Journal of Accounting and Financial Management E-ISSN 2504-8856 P-ISSN 2695-2211
Vol 9. No. 9 2023 www.iiardjournals.org

Receivables Management and Profitability of Firms Listed in The Consumer Sector of Nigeria Exchange Group

Dr. Confidence, Joel Ihenyen and Igoniderigha, Roseline
Department of Accounting
Faculty of Management Sciences
Niger Delta University, Wilberforce Island,
Bayelsa State
rosyigoniderigha@gmail.com

DOI: 10.56201/jafm.v9.no9.2023.pg103.113

ABSTRACT

This examined the effects of receivables management on profitability of listed firms in consumer goods sector in Nigeria Exchange Group. Ex-post-facto design was adopted. "Two hypotheses were formulated and tested at 0.05 level of significance. The study employed secondary data obtained from published financial records of sampled firms between 2015 and 2022." A sample of 10 consumer goods companies listed in NGX (Nigerian Exchange Group) were used. The data gathered was analyzed using ordinary least square regression technique via E-views version 9. Findings revealed that "account receivable ratio and sales growth ratio had a strong, positive and significant relationship with net profit margin of listed consumer goods companies in Nigeria. It was recommended that the Management of consumer goods companies" should adopt policies that would favour appropriate effective receivables management.

Keywords: *Receivables, Management, Profitability, Account Receivables Ratio, Sales Growth Ratio*

1. Introduction

Because it is seen as the cornerstone of modernization and a engine of growth that opens doors to employment creation, wealth creation, sustainable growth, and economic success, the manufacturing sector is crucial to the expansion of economies of nations all over the world. Despite this universally acknowledged role of manufacturing sector of which the consumer goods are a part, the industry is plagued by a number of issues that lead to low sales, subpar financial performance, and in certain circumstances, the closure of several enterprises (Alex, 2019). However, it is believed that a company's financial incapacity to fulfil its fundamental commitments is seldom the result of unanticipated disasters but rather results from cumulative financial and non-financial factors that the company's resistance can no longer withstand.

Nevertheless, consumer products companies are primarily founded with the intention of maximising profit, flourishing, and fulfilling the needs of their various stakeholders. Unfortunately, volatility in certain financial factors, such as inefficient receivables management, has significantly contributed to a drop in profitability. Thus, They find it extremely difficult to tackle the difficulties of the twenty-first century. Regardless of size or type, the current economic challenges facing Nigeria have major ramifications for many industrial companies.

When a business offers its services or goods on credit and does not immediately get payment, it has accounts receivable, which is money due to it (Pandey, 2015). By accomplishing a harmony between hazard, liquidity, and benefit, accounts receivable management's main objective is to increase the value of the business (Hrishikes, 2012). The significant objective of overseeing receivables isn't to boost deals or to lessen chances related with terrible obligations, yet to increment deals so the organization might offer credit to a more extensive scope of purchasers. This is because of the way that the organization wouldn't need to make any credit deals whatsoever assuming lessening the gamble of terrible obligations were the objective.

According to Waweru (2013), ineffective management and control of receivables much of the time obstructs the organization's everyday activities on account of income gives that lead to non-installment of providers of administrations and items. It likewise adversely affects benefits in two ways: first, awful obligations that are discounted bring down the organization's productivity. Second, on the off chance that a firm has a lot of records receivable, it might need to get cash to fund tasks. This acquiring will bring about interest, which might bring down the organization's benefit. Waweru (2013) proceeds to guarantee that unfortunate account holder the board can also lead to financial organisations giving you a bad credit rating. Due to the inability to bargain for better conditions, it becomes challenging to secure funding from establishments to fund the organizations' functioning capital. On the off chance that it does, it will probably be at an exorbitant loan fee.

Because of the organization's powerlessness to fulfill its monetary responsibilities because of extreme liquidity issues welcomed on overwhelmingly of cash held in records of sales, assembling may totally stop, in certain circumstances in any event, bringing about the organization failing and being set under organization.

Measuring a company's financial performance entails calculating the financial impact of its activities and policies. This phrase is frequently used to compare similar companies within a similar industry or to look at entire businesses or areas (Mill operator and Craig 2001). It might likewise be utilized as an expansive mark of a company's generally monetary wellbeing over a specific timeframe. Liquidity, profitability, financial efficiency, and repayment capability are used to gauge financial performance. Effective handling of receivables may have a favourable effect on a company's financial success. Conceding exchange credits increments deals for the organization, yet extreme interest in accounts receivables can be costly because of an expansion in interest in current resources, as per Pedro and Pedro (2018). Exchange credit likewise affects the degree of resource speculation, which might altogether affect the organization's main concern and liquidity. Studies on working capital administration in general have been led in light of the significance of receivables management and its effect on financial success, but very few of these studies have concentrated on accounts receivable as a component of working capital and its consequent impact on productivity of the customer merchandise area in Nigeria. This concentrate subsequently analyzed impacts of receivables the board on benefit of recorded firms in buyer products area in Nigeria Exchange Group.

1.1 Statement of Problem

Effective receivables management is pivotal in determining firms' financial health and profitability across various industries. The consumer goods sector in Nigeria is experiencing challenges related to receivables management that significantly impact the profitability of listed firms. These challenges encompass the delay in collecting outstanding debts, the extent of bad debts, and the efficiency of credit policies. These issues are exacerbated by factors such as the economic environment, customer behavior, and regulatory constraints. As a result, it is imperative to investigate and understand the intricate relationship between receivables management practices and profitability within this sector and identify potential strategies for improvement. This study aims to analyze the multifaceted problem of receivables management in Nigeria's consumer goods sector by examining its impact on the profitability of listed firms in the consumer goods sector.

1.2 Aim and Objectives of the Study

The study examined the effects of receivables management on profitability of listed firms in consumer goods sector in Nigeria Exchange Group. The study specifically achieved the following:

1) "Determine the relationship between accounts receivable ratio and net profit margin of quoted firms in consumer Sector in Nigeria.
2) Determine the relationship between sales growth ratio and net profit margin of quoted firms in consumer Sector in Nigeria."

1.3 Research Questions

The under listed research questions were developed to guide the study:

1) "What is the relationship between accounts receivable ratio and net profit margin of quoted firms in consumer Sector in Nigeria?
2) What is the relationship between sales growth ratio and net profit margin of quoted firms in consumer Sector in Nigeria?"

1.4 Hypotheses

At the.05 level of statistical significance, the subsequent null hypotheses were developed and tested:

$H0_1$: There is no significant relationship between accounts receivable ratio and net profit margin of quoted firms in consumer Sector in Nigeria.

$H0_2$: There is no significant relationship between sales growth ratio and net profit margin of quoted firms in consumer Sector in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

a. Receivables Management

Receivable management in the consumer goods sector in Nigeria is a critical financial function that requires astute planning, rigorous execution, and constant adaptation to the unique challenges and opportunities presented by this dynamic market. Venkata et. al., (2013), disclosed that it plays a pivotal role in maintaining the financial health and sustainability of companies operating in this sector.

b. Profitability

According to Raheman et al. (2007) every business is mainly concerned with its profitability, which is defined as the capacity of an organisation, company, firm, or enterprise to generate a profit from all of its commercial operations. Additionally, it demonstrates how well the management may generate revenue by using all of the market's resources. The margin of net profit, that is used to ascertain the company's bottom line, is one of the most often utilised instruments of financial ratio analysis.

2.2 Theoretical Review

Transactional Cost Theory

The Transactional Cost Theory, one of the earliest (neo-classical) market-related attempts to scientifically describe the area, was created by Ronald Coase in 1937. In light of this, the theory of exchange costs makes sense of how receivables diminish exchange costs by empowering gatherings to pick either installment and conveyance dates in any event, when appropriation is unclear. Customers can reduce their need for cash transactions when payment and distribution can be separated. Pandey (2015) included the fundamental theory. They draw inferences about payable and receivable accounts and their link to changes in production pricing, competitiveness, risk tolerance, firm liquidity position, and bank lending using this model, which can be experimentally tested. By using transaction cost analysis, a company is able to continually assess all associated expenses and compare them to manufacturing and transaction costs throughout the industry as well as production and transaction costs connected with outsourcing. The element's anticipated arrival timeframes were described theoretically. However, because it extends and operates in accordance with the account receivables notions, this analysis is founded on the transactional cost philosophy.

2.3 Empirical Review

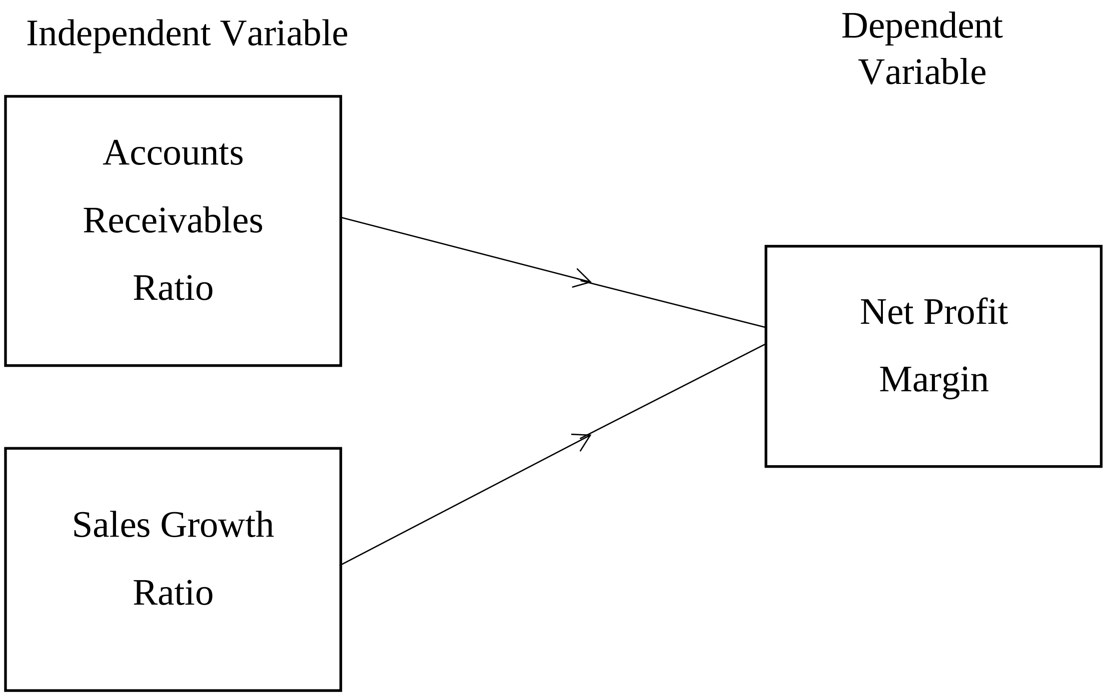
Dan (2020) studied how long the receivables term influences the corporate presentation of Nigerian assembling organizations that are public. The number of inhabitants in this exploration comprises of public assembling organizations in Nigeria from 2010 to 2019. We further break down the populace for potential example predisposition with an end goal to make a homogeneous example for the review. To do this, we wiped out seven customer merchandise organizations that had not provided the examination with all the relevant and associated data. 19 shopper items organizations are in this way remembered for the review's last populace. The explanatory variable is the accounting receivable term, and the proxy for company success is return on assets. Furthermore, company size and leverage are controlling factors in the study. The study's findings support the hypothesis that the relationship between the account receivable duration and return on assets of listed manufacturing businesses in Nigeria is favourable. According to the report, management should pay close attention to the continual alignment of liquidity as well as efficiency in order to meet operational and growth process needs as well as to satisfy shareholder desires by increasing their wealth.

Gitahi (2020) examined how receivables management affected the financial results of industrial enterprises listed on the NSE. To ascertain the current status of the population, data were acquired as part of the descriptive research technique used in the study. The study found a strong link between accounts receivable management and the manufacturing firm's financial success. The study advised that since managing accounts receivables had a significant effect on the manufacturing industry's financial performance companies, the management of these organisations should have clear rules about credit expansion strategy, supporting receivables, and receivable assortment time.

Over a ten-year period, from 2013 to 2021, Adeboboye, et al. (2022) investigated the "Account Receivables Management and Performance of Pharmaceutical Firms in Nigeria." The study's coverage period was from 2013 to 2021. Optional information were accumulated from the yearly monetary reports of specific drug organizations working in Nigeria during the time span being scrutinized and were utilized in this examination. The assembled information were analyzed utilizing expressive investigation, relationship examination, relapse examination utilizing standard least squares, and Granger causality examination. As indicated by the information, the records receivable proportion (ARR) affected return on resources, with an expected coefficient of - 0.169169 (p = 0.0123 0.05). With an expected coefficient of - 0.086698 and an importance level of under 0.05, the terrible obligation proportion (BDTR) impacted return on resources. In the in the mean time, the exploration showed that deals development (SG) impacted return on resources, with an expected coefficient of - 2.98E-08 and an importance level of p=0.0667>0.05. The end additionally showed that there is no immediate association between the records receivable proportion (ARR), the awful obligation proportion, the development of deals, and the progress of drug organizations in Nigeria as assessed by return on resources. The discoveries uncovered that drug organizations ought to do whatever it may take to ensure that their records receivable and terrible obligation are overseen really and are kept up with at a level that is OK throughout the long term. The examination additionally suggested that drug organizations help their deals development to improve their drawn out income and execution.

Anastasia and Madubuko (2016) analyzed the impact of the administration of records receivable proportion on the benefit of modern/Homegrown items fabricating firms in Nigeria. The factors of this study incorporate records receivable proportion, obligation proportion and deals development rate. Just optional wellsprings of information were utilized for the period 2000-2011. The speculations were tried utilizing the numerous relapse strategy. The outcomes show that money due proportion, obligation proportion and deals development rate had positive and critical relationship with the benefit of the organizations under study.

The writing explored showed that few investigations have been finished on receivable administration however there is none or little examination proof on the genuine place of the impact of receivables the board on profitability of consumer goods firms in Nigeria between the years of 2015 and 2022. This present study is geared towards filling the aforementioned gaps.



Source: Conceptual Framework (2023)

3. Methodology

Ex-post facto is the term used to describe a systematic empirical inquiry in which the independent variables are not directly under the observer's control because they have already expressed themselves or because they cannot be purposefully altered. Basically, the study utilised secondary data sources. The audited financial statements of listed firms were gathered from the NGX websites and used as secondary data. All 28 consumer products companies that were publicly traded on the Nigerian Exchange Group as of December 31, 2022, make up the study's population. In other to ensure data accuracy and reliability, criterion sampling technique employed to select the sample of the study. The criteria are:

1) The firms must not be delisted during the period of study (2015-2022).
2) They must have all information required to measure the variables of the study within the period.

After using these criteria, 10 firms met the conditions and hence they formed the sample of the study. "They are Cadbury Nigeria plc, Champion Breweries plc, Dangote Flour Mills plc, Dangote Sugar Refinery, Honeywell flour mills plc, Northern Nigeria Flour Mills, Nascon Allied Industry plc, Nestle Nigeria plc, PZ Cusson Nigeria plc and Union Dicon salt plc."

3.1 Model of Specification

The following is the economic model that was employed in the study and was consistent with the majority of the literature:

The methodology for the study is designed to look at how well Nigerian consumer goods companies manage their receivables and how profitable they are. Below is a graphic representation of the model, which is described as;

NPM=f (ARR, SG)

Where: NPM = Net Profit Margin was used to measure the profitability ARR = Accounts receivables Ratio SG=Sales Growth

The econometric form of equation is presented as:

$NPM_{it} = a_0 + a1ARRit + \alpha 2SGit + \mu it$………………………….. (i)

Where a0 "represents the intercepts or constants; a1, a2 indicates coefficient of the independent variables and μ represents disturbance term."

3.2 Description of Variables

Dependent variable

Profitability is the dependent variable of this study.

a. **Net Profit Margin** was used to proxy profitability. Net income is the extent of net advantages to salaries for an association or business part.

Independent Variables

b. **Accounts Receivable Ratio:** these are clients who have not yet made installment for labor and products that the firm has given.

Accordingly, debt claims is determined as records receivable partitioned by deals. This variable addresses the receivables that the firm will gather from its clients. (Samilogu & Demirqunes, 2008). Accounts Receivable = Receivable (Debtor)/ Sales

c. **Sales Growth Rate**

This is the increment or diminishing of yearly deals estimated as a rate. It is estimated in this review as sales1-sales0 Divided by sales0.

3.2 Method of Data Analysis

The data were analysed using E-VIEWS statistics and the ordinary least squares approach. The adjusted coefficient of determination (adj. R2) was used in the study to quantify "the impact of receivables management on listed companies' profitability in the consumer goods industry between 2015 and 2022. If the p-value is less than 0.05, the null hypothesis will be rejected; else, it will be accepted."

4. Result of Analysis

Table 1: Descriptive Statistics

	ARR	SGR	NPM
Mean	2.0908	0.049886	0.476414
Median	95568156	0.044200	0.489400
Maximum	6.84E+08	0.142500	0.530000
Minimum	49200000	0.004800	0.389400
Std. Dev.	2.34E+08	0.045087	0.054783
Skewness	1.371593	1.305223	-0.566882
Kurtosis	3.424643	3.708247	1.870795
Jarque-Bera	2.247404	2.133845	0.746820
Probability	0.325074	0.344066	0.688383
Sum	1.47E+09	0.349200	3.334900
Sum Sq. Dev.	3.28E+17	0.012197	0.018007
Observations	7	7	7

E-Views Output (2023)

The average value of ARR was approximately 2.0908. SGR and "NPM had mean values of 0.049886 and 0.476414 respectively." Descriptive statistics reveal that all the variables are favourably skewed. Skewness is a statistic that evaluates the asymmetry of the distribution of series around its mean. The data were found to be right-handedly skewed by the positive values for skewness, which indicates that the right tail is longer than the left tail. Last but not least, the Jarque-Bera (JB) test, which checks if the variables are regularly distributed or whether there are any outliers or extreme values, reveals that all the variables are.

Table 2: Correlation matrix of the selected variables

Variables	ARR	SGR	NPM
ARR	1		
SGR	0.8218	1	
NPM	0.56168	0.4083	1

E-Views Output (2023)

The table above revealed that ARR and SGR had a positive, strong relationship with NPM.

4.1 Testing Hypotheses

Hypothesis 1

$H0_1$: There is no significant relationship between accounts receivable ratio and net profit margin of quoted firms in consumer Sector in Nigeria.

Table 3: Linear regression analysis on accounts receivable ratio and net profit margin

Dependent Variable: NPM
Method: Least Squares
Date: 04/09/23 Time: 11:33
Sample: 2015 2022
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.016724	0.014794	1.130499	0.3096
ARR	1.58E-10	4.91E-11	3.225204	0.0233

R-squared	0.675366	Mean dependent var	0.049886
Adjusted R-squared	0.610439	S.D. dependent var	0.045087
S.E. of regression	0.028141	Akaike info criterion	-4.068215
Sum squared resid	0.003960	Schwarz criterion	-4.083669
Log likelihood	16.23875	Hannan-Quinn criter.	-4.259226
F-statistic	10.40194	Durbin-Watson stat	1.778707
Prob(F-statistic)	0.023330		

E-Views Output (2023)

Using an R-squared value changed to 0.6104, the dependent variable's variation may be explained by a factor of 67.54 percent. The hypothesis that "all of the regression coefficients are zero is rejected (p.05) due to the F-statistic of 10.40. F-statistics and an adjusted R2 for the regression model imply that the model has a strong fit and can account for changes in Net Proft Margin. The t-statistic and coefficient for our variable of interest (NPM) were both positive [t-statistic (3.2252), p (0.0233 0.05)]." The naive theory is disproved. As a result, there is a considerable correlation between the accounts receivable ratio and the net profit margin of listed companies in Nigeria's consumer sector.

Hypothesis 2

$H0_2$: There is no significant relationship between sales growth ratio and net profit margin of quoted firms in consumer Sector in Nigeria.

Table 4: sales growth ratio and net profit margin

Dependent Variable: NPM
Method: Least Squares
Date: 04/09/23 Time: 11:35
Sample: 2015 2022
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.087630	0.045181	1.939548	0.1101
SGR	2.48E-10	1.50E-10	1.655884	0.0186

R-squared	0.354168	Mean dependent var	0.139629
Adjusted R-squared	0.225002	S.D. dependent var	0.097627
S.E. of regression	0.085945	Akaike info criterion	-1.835259
Sum squared resid	0.036933	Schwarz criterion	-1.850713
Log likelihood	8.423407	Hannan-Quinn criter.	-2.026271
F-statistic	2.741952	Durbin-Watson stat	1.113942
Prob(F-statistic)	0.158648		

E-Views Output (2023)

Using an R-squared value changed to 0.225, the dependent variable's variation may be explained by a factor of 35.41 percent. "The hypothesis that all of the regression coefficients are zero is rejected due to the F-statistic of 2.74 (p.05). F-statistics and an adjusted R2 for the regression model imply that the model has a strong fit and can explain changes in net profit margin. The t-statistic and coefficient for our variable of interest (SGR) were both positive [t-statistic (1.6558), p (0.0186 0.05)]." The naive theory is disproved. As a result, there is a considerable correlation between the net profit margin of stated businesses in Nigeria's consumer sector and the sales growth ratio.

4.3 Discussions of Findings

Accounts Receivable Ratio and Net Profit Margin

The relationship between ARR and NPM shows that accounts receivable ratio has a positive and strong relationship with net profit margin of listed firms in consumer good sector in Nigeria. Using an R-squared value changed to 0.6104, the dependent variable's variation may be explained by a factor of 67.54 percent. Additionally, there is a statistically significant correlation between the accounts receivable ratio and the net profit margin of listed companies in Nigeria's consumer products industry. These findings support Adeboboye, et al., (2022), Dan (2020) and Gitahi (2020) who reported that accounting receivables ratio essentially affects productivity of recorded firms.

Sales Growth Ratio and Net Profit Margin

The relationship between SGR and NPM shows that Sales Growth Ratio has a positive and strong relationship with net profit margin of listed firm's consumer goods in Nigeria. Using an R-squared value changed to 0.225, the dependent variable's variation may be explained by a factor of 35.41 percent. Also, the relationship between Sales Growth Ratio and net profit margin is statistically, significant. These findings support Anastasia and Madubuko (2016) and Gitahi (2020) who reported that deals development proportion fundamentally affects benefit of recorded firms.

5 Summary, Conclusion and Recommendation

Receivables management is a crucial aspect of business finances, and effective management is essential to a company's existence and ongoing growth. In conclusion, "the goal of this study was to analyse the impact of accounts receivable management on the consumer sector profitability of listed companies in Nigeria. The account receivables ratio and sales growth ratio had a positive and substantial link with net profit margin of listed businesses in the consumer goods sector in Nigeria," according to the study, which tested the hypothesis using multiple regression approach. Also, the study has affirmed that, account receivables ratio and deals development proportion have a huge relationship with net overall revenue of recorded firms in customer products area in Nigeria. In light of the discoveries, the accompanying suggestions were made**:**

i. i. According to the report, consumer goods companies should make sure their accounts receivable administration is highly efficient since doing so would help them enhance their financial performance.

ii. ii. Management of consumer goods companies should establish a strong credit policy that assures adequate debt collection procedures since it is crucial to enhancing the effectiveness of receivables management and, therefore, the performance of businesses.

5.1 Contributions to Knowledge

The study has contributed to the existing body of knowledge by filling the underlisted identified gaps:

1) This study has established the evidence on the true position of impacts of receivables the board on benefit of recorded firms in consumer goods sector in Nigeria Exchange Group between the years of 2015 and 2022.
2) This study uniquely segregated receivables management measures obtained from the other published studies of various consumer goods firms.

5.2 Limitation of the Study

This research work is carried out at the time the researcher is a postgraduate student in the university. The time allocated for the review doesn't work on more extensive inclusion since the analyst should blend the concentrate in with other scholastic exercises and tests. However, the credibility of this investigation is not jeopardized.

5.3 Suggestion for Further Studies

The study on the impact of receivables management on the profitability of publicly traded companies in the consumer goods sector in Nigeria Exchange Group has paved the way for future research and suggested possible directions. The study focused on dimensions of account receivable ratio and sales growth ratio, however further studies could focus on relationship between asset tangibility and net profit margin. This can also be done using other measures of profitability, such as return on asset, return on investment, etc. Moderating variables such as size, exchange rate, can also be used.

References

Adeboboye, R. O., Solanke, F. T., Olaniyan, N. O. & Olaniyi, R. A. (2022). A comparative analysis of effects of account receivables management on performance of Nigerian quoted manufacturing firms. *Fuoye Journal of Accounting and Management*:5(1)61-74

Alex, W. O., (2019). Tax revenue and infrastructural development in Osun State. *International Journal of Innovation Finance and Economic Research*, 6(2) 50 – 61

Anastasia, D., & Madubuko, C. U. (2016). Effect of management of receivables ratio on corporate profitability of industrial/domestic products in Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 4(9); 84-97

Arnold, G. (2008). *Corporate Financial Management* (4th ed.), Prentice Hall.

Dan, P. (2020). Account Receivable Management and Corporate Performances: Empirical evidence from quoted manufacturing companies in Nigeria. *INOSR ARTS AND MANAGEMENT*, 6(1): 116-129.

Gitahi, M. (2020). Management of accounts receivable and financial performance of manufacturing firms listed in Nairobi stock exchange, Kenya. *International Journal of Scientific and Research Publications*, 10(12), 513-522.

Hrishikes, B. (2002). *Working capital management: Strategies and Techniques*; Prentice Hall

Miller, A. & Craig, D. (2001). Key Financial Performance Measures for Farm General Managers. *Journal of Agricultural Economics*, 3(4);23-36.

Padachi, K. (2006). Trends in working capital management and its impact on firms' performance. An analysis of Mauritanian small firms. *International review of business research papers, 2* (2). 45-58.

Pandey, D. P. (2015). Toxin– antitoxin loci are highly abundant in free-living but lost from host-associated prokaryotes. Nucleic acids research, 33(3), 966-976.

Pedro, J., & Pedro. M., (2018). A dynamic approach to accounts receivables. A study of Spanish SMEs; *journal of European financial management*, 2(3);1 – 19.

Ramachandran A, & Janakiraman, M. (2019). The Relationship between working capital management efficiency and EBIT, *managing global transitions*, 7 (1); 61-74

Venkata, N. R., Ramakrishnaiah, R., & Chengalrayulu, P. (2013). Impact of working capital management in the profitability of Hindalco industries limited. *International journal of marketing, financial management and management research*. 2(3),23-34.

Waweru, K. M. (2013). Determining Impairment Management Practices: A case study of SACCOs in Nakuru district. *Unpublished MBA project. Egerton University*