

Credit Management and Return on Asset of Listed Consumer Goods Companies in Nigeria

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Abstract

The paper assessed credit management and ROA of listed consumer goods companies in Nigeria. Secondary data were obtained through annual report and accounts of the selected firms, covering 15 years span (2010-2024) from ten listed Nigerian consumer goods firms. The findings revealed at 0.05 significant threshold that receivables collection period ($p=0.0390 < 0.05$), payables payment period ($p=0.0309 < 0.05$), cash ratio ($p=0.0243 < 0.05$), and firm size ($p=0.0337 < 0.05$) all had significant effect on return on assets. The study recommended that sales department in consumer goods firms should ensure customers understand the credit policy in a clear and flexible way.

Keywords: ROA, credit management, consumer goods firms, credit policy,

Introduction

Adeboboye et al. (2022) expresses that financial performance is the capacity to run a business effectively, profitably, endure, expand, and respond to opportunities and dangers in the external environment. A firm's financial performance is determined by how effectively it uses its resources to accomplish its goals. Every manufacturing firm that wants to be stable and profitable must have sound credit management, and the most common reason for bad organization performance and condition is declining credit quality. No matter the type of business, credit management is one of the most crucial tasks for any organization and should not be disregarded by any credit-related firm. It is the procedure to guarantee that clients will pay for the goods or services provided (Adu&Abimboye, 2026).

Credit management involves the practices used by organizations to guarantee that they keep credit at an ideal level and manage it well. Credit analysis, credit reporting, credit rating, and credit categorization are all part of this facet of financial management. Credit management is just a way for a company to control its credit sales. Since there can never be a credit or default risk of zero, it is a need for every organization that deals with credit transactions (Adelusi&Abraham, 2021).

The financing expenses associated with maintaining accounts receivable increase with their age and quantity. A company may borrow money if these receivables are not collected on time and there are sudden financial demands; the opportunity cost is the interest paid. Debtor management and debt finance are the

main concerns of credit management. Protecting the company's investments in debtors and maximizing operating cash flows may be summed up as credit management's goals. To extend credit to clients, collect payments, and reduce the possibility of non-payments, policies and procedures must be implemented (Adu&Abimboye,2025).

On the other hand, effective credit management will decrease the capital that is secured by the borrowers and lessen the likelihood of incurring bad debt. Any past-due account will reduce a seller's profit unless they have included additional fees for late payments in their selling price or are able to recoup those costs through interest charges. Companies may be persuaded to extend credit in competitive markets by the promise of greater business, but this practice is risky unless it can be ensured that higher sales and profits will balance the higher costs of credit, or that the higher costs will be covered by higher prices. The majority of businesses can easily identify the losses brought on by bad debts, clients filing for receivership, liquidation, or bankruptcy. Furthermore, the firm's financial performance is impacted by the writing off of bad loan losses, which clearly lowers earnings (Adu&Soyoye,2024).

A loosening of lending criteria raises the likelihood of bad debts. Therefore, businesses need to make sure that receivables are managed effectively and efficiently. Delays in getting paid by debtors when payments are due lead to major financial difficulties, a rise in bad debts, and strained relationships with clients. Earnings are reduced if payments are made beyond the due date, and losses occur if none are made at all (Adu&Abdulkafeel, 2024).

The manner that companies are performed now is very different from how they were conducted in the past because of the speed at which technology is developing and the changes in internal and external environments that affect business dynamics. As a result, a credit policy needs to be dynamic in order to be effective. Periodically reviewing credit policies is necessary to make sure that the organization's practices are competitive. This will further guarantee the advantage to the credit and sales departments. It is improbable that two organizations would establish their rules, processes, and guidelines in exactly the same way, even if the majority of them do (Ajayi, 2019).

Objective

To examine the effect of credit management on return on assets of listed consumer goods companies in Nigeria;

Research Question

What is the effect of credit management on return on assets of listed consumer goods companies in Nigeria?

Hypothesis

H₀₁: Credit management has no significant effect on return on assets of listed consumer goods companies in Nigeria

2.0 Literature Review

Return on Asset (ROA)

Return on asset is a ratio of profit to total assets. It assesses how well the management of manufacturing companies can turn a profit by making use of the resources available to them. It also demonstrates the effectiveness with which the company's resources are employed to produce revenue. It

further shows how well a company's management uses all of the institution's resources to generate net income (Akinleye&Olanrewaju, 2019).

Babalola (2018) return on asset determines how much profit a business makes as a percentage of its total assets. Better performance is indicated by a higher return on asset number. Because it accounts for the assets needed to support company operations, return on assets (ROA) is seen to be a more accurate indicator than net asset value. It shows how well management is able to create profits from the firm's assets.

ROA determines the amount of the profit earned per assets. It reflects the efficiency with which a firm manages the use of its investment resources or assets in generation of income. ROA simply connotes the management efficiency and depicts how effective and efficiently the management of a manufacturing firm operate as they employ the organization's assets into the earnings. A high ROA ratio is a clear indicator a good performance or profitability of a manufacturing firm (Fadare&Adegbie,2020).

The quantity of earnings from invested capital assets is measured by the return on asset ratio (Adu & Abimboye,2026). With the help of ROA, users may comprehend how the systems support, safeguard, and keep an eye on how well the management uses resources to turn a profit.

Credit Management

Babalola (2018) defines credit as an agreement in which the seller accepts past-due payment for its produce rather than receiving cash from the customer. One side is the lender/seller, and the other is the receiver/buyer. The idea of credit management is gaining traction globally, particularly in light of the present financial circumstances and the status of the global economy. Developing a plan for handling day-to-day operations is a concern shared by managers and owners of businesses worldwide in an effort to maximize shareholder wealth and satisfy financial commitments on time.

It is impossible to overstate how crucial credit management is to modern corporate financial performance. Maintaining credit's liquidity is essential for ensuring that it runs smoothly and fulfills its obligations on a daily basis. An effective credit management system is essential to a commercial firm's performance. It is imperative for a company to guarantee that it does not have deficiency or surplus liquidity to fulfill its immediate obligations (Adu&Abimboye, 2025).

Due to its intimate connection to a company's daily operations, credit management is a subject of great interest to both internal and external experts. Achieving the intended trade-off between credit and profitability is a dilemma in credit management. The credit policy of a company is determined by its unique circumstances; there is no set formula for figuring out how much liquidity a company should have on hand to maximize profits (Adu&Abdulkafeel, 2024).

Payable Payment Period

Accounts payable is one of the major sources of secured short-term financing. It is the major single class of short-term debt. Account payables are said to arise as a result of when firms purchase on credit and the debt is recorded as Account payable. This is to say that account payables are suppliers whose invoice for goods or services have been processed but have not yet been paid. Most organization often regard the amount owes to creditors as a source of free credit, it is free when firms make payment within the discount period, while it is said to be costly when firms forego available discounts and decide to make payment after the due date thereby incurring substantial additional costs (Adeboboye et al., 2022).

Account or trade payables payment period is the average time taken by a company to pay its trade payable (supplies). This trade payables payment period is computed by dividing account payables by net purchases multiplies by 365 days. The number of days account payables, reflect the average time it takes firms to pay their supplies, the higher the number; the longer firms take to settle their payment commitments to their suppliers(Babalola, 2018).

Accounts payable management involves strategically balancing payment schedules to preserve liquidity while maintaining strong supplier relationships. Prolonging payment terms can temporarily enhance cash flow but risks damaging supplier trust if overused. Conversely, timely payments may strengthen partnerships but could limit immediate liquidity for other needs. Companies often use strategies like tracking Days Payable Outstanding (DPO) to align cash flow objectives with payment practices (Fadare&Adegbe, 2020).

Firms are therefore advised to strike a balance when trying to main maximum cash flow by delaying payments as long as it is reasonably possible and when trying to create and maintain positive credit ratings as well as good relationships with supplies and creditors. Although credit is a vital part of effective cash positioning and purchasing initiate cash outflows but overzealous purchasing function can create liquidity problems. That is why account payable should be seen at all times as debts that must be paid off within a given period to avoid default(Adu&Soyoye, 2024).

3.0 Methodology

Population of the Study

The population of this study involved all the twenty (20) consumer goods companies listed on the Nigerian Exchange Group as at December 31, 2024.

Method of Data Collection

This study gathered its data with the use of secondary source through the annual report and accounts of the 10 selected consumer goods companies listed on the Nigerian Exchange Group as at 31st December, 2025.

4.0 Data Analysis

Random Effect Regression Analysis - Model 1 (ROA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.027202	0.025379	1.071797	0.0000
RCP	0.001685	0.000220	2.076667	0.0390
PPP	-0.001261	2.62E-05	-2.481940	0.0309
CAR	0.026673	0.017204	2.550349	0.0243
FS	1.990973	3.605544	2.552198	0.0337
R-squared	0.733215	Mean dependent var		0.025216
Adjusted R-squared	0.603003	S.D. dependent var		0.064161
S.E. of regression	0.064065	Sum squared resid		0.394013

F-statistic	1.099400	Durbin-Watson stat	1.637056
Prob(F-statistic)	0.003309		

Source: Results from E-view v.12, 2026

The regression model's coefficient that was previously specified is included in the table above, as shown below:

$$ROA = \alpha + \beta_1 RCP + \beta_2 PPP + \beta_3 CAR + FS$$

It has been described as follows:

$$ROA = 0.027202 + 0.001685RCP - 0.001261PPP + 0.026673CAR + 1.990973FS$$

The above equation shows that PPP has negative effect on ROA with coefficient value of -0.001261, while RCP, CAR and FS have positive effect on ROA with coefficient value shown as 0.001685, 0.026673 and 1.990973 respectively. The implication of this is that if PPP increases by one unit, ROA of the selected listed consumer companies will fall by -0.001685, while an increase in RCP, CAR and FS by one unit, would trigger a further increase in ROA by 0.001685, 0.026673 and 1.990973 respectively.

The t-calculated values of the independent and control variables (RCP, PPP, CAR and FS) were also shown as 2.076667, 2.550349, -2.481940 and 2.552198 respectively. Each of these numbers is greater than the t-tab of 2. Additionally, their matching probability values, 0.0390, 0.0243, 0.0309 and 0.0337 were revealed. It is feasible to classify the p-values for all the predictors as statistically significant as the values fall below the 0.05 significant threshold

Furthermore, the R-squared statistic of the regression was shown as 0.733215 which means that 73.32% of the total changes in ROA can be explained by RCP, PPP, CAR and FS while the remainder (26.68%) can be explained by some other parameters that are not employed by this study. The variance analysis of the regression was also shown in the table above, where the key data points are the F-statistic, which was shown as 1.099400 with a probability value of 0.003309. Given that the p-value is less than the 0.05 threshold, this suggests that the model that the study developed is statistically significant, and therefore implies that, overall, credit management proxies significantly affect return on assets. Nevertheless, the Durbin-Watson statistic result was revealed as 1.637056 which implies that auto-correlation is not presence as the value is greater than 1.5. This further suggests that the parameters are in good condition.

Interpretation of Results

Testing of Hypothesis

Ho: Credit management has no significant effect on return on assets of listed consumer goods companies in Nigeria.

From the regression results, the overall p-value of the analysis of variance was revealed as 0.003309 which was interpreted to be statistically significant, as the p-value falls below 0.05 threshold. Thus, the study fails to accept the above-stated null hypothesis and restates that credit management has significant effect on return on assets of listed consumer goods companies in Nigeria.

The study comes to the conclusion at 0.05 level of statistical significance that credit management (measured by RCP, PPP and CAR) has considerably effect on return on assets of the chosen listed consumer goods companies in Nigeria.

5.0 Conclusion and Recommendations

Findings

The study's findings demonstrated that receivable collection period, payable payment period and cash ratio as measurements of credit management were found to significantly affect return on assets of the chosen listed consumer goods in Nigeria.

Conclusion

The study concluded that receivable collection period, payable payment period and cash ratio as measures of credit management have significant effect on return on assets of Nigerian consumer goods firms that are listed.

Recommendations

Therefore, Nigerian consumer goods businesses should keep and maintain sufficient liquid assets on hand. This will lower the frequency of bad debt losses and other credit-related expenses.

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