_4GPROF_{it} + B_5TURN_{it} + B_6PGROWTH_{it} + B_7FCOST_{it} + \varepsilon_{it}$$

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Determinants of Accounts Receivable in South Asian Emerging Economies

Table 4 shows that product quality is the most significant factor affecting accounts receivable, with a β = -0.222 (t = -13.524, P = 0.000), indicating a significant negative relationship. Firms with lower asset turnover, often associated with high-quality operations, extend more trade credit to let customers evaluate product quality, supporting hypothesis H3. This contrasts with García-Teruel and Martínez-Solano (2010), who found a positive correlation between asset turnover and receivables in Europe. According to their study, firms with higher turnover were more inclined to offer financing to customers, suggesting that these firms had high-quality products that were easily validated. In contrast, this study aligns with Long et al. (1993), which found that in the United States, companies with lower turnover often produce high-quality products and are more willing to offer credit sales to facilitate customer assessment. The study supports that extending credit periods reduces information asymmetry about product quality, as noted by (Long et al., 1993; Pike et al., 2005; Smith, 1987). It does not support the financial advantage theory of trade credit, consistent with (Ahmed et al., 2014; Khalaileh, 2023).

Table 4: Accounts Receivable Determinants - Full Sample

	Pooled OLS	Fixed Effect	Random Effect
TURN	-0.222*** (-13.52)	-0.358*** (-11.26)	-0.364*** (-13.61)
AGE	-0.066*** (-4.92)	1.608*** (4.16)	-0.092 (-0.60)
PGROWTH	-0.066*** (-4.88)	-0.103*** (-4.92)	-0.113*** (-5.47)
CFLOW	-0.062*** (-4.56)	-0.209*** (-5.46)	-0.192*** (-5.15)
GPROF	0.026* (1.77)	0.224*** (2.90)	0.102 (1.47)
SIZE	-0.051* (-1.64)	-0.201*** (-2.47)	-0.162*** (-2.91)
FCOST	0.006 (0.45)	0.001 (0.37)	0.001 (0.28)
R^2	0.304	0.757	0.401
F Statistics		10.1***	
Hausman χ^2-stat	92.86***		
Observations	4417	4417	4417

Hypothesis (H6) is rejected, as the anticipated positive relationship between receivables and firm age is not supported. Despite significant coefficients, older, established firms offer less credit to buyers. Additionally, positive sales growth constrains the provision of trade credit. Consequently, companies in emerging markets utilize receivables

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strategically to boost sales. When these firms experience positive sales growth, there is less incentive to extend credit to customers. As firms grow, they reduce their credit provision, focusing instead on using receivables as a marketing tool to address declining sales. García-Teruel and Martínez-Solano (2010) and Yehia et al. (2022) suggest that extending receivables can be a strategy to foster long-term customer relationships, potentially driven by self-interested motives.

The study reveals a negative impact of internal resource generation on receivables, contrary to the initial expectation of a positive relationship. Similar to the effect observed with sales growth, this variable is significant at the 1 percent level. The dataset in this study reflects economic conditions in developing nations, which contrasts with the conditions in these earlier studies. Firms in developing economies often focus their internal resources on high-growth potential ventures rather than on customer financing. The allocation of internal resources towards growth-oriented projects rather than customer credit is influenced by the trade-off between profitability and risk in managing working capital. Maintaining high levels of current assets helps mitigate risk but may impact profitability, as these assets could otherwise be invested in earning assets. Aligning with the pecking order theory, firms may prefer using internal resources for expansion and investment in fixed assets, rather than extending credit to customers. Consequently, the effect of internal cash generation on accounts receivable is minimized (Al-Taie et al., 2022; Siswanti et al., 2024).

The findings regarding price discrimination support the theoretical framework of trade credit utilization. The study confirms Hypothesis H4, showing a significant positive relationship between price discrimination and accounts receivable. This aligns with the theory that sellers can strategically use receivables to optimize product pricing and potentially boost buyer demand. According to the theory of price discrimination, sellers are motivated to increase sales by leveraging products with substantial profit margins. This motivation is evident in their pricing strategies, which include two key methods: offering higher cash discounts for early payment and providing extended credit periods. The former attracts customers who prefer early payment discounts, while the latter benefits customers who need more time to pay due to limited access to affordable funds. Price discrimination thus allows sellers to cater to both types of customers by offering flexible repayment options. As Pike et al. (2005) suggest, these pricing strategies can enhance sales for the seller by addressing diverse customer needs. Firms with high profit margins or unique products stand to gain additional profits by extending credit to customers with limited financial stability, effectively leveraging trade credit as a tool for revenue maximization. The study refutes Hypothesis H7, finding no significant impact of debt financing costs on trade credit decisions among the sample firms(Ammer & Pantamee, 2024; Soeparna, 2023).

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Table 5 presents the results for nine industries categorized according to the Industry Classification Benchmark (ICB), which was introduced in 2005 by Dow Jones and FTSE. This classification system divides markets into various sectors, totalling 11 industries. For this study, non-financial firms were selected, leading to the exclusion of financial and real estate sectors. The majority of results align with those observed in the full sample. However, for the energy sector, variables such as TURN, CFLOW, GPROF, and SIZE show contrasting results. This discrepancy may be attributed to the distinct characteristics of the energy sector firms in our sample, which are public organizations in developing economies, unlike their counterparts in developed economies.

Table 5: Industry Wise Accounts Receivable Determinants - Full Sample

	BM	CD	CS	En	HC	Industrial	Tech	Telecom	Utilities
TURN	-0.146*** (-4.86)	-0.236*** (-6.94)	-0.218*** (-4.35)	0.224** (2.35)	-0.325*** (-4.14)	-0.221*** (-6.53)	-0.279*** (-2.99)	-0.746*** (-5.37)	-0.405*** (-4.54)
AGE	-0.056** (-2.22)	-0.026 (-0.87)	-0.186*** (-4.71)	-0.196*** (-3.34)	0.013 (0.27)	-0.137*** (-4.86)	-0.074 (-0.87)	-0.274 (-1.14)	0.235*** (3.28)
PGROWTH	-0.044* (-1.73)	-0.056** (-2.03)	-0.054 (-1.30)	-0.017 (-0.24)	-0.017 (1.54)	-0.097*** (-3.51)	-0.09 (-1.16)	0.11 (1.18)	-0.076 (-1.12)
CFLOW	-0.005 (-0.19)	-0.201*** (-7.56)	-0.158*** (-3.52)	0.432*** (5.35)	-0.022 (-0.38)	-0.096*** (-3.55)	-0.172** (-2.19)	-0.061 (-0.55)	-0.294*** (-3.43)
GPROF	-0.125*** (-4.90)	-0.099*** (-3.20)	0.232*** (4.78)	-0.025 (-0.27)	-0.3*** (-4.62)	0.029 (0.98)	0.057 (0.61)	-0.258** (-2.10)	0.59*** (6.57)
SIZE	0.059 (1.09)	-0.082 (-1.43)	-0.201** (-2.302)	0.725*** (4.66)	-0.016 (-0.09)	-0.277*** (-4.42)	0.184 (1.07)	-2.19*** (-4.34)	0.572*** (-3.41)
FCOST	0.086*** (3.63)	-0.005 (-0.18)	0.001 (0.03)	0.03 (0.55)	0.009 (0.20)	-0.017 (-0.64)	0.001 (0.01)	-0.06 (-0.73)	-0.03 (-0.43)
Adjusted R^2	0.454	0.348	0.319	0.578	0.506	0.352	0.286	0.524	0.363
Obs.	1,011	1,018	510	162	285	975	150	92	202

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Table 6 shows OLS regression results for Pakistan, India, and Bangladesh in columns I, II, and III. This comparison highlights the differentiation applied to understand the results across South Asian emerging economies, as discussed earlier. The findings offer significant implications for various stakeholders, including researchers, practitioners, and policymakers involved in accounts receivable management. This study provides a detailed insight into the dynamics of accounts receivable in South Asian emerging economies, an area previously underexplored in the literature. While there is substantial research on accounts receivable determinants focusing predominantly on European data, such as (García-Teruel & Martínez-Solano, 2010) study of seven European countries, the findings differ from those of (Long et al., 1993; Petersen & Rajan, 1994), which were based on U.S. data. Similarly, Niskanen and Niskanen (2006) study of Finnish companies presents results that vary from the prevailing findings. This research aims to fill the gap in literature regarding developing economies by delivering comprehensive results both at the aggregate level and for each individual country.

Table 6: Accounts Receivable Determinants-Country Wise

	Pakistan	India	Bangladesh
TURN	-0.109*** (-4.39)	-0.271*** (-11.05)	-0.241*** (-4.37)
AGE	-0.011 (-5.87)	-0.123*** (-6.08)	0.105*** (2.46)
PGROWTH	-0.034* (-1.75)	-0.096*** (-4.78)	000 (0.01)
CFLOW	-0.113*** (-5.62)	-0.08*** (-4.50)	0.234*** (5.18)
GPROF	0.127*** (5.93)	-0.043** (-1.99)	0.074 (1.37)
SIZE	0.072* (1.82)	-0.148*** (-4.35)	0.052 (0.67)
FCOST	0.045*** (2.53)	-0.016 (-0.85)	0.04 (1.14)
Adjusted R^2	0.404	0.311	0.432
Observations	1,971	1,954	492

Table 6 shows a high level of consistency in the results for most determinants between Pakistan and India, with these results closely mirroring those of the overall sample. In contrast, the findings for Bangladeshi firms differ notably from those in Pakistan and India, though some align with studies from developed economies like the U.S. and various European countries. Studies like (García-Teruel & Martínez-Solano, 2010; Long et al., 1993; Petersen & Rajan, 1997) show that asset turnover has a strong negative relationship with accounts receivable across the sample, including Bangladesh. This finding supports the signalling hypothesis on product quality suggested by (Long et al., 1993) and aligns with the results from (Ahmed et al., 2014; Ghaleb & Pantamee,

2024; Li, 2011). It indicates that firms in all the countries studied are more likely to extend higher levels of receivables when their asset turnover is lower.

The factors of age, internal resource generation, and positive sales growth show consistency between Pakistani and Indian firms, aligning with the overall sample results. However, these factors diverge in Bangladeshi firms. In Pakistan and India, age negatively correlates with receivables, while Bangladeshi firms show a positive relationship, aligning with developed country studies and financial motive theory. This supports Petersen and Rajan (1997) and García-Teruel and Martínez-Solano (2010), indicating that established firms often provide receivables to entities lacking direct market access. The study's results challenge the signalling hypothesis proposed by Long et al. (1993), which posits that older, reputable firms do not need to extend credit to assure product quality. This hypothesis is contradicted by the findings of this study, although earlier research supports it, indicating that older firms typically extend less credit due to their established reputation.

The observed increase in sales supports the notion that firms in the overall sample exhibit self-interested behaviour by reducing the credit they extend to customers once they achieve their growth objectives. Rather than focusing on assisting smaller customers, these firms use receivables as a strategic tool to counteract declining sales. In contrast, Bangladeshi firms displayed a minimal and statistically insignificant relationship with accounts receivable, indicating no substantial correlation. The capacity to generate internal resources also reflects a tendency among firms to limit the credit they extend to customers. This behaviour is driven by the prioritization of investments in high-growth projects over customer financing. Firms in developing economies, with their greater growth potential, allocate resources to projects with higher growth prospects, thus avoiding the costs associated with customer credit.

The trade-off between profitability and risk related to working capital is significant here. While maintaining a higher level of current assets helps mitigate risk by meeting operational expenses and current liabilities, it may compromise profitability due to fixed assets not generating returns. Aligning with pecking order theory, firms use internal resources to fund growth and acquire fixed assets, rather than extending credit to customers. The goal is to reduce the impact of internal cash generation on accounts receivable. However, Bangladeshi firms exhibited a notable and significant effect, where an increase in their internal resource generation capacity led to an increase in credit extended to customers. This finding is consistent with García-Teruel & Martínez-Solano (2010), who observed similar results. The results for the variables GPROF (gross profit margin) and SIZE (firm size) were consistent among firms in Pakistan and Bangladesh but differed for firms in India.

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CONCLUSION

This study shifts the focus of accounts receivable research from Western countries to South Asian developing economies—Pakistan, India, and Bangladesh. It highlights how diverse socioeconomic, political, and cultural contexts influence trade credit practices. The findings confirm that product quality significantly impacts accounts receivable in these economies. Companies with lower asset turnover extend more trade credit to facilitate product evaluation, while older, reputable firms use receivables strategically to address sales declines rather than assist smaller customers. Sales growth is associated with reduced credit provision, as firms use receivables mainly as a marketing tool. Firms in developing countries prefer to invest in high-growth projects rather than customer financing, aligning with pecking order theory. Additionally, firms with higher profit margins engage in price discrimination by offering more credit. However, the study contradicts the financial advantage theory of trade credit, showing a negative relationship between firm size and receivables. Larger firms, particularly those with sales growth, extend less credit to financially weaker firms. Comparative analysis reveals similarities in determinants for Pakistan and India, while Bangladeshi results show variability, with some aligning with developed economies. Asset turnover consistently shows a negative relationship with receivables, whereas the effects of age, internal resource generation, and sales growth vary by country.

DATA AVAILABILITY STATEMENT

Data used for this study is obtained from a commercial database named “DataStream”. All the data is publicly available with the subscription of said database.

ACKNOWLEDGEMENT

The authors extend their appreciation to the Arab Open University for funding this work through research fund no. (AOURG-2023-032).

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