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Operating Performance and Aggressive Trade Credit Policies

Travis Box, Ryan Davis, Matthew Hill and Chris Lawrey[§]

We examine the operating performance improvements associated with the extension of trade credit. Our results suggest a positive and significant relation between future profitability and contemporaneous trade credit provision. Further findings indicate significantly higher margins, revenues and market shares for firms that extend more trade credit than industry competitors with similar characteristics, operational necessities and financial distress levels. These inferences are robust to several econometric concerns such as the joint determination of trade credit extension and firm performance. Overall, our results imply that aggressive trade credit policies can provide firm management with a unique channel to improve product market performance.

JEL Classifications: G31, G32, G39, M49.

Keywords: Trade credit; Supplier financing; Working capital; Operating performance

Trade credit management is an important aspect of working capital policy and corporate strategy (Sartoris and Hill (1983)). By decoupling the delivery of materials from the receipt of payment, the

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