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Do Peer Firms Affect Trade Credit Policies?

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***Abstract*— The paper examines the effect of peer firm decisions with regard to financial policies. Using data on NSE listed firms of oil and Petro chemical industry for the period 2013 to 2022, we document strong evidence of peer influence on trade credit provision. The result results are obtained by 2SLS after using alternative trade measures and addressing the concerns of endogeneity. The basic vital ratios are also addressed to get an overall understating of the industry.**

***Index Terms*— Trade Credit; Accounts Receivable, Firm Behaviour, Peer Effects, Mimicking**

I. INTRODUCTION

Trade credit is one among the most important source of short-term finance for firms in developed countries ([18]; [1]) Across the Globe it is held responsible for global trade and commerce in excess of US$25 trillion [11]. Younger and developing firms find trade credit as a natural source of capital to both financial and non- financial firms [2]. Firms trade action depending on their peers has not been much explored in Indian context unlike other developing nation. There has been a many key studies which underline the importance of peer influence in deciding the trade credit policies of corporates. ([6]; [1];[9]).

Trade receivables have been put on a common practise and the relevance of this policy for the corporate sector, prior to theoretical research has been highlighted by various financing and no financing firms for trade credit provision. There have been many research documenting firm-specific factors determining the use of accounts receivable among corporates ([15];[16];[18]). There is evidence that trade credit provision is affected by many other factors like macro-financial shocks [3] financial crises [7], and national culture [5]. Most research implicitly assumes that firms manage trade credit policies in isolation and independently without considering the actions and characteristics of their rival firms in the same industry and supply similar products. As such, the question of whether a firm's trade credit decisions are affected by those of its peers is still unanswered ([12];[6]; [9][18]).

II. DATA & METHODOLOGY

The data used in this study were obtained from the Prowess database. The initial sample includes all listed Oil & Gas companies in the National Stock Exchange covered by prowess database for the period from 2013 to 2022. Unlike many developed economics such as France, Germany and Japan where the banking system dominates credit allocation, in India the equity market dominates the same.[4]. According to [9], the ratio of trade receivables to total assets of UK firms is 20.47 per cent. Financial firms such as banks and insurance were excluded because they have different accounting requirements [4]. Moreover, firm-years with anomalies in their accounts such as negative values in assets, sales, trade receivable, trade payable and fixed assets were removed. Also, firms missing more than five years' amount of information and duplicate values were excluded.[8]). Oil & Gas is a prominent sector in the manufacturing sector consisting of 20 companies in India. The average market capitalization of the industry is 122927.525 Crores., with a Net worth amounting to 52364.63 Crores. The major giants of the industry are Reliance Industries & ONGC with a market capitalization of 17,45,813 and 2,13,236 crores [5] respectively. Four companies have been excluded due to insufficiency of data and for being younger than 10 years in 2022. As a result, 16 firms are left with 1800 firm-year observations. (Table 1.)

Table 1. List of Companies

	Sector	Number of companies listed	No. of Companies selected	List of Company exempted
1.	Oil & Gas	21	16	1.Asian Energy services ltd 2. Mahanagar Gas Ltd 3. Deep Energy Resources Ltd 4.Gujarat Gas Ltd

Following recent research on peer effects ([14];[6]; [9])., we use the following model to examine the impact of peer firm behavior on a firm's trade credit policy where the subscripts *i*, *j*, and *t* denote firm, industry, and year, respectively; $y_{i,j,t}$ is the dependent variable capturing firm *i*'s trade credit provision; $\bar{y}_{-ijt}$ is the average trade receivables of Oil& natural Gas industry based peers, excluding firm *i*; $X_{ij,t-1}$ are one-year lagged control variables; $\bar{X}_{-ij,t-1}$ are one-year lagged averages of the same control variables for peer firms, excluding firm *i* (i.e., the peer averages); μ_t is year fixed effects; and ϵ_{ijt} is the error term.

We include the year fixed effects to control for potential changes in trade credit provision over time, including periods of crises ([12;[13]). In our regression analysis, we are mainly interested in the two coefficients β and γ', which capture peer

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effects through peer firms' actions and characteristics, respectively. Using OLS to estimate Model (1) may lead to a reflection problem [15] When one regresses the outcome variable on its group averages a specific type of endogeneity may arise [15];[16]). In our analysis, the regressing an individual firm's trade credit provision on its peer averages may not be justifiable one due to the endogenous selection of firms into peer groups ([14]). Omitted variable bias arise due to omitted factors that influence both the firm's and its peers' trade credit decisions.As reflection problem to poses a major challenge research studying peer effects in corporate finance ([15]; [14]; [10]. For identification purposes, we substitute peer idiosyncratic stock returns, this variable is satisfies both the relevance and exclusion conditions of a valid instrument for peer effects [15]. To calculate the instrument, *peer idiosyncratic stock returns*, we first estimate the expected stock return using the [7] four-factor model, as follows:

$$r_{ijt} = \alpha_i + \beta_{1i}(rm_t - rf_t) + \beta_{2i}SMB_t + \beta_{3i}HML_t + \beta_{4i}MOM_t + 5_{ijt} \quad (2)$$

where r_{ijt} captures the stock return of firm *i*, in industry *j*, and over month *t*. The four actors in the model are the excess market return $(rm_t - rf_t)$, the small minus big portfolio (SMB_t) returns (size factor), the high minus low (HML_t) portfolio returns (value factor) and momentum (MOM). We obtain stock returns data from Fama and French factors (i.e., market returns, *SMB*, MOM and *HML*) from Kenneth French's database. We estimate expected stock returns by using a monthly rolling regression approach to estimate Equation (2). Using the estimated coefficients from Equation (2), we compute the expected stock returns as follows:

$$r_{ijt} = \alpha\hat{}_7 + \hat{}1i(rm_t - rf_t)\hat{}2iSMB_t + \beta\hat{}3iHML_t\hat{}2iSMB_t + \beta\hat{}4iMOM \quad (3)$$

We then convert the monthly returns data into annual returns to match with our firm- year data. In the next step, we calculate idiosyncratic stock returns as the difference between the observed and expected stock returns, as follows:

$$Idio_{-ijt} = r_{ijt} - r_{ijt} \quad (4)$$

We compute our instrument, $Idio_{-ij,t-1}$, by taking one-year lagged average peer idiosyncratic stock returns, where *j* represents the peers of firm *i*.

Finally, we use $Idio_{-ij,t-1}$ as an instrument for peer influence in our 2SLS regressions. Our approach involves estimating Equations (5) and (6) in two stages,

$$y_{-}ijt = \alpha + \beta 1Idio_{-}ij,t-1 + \beta 2\overline{X}_{-}ij,t-1 + \beta 3Xij,t-1 + \beta 4\mu t + \xi ijt \quad (5)$$

$$yi,j,t = \alpha + \beta y\hat{}_{-}ijt + \gamma'\overline{X}_{-}ij,t-1 + \lambda'Xij,t-1 + \delta'\mu t + \epsilon ijt \quad (6)$$

In the first stage, we estimate the reduced-form model (Equation (5)), where we regress the endogenous variable, peer average trade receivables, on the instrument, $Idio_{-ij\,t-1}$, as well as the controls, namely, the firm-specific characteristics, average peer characteristics, and year fixed effects. We then obtain the fitted values for peer average trade credit, $\_y\hat{}_{-}i, j,t$, use them in the second stage (Equation (6)) to estimate the peer effects, β, in trade credit policy.

III. DATA & INTERPRETATION

Table 2 provides the summary statistics of oil & Gas industry's firm specific characteristics. Accounts receivable represents a significant portion amounting to 19% of the current asset in the oil & Gas industry, The maximum representation is around 70% with a standard deviation of 14%. While, the mean accounts receivable represents only 1% (0.64) of total assets. The mean net operating cycle is 92 days, standard deviation of 215 days depicting high variation across firm in the industry. Debtors' turnover means to 24 times with a median of 20. is noteworthy that means are all bigger than medians. This indicates that mean values are influenced by big outliers. Table.3 To check whether there are significant differences between the debtors turnover within the sector. An ANOVA test of equality of means is undertaken. This test allows us to verify the null hypothesis, which indicates that the means of debtor's turnover of oil and gas companies are equal, against the alternative, which indicates that there are differences between the means of companies within the sector. The upper part of Table 3 shows the results of the hypothesis, we obtained a value of the contrast statistic of 87 .06 and a p-value of 0.00. With these data, at the 0.05 significance level we reject the null hypothesis that the 0means for the different companies in the sector are equal. Therefore, we accept the alternate hypothesis that there is significant differences in the of debtor's turnover in the within the Oil and Gas sector. Across the period of 10 years the average debtor days is 27 days, analysing a trend for the first three years debtor days in table 4 shows low variation. The last three years also recorded relatively stable debtor days ranging from 23 to 32 days. Sales for the year 2020 recorded a negative growth but the quantum of variation is not that substantial. Aban offshore Ltd have been excluded from the analysis as its rate of turnover is much higher than the industry leaders. Besides having the longest debtor days in the whole sector, the company recorded high fluctuation in the Debtors days of around averaging to 275 days in the last three yearsis represented on Table: 4.

Table 2. Descriptive statistics

	REC_TO_CA	REC_TO ASSETS	NOPC	DEBTORS TURNOVER
Mean	18.77	0.06	91.54	24.44
Median	14.33	0.05	46.31	20.76
Maximum	69.92	0.44	920.50	82.54
Minimum	0.94	0.01	-518.07	0.24
Std. Dev.	13.66	0.06	215.97	18.56
Observations	150	150	150	150

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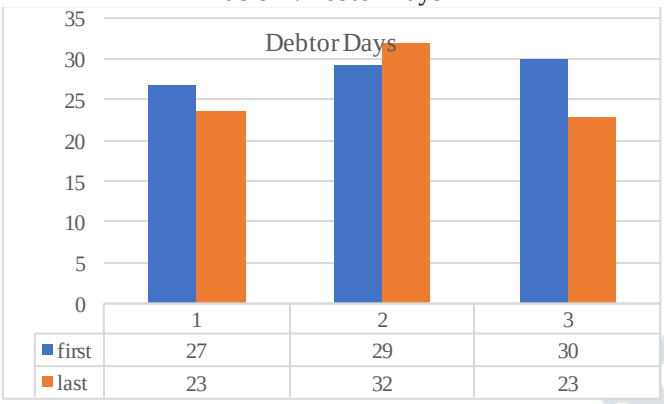
Table 3: Test for Equality of Means of DEBTORS_TURNOVER

Method	df	Value	Probability
Anova F-test	(14, 135)	87.06006	0.0000
Welch F-test*	(14, 50.1116)	154.3371	0.0000
*Test allows for unequal cell variances			
Analysis of Variance			
Source of Variation	df	Sum of Sq.	Mean Sq.
Between	14	46208.44	3300.603
Within	135	5118.092	37.91179
Total	149	51326.53	344.4734

Table 4. Debtor Days



The table 5 shows the descriptive statistics of petroleum industry. The average stock return of petroleum industry is (-) 4% (-0.0365). Table. 6 represent Augmented Dicky-Fuller test determines the series is stationary (p value 0.00). Table No.7 depicts determines the panel characteristics whether we have a pooled OLS or Fixed effect or random effects model is better, we use LM test which says fixed effects model is appropriate. Further, to determine whether the Fixed effects model or random effect model is to be used, Hausman test is undertaken we conclude that random effect is appropriate (Table 8). The table test of model stationarity using Levin, Lin & Chu t test and model significance using Wald test is undertaken Table 9. both yield positive results. The table 11 & 12 explains check on autocorrelation of the data used probability values are greater than 0.05 thus we accept the null hypothesis that there is no autocorrelation. It means that the error terms are not equal to each other or correlated.

Table 5. Descriptive Statistics

	ER	HML	MOM	RM_RF	SMB
Mean	-0.036	0.264	1.411	-0.111	-0.171
Median	-0.161	-0.324	2.000	-0.114	-0.043
Maximum	1.740	17.71	13.897	13.627	9.131
Minimum	-1.77	-9.953	-20.970	-19.327	-13.695
Std. Dev.	0.639	5.158	5.643	4.751	4.033
Observations	1800	1800	1800	1800	1800

Table 6: Test of Normality

UNIT ROOT TEST RESULTS TABLE (ADF)						
Null Hypothesis: the variable has a unit root						
	At Level					
		ER	HML	SMB	RMRF	MOM
With Constant	t-Statistic	0.0001	0.0000	0.0000	0.0000	0.0000
	Prob.	***0.0001***	***0.0000***	***0.0000***	***0.0000***	***0.0000***
		***	***	***	***	***
With Constant & Trend	t-Statistic	0.0000	0.0000	0.0000	0.0000	0.0000
	Prob.	***0.0000***	***0.0000***	***0.0000***	***0.0000***	***0.0000***
		***	***	***	***	***
Without Constant & Trend	t-Statistic	0.2667	0.0000	0.0000	0.0000	0.0000
	Prob.	***0.2828***	***0.0000***	***0.0000***	***0.0000***	***0.0000***
		***	***	***	***	***
	At First Difference					
		d(ER)	d(HML)	d(SMB)	d(RMRF)	d(MOM)
With Constant	t-Statistic	0.0000	0.0000	0.0000	0.0000	0.0000
	Prob.	***0.0000***	***0.0000***	***0.0000***	***0.0000***	***0.0000***
		***	***	***	***	***
With Constant & Trend	t-Statistic	0.0000	0.0000	0.0000	0.0000	0.0000
	Prob.	***0.0000***	***0.0000***	***0.0000***	***0.0000***	***0.0000***
		***	***	***	***	***
Without Constant & Trend	t-Statistic	0.0000	0.0000	0.0000	0.0000	0.0000
	Prob.	***0.0000***	***0.0000***	***0.0000***	***0.0000***	***0.0000***
		***	***	***	***	***
Notes:						
a: (*)Significant at the 10%; (**)Significant at the 5%; (***) Significant at the 1% and (no) Not Significant						

Table 7: Lagrange multiplier (LM) test for panel data

Null (no rand. effect)	Cross-section	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	70051.20	56.63865	70107.83
	(0.0000)	(0.0000)	(0.0000)
Honda	264.6719	-7.525866	181.8297
	(0.0000)	(1.0000)	(0.0000)
King-Wu	264.6719	-7.525866	247.9128
	(0.0000)	(1.0000)	(0.0000)
SLM	273.4609	-7.341739	--
	(0.0000)	(1.0000)	--
GHM	--	--	70051.20

Table 8: Test for determining Fixed Effect or Random Model

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000
* Cross-section test variance is invalid. Hausman statistic set to zero.			
Cross-section random effects test comparisons:			
Variable	Fixed	Random	Var (Diff.)	Prob.
HML	-0.000467	-0.000467	0.000000	0.3633
MOM	-0.000567	-0.000567	0.000000	0.3633
SMB	-0.000824	-0.000824	0.000000	0.3633
RMRF	0.007042	0.007042	0.000000	0.3633

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Dependent Variable: ER				
Method: Panel Least Squares				
Date: 10/25/22 Time: 11:42				
Sample: 1 1800				
Periods included: 120				
Cross-sections included: 15				
Total panel (balanced) observations: 1800				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
HML	-0.000534	0.001717	-0.310637	0.7561
MOM	-0.002303	0.001521	-1.514002	0.1302
RM_RF	-0.000585	0.001889	-0.309708	0.7568
SMB	-0.001328	0.001766	-0.752032	0.4521
C	-0.033115	0.007119	-4.651972	0.0000
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.810401	Mean dependent var		-0.036542
Adjusted R-squared	0.808484	S.D. dependent var		0.639428
S.E. of regression	0.279830	Akaike info criterion		0.301229
Sum squared resid	139.4607	Schwarz criterion		0.359237
Log likelihood	-252.1060	Hannan-Quinn criter.		0.322642
F-statistic	422.9160	Durbin-Watson stat		1.851787
Prob(F-statistic)	0.000000			

Hypothesis. We conclude that the Random effects model is appropriate.

Table 9: Test of Normality

Group unit root test: Summary				
Series: RESIDUL, ROA, SALESG, SALESTO_ASSTS, SIZE, LEV, GROSS_MARGIN, CASH, DEPENDENT_VARIABLE, REC_ASSTS				
Sample: 1 15				
Exogenous variables: Individual effects				
Automatic selection of maximum lags				
Automatic lag length selection based on SIC: 0				
Newey-West automatic bandwidth selection and Bartlett kernel				
Balanced observations for each test				
Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-12.6822	0.0000	9	126
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-9.31734	0.0000	9	126
ADF - Fisher Chi-square	96.8730	0.0000	9	126
PP - Fisher Chi-square	97.9244	0.0000	9	126
** Probabilities for Fisher tests are computed using an asymptotic Chi				
-square distribution. All other tests assume asymptotic normality.				

Table 10: Test of Model Significance

Wald Test:			
Equation: Untitled			
Test Statistic	Value	df	Probability
F-statistic	9.827297	(8, 118)	0.0000
Chi-square	78.61837	8	0.0000
Null Hypothesis: C(1) =0,C(2) =0, C(3)=0, C(4)=0,C(5)=0, C(6)=0, C(7)=0, C(8) =0			
Null Hypothesis Summary:			

Table 11: Test of Autocorrelation

Dependent Variable: REC1				
Method: Panel Least Squares				
Date: 06/04/22 Time: 11:05				
Sample: 2012 2021				
Periods included: 10				
Cross-sections included: 15				
Total panel (balanced) observations: 150				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
SIZE	-0.027787	0.011265	-2.466586	0.0148
ROA	-0.321599	0.054006	-5.954888	0.0000
LEV	-0.274184	0.141312	-1.940277	0.0543
CASH	-1.855129	34.47159	-0.053816	0.9572
SALESG	-2.13E-05	0.000877	-0.024239	0.9807
SALESASSTS	-0.068969	0.021523	-3.204472	0.0017
GPROFIT	0.006460	0.099431	0.064969	0.9483
RSESI	-0.088991	0.110969	-0.801942	0.4239
C	0.627251	0.118270	5.303535	0.0000
R-squared	0.392200	Mean dependent var		0.148416
Adjusted R-squared	0.357715	S.D. dependent var		0.311277
S.E. of regression	0.249465	Akaike info criterion		0.119131
Sum squared resid	8.774849	Schwarz criterion		0.299769
Log likelihood	0.065147	Hannan-Quinn criter.		0.192519
F-statistic	11.37304	Durbin-Watson stat		1.087920
Prob(F-statistic)	0.000000			

Table :12. Breusch-Godfrey Serial Correlation LM Test

Breusch-Godfrey Serial Correlation LM Test:				
F-statistic	1.088219	Prob. F (2,4)		0.4194
Obs*R-squared	4.933287	Prob. Chi-Square (2)		0.0849
Test Equation:				
Dependent Variable: RESID				
Method: Least Squares				
Sample: 2 15				
Included observations: 14				
Presample missing value lagged residuals set to zero.				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
ROA	0.296944	0.443262	0.669907	0.5396
SALESG	-5.579954	28.04898	-0.198936	0.8520
SALESTO_ASSTS	0.021823	0.039859	0.547520	0.6131
SIZE	0.003592	0.015319	0.234496	0.8261
LEV	-0.183856	0.416595	-0.441330	0.6818
GROSS_MARGIN	0.093205	0.456986	0.203956	0.8483
CASH	15.78437	84.98009	0.185742	0.8617
C	1.020003	5.548323	0.183840	0.8631
RESID (-1)	-0.775631	0.537081	-1.444161	0.2222
RESID (-2)	0.264941	0.731050	0.362412	0.7354
R-squared	0.352378	Mean dependent var		5.20E-15
Adjusted R-squared	-1.104773	S.D. dependent var		0.069272
S.E. of regression	0.100498	Akaike info criterion		-1.581550
Sum squared resid	0.040399	Schwarz criterion		-1.125081
Log likelihood	21.07085	Hannan-Quinn criter.		-1.623805
F-statistic	0.241827	Durbin-Watson stat		2.303277
Prob(F-statistic)	0.964175			

Table 13 contains the summary statistics of both peer-firm and firm-specific characteristics with 150 firm-year

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observations. It provides details on all variables used in the analysis, firm-specific and averages for product-market peers alike. The cash holding ratio is less than 1%. The industry sales growth is around 23% with a gross profit of 70%. Table 14 reports the results from our analysis of the properties of the instrumental variable, where we regress peer idiosyncratic stock returns on the firm characteristics. In both specifications, using either contemporaneous or one-year lead values, none of the firm characteristics is correlated with the instrument except firm size while using Contemporaneous variables. Moreover, the F statistic of all firm characteristics is also insignificant, suggesting that peer idiosyncratic stock returns do not contain any significant information about the present or future observable determinants of firms' trade receivables. These results provide further assurance about the validity of the instrument used.

To identify whether trade credit is affected by peer firm, 2SLS regression approach, is adopted. Table 15 shows the results from both the first and second stages of regressions. Columns (1) and (2) present the estimates of our base regression of *receivables to sales* on the main independent variable, *peer receivables to sales*, while controlling for firm characteristics, peer averages, and year fixed effects. In the first-stage regression represented in (Column (1)), we find that the coefficient instrument, *peer idiosyncratic stock returns*, is significant, indicating that the average equity stock returns is strongly and positively related to average peer trade receivables. This result is consistent with prior studies that investment is positively correlated with stock returns. [11]. *F*-statistic is quite large, suggesting that the instrument is likely to be valid. Second stage regression (Column (2)), the coefficient on *peer receivables to sales* (0.916) is positive and statistically significant at the 1% level, providing strong evidence of peer influence on trade credit policy[15]. In terms of the magnitude of peer effects, one standard deviation (0.046) increase in *peer receivables to sales* is associated with an increase of 0.43 in trade receivables.

Table 13: Descriptive Analysis

	Mean	**Median**
RECIVABLES__SALES	0.148	0.054
REC_ASSTS	0.064	0.052
PEER_REC__SALES	0.862	0.139
PEER_REC_ASSTS	0.123	0.070
ROA	0.053	0.098
SIZE	9.765	9.689
LEV	0.372	0.385
CASH	0.000	0.000
SALESG	23.030	53.65
GROSS_MARGIN	0.706	0.748
SALESTO_ASSTS	1.308	0.998
RESIDUL	0.000	-0.010
PEER_SIZE	9.111	9.691
PEER_ROA	0.157	0.097
PEER_LEV	1.972	0.375
PEER_TANG	1.248	0.329
PEER_CASH	1.263	0.000
PEER_SALESG	18.316	35.20
PEER_GROSS_MARGIN	0.856	0.690
PEER_SALESTO_ASSTS	1.211	1.241
PEER_RESIDUL	2.618	-0.005

Table 14. Estimating Peer Idiosyncratic stock returns

	Contemporaneous independent variables	One-year ahead independent
SIZE	2.500581	2.588336
	0.0778	0.0643
TANG	-1.714858	-1.622727
	0.0888	0.1075
LEV	1.635852	0.520026
	0.1043	0.6041
CASH	-0.512784	-0.621295
	0.609	0.5357
ROA	-1.542226	-0.869282
	0.1255	0.3866
SALESG	3.609897	-0.457112
	0.0604	0.6485
SALESTO_ASSTS	0.881233	1.364708
	0.3799	0.1751
GROSS_MARGIN	0.443072	-0.255183
	0.6585	0.799
C	-2.443239	-2.422793
	0.0159	0.017
F-statistic	1.524793	0.400697
Durbin-Watson stat	2.408916	2.620207
Adjusted R-squared	0.071914	-0.109131

Table 15: Peer effects in trade credit provision

Variable	First stage (1)	(2)	Second stage (1)	(2)
PEER IDIOSYNCRATIC STOCK RETURN(Instrument)	1.36	3.62		
PEER RECIEVABLES TO SALES (Instrumented)			91.65	3.75
PEER_LEV_	1.271	0.063	0.711	0.063
PEER_GROSS_MARGIN	-14.052	0.002	12.62	0.001
PEER_CASH_	7.105	0.030	6.545	0.012
PEER_ROA	-5.899	0.045	-4.563	0.023
PEER_SALESG	-0.644	0.029	-1.204	0.029
PEER_SALESTO_ASSETS	18.890	0.002	12.26	0.000
PEER_SIZE	-4.627	0.001	-5.187	0.000
VALUES	0.0252	0.066	-0.5348	0.181
LAGSALESTOASSETS	0.112	0.095	0.492	0.085
LAGSALESG	2.819	0.001	3.199	0.092
LAGROA	2.009	0.044	2.389	0.044
LAGRESIDUAL	0.166	0.064	0.546	0.084
LAGLEV	0.825	0.095	1.205	0.135
LAGGROSSMARGIN	-0.034	0.096	0.346	0.097
LAGCASH	-0.595	0.061	-0.215	0.041
C	43.004	0.020	22.023	0.000
Adjusted R-squared	0.67890			
F-statistic	315.8808			
Prob(F-statistic)	0.000000			

Statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

These findings collectively indicate that peer effects in trade credit provision are both statistically significant.

Our research adds to the practical knowledge of the growing literature on peer effects while formulating corporate financial policies. The study identifies that peer firm behaviour plays an important role in shaping the working capital policy. The implication of our research is that, managers should give predominant consideration to the peer firm behaviour while formulating trade credit decisions. The research can be further taken forward considering the level of competition, the size of firms and its impact on trade credit policies.

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