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EFFECT OF DEBTORS MANAGEMENT ON FINANCIAL PERFORMANCE OF LISTED CONSTRUCTION AND REAL ESTATE COMPANIES IN NIGERIA

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ABSTRACT

This study examined the effect of debtor's management on financial performance of listed construction and real estate companies in Nigeria. The ex post facto research design was adopted for the study with a population of six (6) listed construction and real estate companies in Nigeria as listed by the Nigerian Exchange Group in 2022. Data were retrieved from the annual reports of the selected construction and real estate companies for the period 2012 to 2021. Multiple regression (Ordinary Least Square) analysis was used to analysed the data gathered with the aid of Stata12 statistical software. The study revealed a negative and insignificant effect of average collection period on return on assets. Also, it revealed a positive but insignificant effect of debtor's turnover on return on assets. The study recommended that construction and real estate companies should reduce average collection period, accounts receivable turnover in order to improve their financial performance. Finally, that construction and real estate companies should have established debt collection Policy that will help increase its debtor's turnover thereby enhancing its financial performance.

Keywords: Debtors Management, Average Collection Period, Debtors Turnover, Financial Performance, Return on Assets.

INTRODUCTION

Financial performance is an essential measure to access the wellbeing of a company. This measures the ability of the company to utilize its resources efficiently and effectively to achieve the desired result. In the view of Kenton (2021), financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues". Financial performance of a company can be accessed through various indicators like profitability ratios and liquidity ratios. For a firm to achieve significant improvement in its financial performance indicators, there must be efficient debtor's management which entail proper management of their receivables. Poor management of receivables will definitely result into bad debts which lowers the business financial performance. Debtors management is a strategy that involves the process of designing and monitoring the policies that governs how a company extents credit to its customer base. The idea behind this process is to minimize the amount of bad debt that the company will eventually incur due to customers failing to honour their commitments to repay the total amount of the credit purchase. In Nigeria, most construction and real estate companies find it difficult to effectively manage their debtors. The debtor's management system is not effective in terms of offering flexible account handling, debtors' control and debt collection facilities. Therefore, an effective debtor management system helps to lower a company's debtor period, reduce its bad debt and improve its liquidity and profitability. This study therefore examines the effect of debtor's management on financial performance of listed construction and real estate companies in Nigeria.

Operational Framework

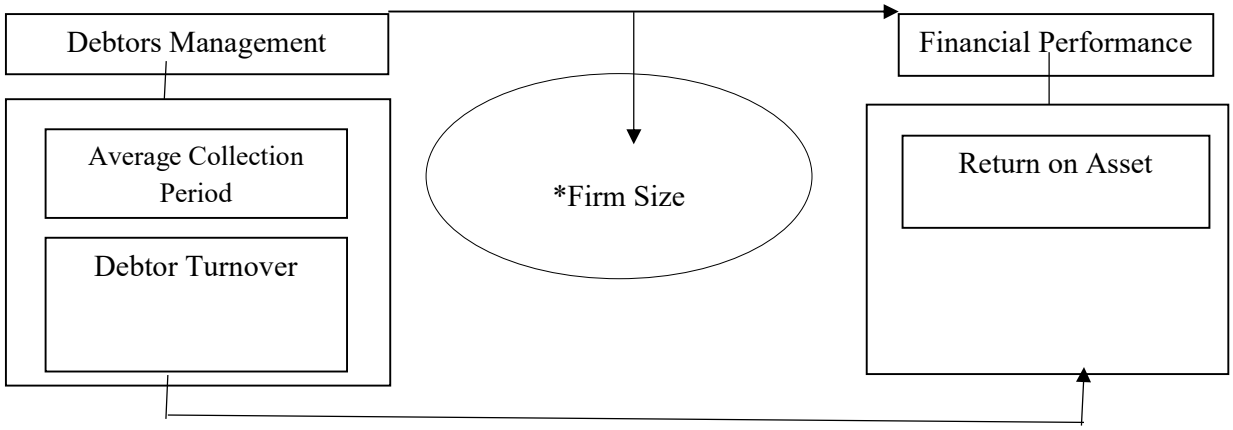

Figure 1: Operational Framework of Debtors Management and Financial Performance

The following research hypotheses were stated in a null form;

$H_0$1 There is no significant effect of Average collection period on return on assets of listed construction and real estate companies in Nigeria.

$H_0$2 There is no significant effect of debtor turnover on return on assets of listed construction and real estate companies in Nigeria.

Literature Review

Debtors Management

Debtors management refers to all the activities that a firm adopts when it comes to delivering and collection of payments upon issuing credit (Murkhejee, 2014). Debtor management is a strategy that involves the process of designing and monitoring the policies that govern how a company extends credit to its customer base. The idea behind this process is to minimize the amount of bad debt that the company will eventually incur due to customers failing to honour their commitments to repay the total amount of the credit purchases. Typically, the process of debtor management begins with evaluating potential customers in terms of credit worthiness, identifying a credit limit that carries a level of risk that the company is willing to assume, then monitoring how well the customer makes use of that available credit, including making regular payments within the terms and provisions associated with the credit account (Tatum, 2022). Debtor management is central to the effective cash flow of business. Without an effective debtor control system, the finance of a business will be vulnerable.

Average collection Period

The average collection period measures the number of days, weeks or months debts remain uncollected or unpaid. A higher ratio indicating longer collection period shows inefficient debtors/credit management, while a shorter or lower ratio is a sign of efficient debtor's management (Ogaluzor, 2022).

Debtor Turnover

This ratio measures the frequency at which debtors are turned over into cash. A high debtor's turnover ratio is an indication of good debtor's management while a lower ratio portrays inefficient debtor's management (Ogaluzor, 2022).

Financial Performance

A company operating in a level of performance restore the confidence of owners and prospective investors. Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation. Financial performance reflected in profit maximization, maximizing ROA, maximizing ROE and maximizing ROI is based on the firm's efficiency (Mohammed, 2015). The firm's level of goal achievement in terms of shareholders wealth maximization is well articulated by the information presented in the financial statements (Chimaleni et al., 2015). Financial performance is compared using ratio analysis like net profit margin, return on asset, and return on equity, but in this study return on asset is used as a measure for financial performance.

Theoretical framework

This study is anchored on the 5C's Model. The lenders use this model to determine the creditworthiness of potential debtors. The model is based on the information declared by the applicant to the bank. The 5 C's model emphasizes on the capacity, character, collateral, capital, and conditions of the applicant who requires the financial assistance. 5 C's is an approach for evaluation of creditworthiness using the 5C's of credit summarized by Peavler (2013) as follows: capacity refers to borrower's ability to meet the loan payments of interest and principal.

Pandey (1995) recognizes the 5Cs as measurement parameters in setting credit standards. According to Pandey (1995), one should evaluate the customer's financial position by analysing ratios and trends in cash and working capital positions. The attributes to consider are how much the owner of the business has put in the business as this determines the stake of the person in the business.

Empirical Review

Dan (2020) examines the effect of account receivable period on Corporate Performance of quoted manufacturing firms in Nigeria for the period of 2010 to 2019. Secondary data were extracted from published financial reports of the sampled companies and ordinary least square (OLS) regression technique was used as econometric tool employed in testing the hypotheses. the study revealed that there is a positive effect between account receivable period and return on asset of listed manufacturing firms in Nigeria.

Wasike (2019) examined the impact of accounts receivable on Nzoia Water Services Company's financial performance. Secondary data were obtained from Kenya national audit office and Nzoia Water Services Company published financial statements for a period of 2012 to 2016. The study employed explanatory research design and data collected were analysed using regression and correlation analysis. The results showed that NZOWASCO, financial performance variable Return on Equity (ROE) was significantly affected with average collection period with negative correlation-0.232 and positive correlation on accounts receivable turnover ratio of 0.401 and Size of the region with positive correlation of 0.911. The study recommended that organization should reduce average collection period, accounts receivable turnover in order to improve their financial performance. Cheptum (2019) examined the effect of credit collection practices on financial performance of manufacturing firms in Kenya. Descriptive and causal research designs was adopted for the study. The accessible population for the study was 558 registered manufacturing firms from which a sample size of 233 manufacturing firms was arrived at using Yamane's formula. Both descriptive and inferential statistics were utilized in data analysis. Multivariate analysis was also carried using the multiple regression analysis. The study revealed that the credit collection practices have a significant positive effect on the financial performance of the manufacturing firms.

In a relative study, Otieno et al. (2016) examined the relationship between debtor's risk management and financial performance of microfinance banks in Kenya. The population comprised

of 12 licensed microfinance banks. Pearson's correlation coefficient was used in data analysis. The results of the study revealed that debtors risk management has a negative effect on return on assets.

Kevin and Omagwa (2017) examined the effect of debtor's management on the financial performance of selected microfinance institutions (MFIs) at Nairobi County in Kenya. Primary data was collected by the aid of self-administered questionnaires and analysed using multiple regression analysis. Both descriptive statistics and inferential statistics were determined. The nine licensed MFIs in Nairobi City, Kenya by the CBK as at 31st December 2014 were the target population of the Study. The study revealed that debt collection policy, legal framework and internal control systems are statistically significant in influencing financial performance of selected MFIs at Nairobi City in Kenya. The study further established client appraisal had no statistically significant effect on financial performance of MFIs at Nairobi city in Kenya. The study found out that internal control systems had a significant effect on financial performance of MFIs in Nairobi city Kenya.

Dirie and Ayuma (2018) examined the effect of accounts receivables management on financial performance in small and medium firms in Mogadishu-Somalia. Survey research design comprising of quantitative for data collection approach was adopted for this study. The target populations had 102 SMEs from three sectors. The study applied both probability and non-probability sampling procedures to obtained a sample of 81 SMEs required for the study based on Slovene formula. Inferential statistics such as Pearson correlation coefficient and coefficient correlation were used to analyse quantitative data and descriptive statistics are employed for variables of the study. The study revealed a strong negative and highly significant correlation between debt management and financial performance.

METHODOLOGY

Ex-post facto research design was adopted for this study with a population of six (6) listed construction and real estate companies in Nigeria as listed by the Nigerian Exchange Group in 2022. The entire population was used as the sample size of the study using the census approach. Data were retrieved from the annual reports of the selected listed construction and real estate companies for the period 2012 to 2021. However, Roads Nig Plc. did not have a complete set of data for the period and was excluded resulting in 50 firm year observations. Multiple regression (Ordinary Least Square) analysis was used to test the formulated hypotheses computed with the aid of Stata12 statistical software.

Model specification

FP= f(ACP+ DT+ FSZ+μ)……(3.1)

ROA= f(ACP+ DT+ FSZ +μ)……(3.2)

Therefore, the model is

$ROA_{it} = \alpha_0 + \alpha_1 ACP_{it} + \alpha_2 DT_{it} + \alpha_3 FSZ_{it} + \varepsilon_{it}$ ---------(3.3)

Operational Definition of variables

Return on Assets (ROA): Return on Asset is proxied by the effectiveness of the company in generating profits by exploiting its assets. It is calculated as

Return on Assets = $\frac{\text{Profit Before Tax}}{\text{Total Assets}} * 100$

Average Collection Period: It is measured as

Average Collection Period = $\frac{\text{Trade Receivables}}{\text{Annual Sales}} * 365$

Debtor Turnover: It is measured as

Debtor Turnover = $\frac{\text{Annual Sales}}{\text{Trade Receivables}}$

Firm Size (FSZ): It is measured as the natural logarithm of total asset.

Results/findings

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
acp	50	112.46	79.72048	0	277
dt	50	11.64	63.1486	0	449
roa	50	.68	9.183926	-46	16
fsz	50	16.7296	1.695124	14.65	19.94

Source: Output from STATA version 12

The table 1 above shows that the average mean of average collection period (acp) generated by the sample firms is 112 days with a minimum of 0 and maximum of 277 days, and a standard deviation of 79.7. This shows the period that the company's debts remain uncollected or unpaid. The means that the average collection of listed construction and real estate companies is high and inefficient. Table 1 above also shows that the average mean of debtor turnover (dt) generated by the sample firms is 12 times with a minimum of 0 and maximum of 449 times and a standard deviation of 63.14. Also, table 1 above shows that return on assets (roa) has an average mean of 0.68% with a minimum of 46.27% and maximum of 16% with a standard deviation of 9.18%. This shows that a low return on assets as represented by its minimum and maximum values. Furthermore, table 1 showed that the average mean of firm size (fsz) generated by the sample firms is 16 with a standard deviation of 1.69 and a minimum of 15 and maximum of 20 approximately.

Table 2: Test of Multi-Collinearity

Variable	VIF	1/VIF
acp	1.28	0.779421
fsz	1.26	0.793830
dt	1.05	0.953571
Mean VIF	1.20	

Source: Output from STATA version 12

In table 2 above on the test of multicollinearity among the independent variables, it revealed that the variance inflation factor value is well below 10. Therefore, independent variables used in this study do not suggest multicollinearity problem.

Table 3 below explains hypotheses one and two

Table 3: Regression Result on $ROA_{it} = \alpha_0 + \alpha_1 ACP_{it} + \alpha_2 DT_{it} + \alpha_3 FSZ_{it} + \varepsilon_{it}$ ----------(3.3)

Source	SS	df	MS	Number of obs =	50
				F(3, 46) =	0.99
Model	249.845645	3	83.2818817	Prob > F =	0.4074
Residual	3883.03436	46	84.4137903	R-squared =	0.0605
				Adj R-squared =	-0.0008
Total	4132.88	49	84.3444898	Root MSE =	9.1877

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
acp	-.0262988	.0186489	-1.41	0.165	-.0638371	.0112394
dt	.0057682	.0212847	0.27	0.788	-.0370758	.0486121
fsz	-.072219	.8690473	-0.08	0.934	-1.821521	1.677083
_cons	4.778618	13.85066	0.35	0.732	-23.10131	32.65855

Source: Output from STATA version 12

Hypothesis One

$H_0$1 There is no significant effect of average collection period on return on assets of listed construction and real estate companies in Nigeria.

Table 3 above reveals a negative and insignificant effect of average collection period on return on assets (p-value= 0.165). This implies that that a 1% increase in average collection period will bring about 0. 026% decrease in return on assets. This led to the acceptance of (**Ho1**) that there is no significant effect of average collection period on return on assets of listed construction and real estate companies in Nigeria.

Hypothesis Two

$H_0$2 There is no significant effect of debtor's turnover on return on assets of listed construction and real estate companies in Nigeria.

Table 3 above reveals a positive but insignificant effect of debtor's turnover on return on assets (p-value= 0.788). This implies that a 1% increase in debtor's turnover will bring about 0.0057% increase in return on assets. This led to the acceptance of (**Ho2**) that there is no significant effect of debtor's turnover on return on assets of listed construction and real estate companies in Nigeria.

DISCUSSION OF FINDINGS

The study revealed a negative and insignificant effect of average collection period on return on assets which led to the acceptance of (Ho1) that there is no significant effect of effect of average collection period on return on assets of listed construction and real estate companies in Nigeria. This finding is in line with the finding of Otieno et al. (2016) that revealed that debtors risk management has a negative effect on return on assets. This finding is in contrast with the work of Wasike (2019) that financial performance was negative and significantly affected by the average collection period.

Also, the study revealed a positive but insignificant effect of debtor's turnover on return on assets that led to the acceptance of (Ho2) that there no significant effect of debtor's turnover on return on assets of listed construction and real estate companies in Nigeria. This finding is in line with the finding of Dan (2020) that revealed that there is a positive effect between debtor's management and return on asset of listed manufacturing firms in Nigeria.

It contradicts the finding of Dirie and Ayuma (2018) that revealed a strong negative and highly significant correlation between debt management and financial performance. The finding further contradicts the finding of Cheptum (2019) that revealed that the credit collection practices have a significant positive effect on the financial performance of the manufacturing firms.

CONCLUSION

The study concluded from the analysis and findings that debtor's management has insignificant effect on financial performance of listed construction and real estate companies in Nigeria.

RECOMMENDATIONS

The following recommendation were made in respect to the findings;

i. Construction and real estate companies should reduce average collection period, accounts receivable turnover in order to improve their financial performance.
ii. Construction and real estate companies should have established debt collection Policy that will help increase its debtor's turnover thereby enhancing its financial performance.

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