A Behavioral Framework for the Managerial Decision to Grant Further Deferment on Trade Credit Terms: An Empirical Analysis on Direct-Source Supply Firms

Brenda CHEANG Kar Li

MASTER OF PHILOSOPHY
CITY UNIVERSITY OF HONG KONG

SEPTEMBER 2010
A Behavioral Framework for the Managerial Decision to Grant Further Deferment on Trade Credit Terms: An Empirical Analysis on Direct-Source Supply Firms

关于批准采购帐期延期的管理决策行为架构：一个对于直接采购的供应商的实证分析

Submitted to
Department of Management Sciences
管理科学学系
In Partial Fulfillment of the Requirements
for the Degree of Master of Philosophy
哲學碩士學位

By
Brenda CHEANG Kar Li
章嘉麗

September 2010
二零一零年九月
Abstract

Although the practice of trade credit can be traced back to as far as 1000 BC, it has emerged a fundamental element of contemporary financial supply chain management (FSCM). However, as competitive landscapes and supply chain relationship management (SCRM) practices evolve, so have the nature of trade policies, contracts and its associated intricacies. This thesis explores the proposition by a powerful buyer (a mega-retailer) to counter-negotiate trade credit terms with their suppliers, extending the scope of SCRM research through observing the corresponding changes in socio-economy. In particular, the focus is on the behavioral economics aspect of trade credit terms counter-negotiation, a contemporary and practical issue in SCRM and FSCM flows. This study (1) explores behavioral motivators inherent in the phenomenon; (2) identifies motivators/behaviors that influence the managerial decision to grant further extension on trade credit terms; (3) identifies exchange relationship implications and (4) develops new theoretical and practical knowledge in SCRM in the context of trade terms counter-negotiation. Consequently, a theoretical framework grounded in well-established theories is extracted from various disciplines, where concepts such as perceived value of the relationship, relationship asymmetry, exchange performance comparison, risk taking, commitment and competitive hostility are examined. Finally, analyzing survey data from 130 supplier firms propositioned by a mega retailer on the counter-terms offer, the tentative results indicate that the framework’s hypotheses are largely supported with some exceptions; suggesting some interesting temporal- and/or economic-related implications.
# Table of Contents

Abstract ........................................................................................................................................... i

1 Thesis Overview ..................................................................................................................... 1
   1.1 Background ................................................................................................................... 1
   1.2 Problem Introduction – Trade Credit Terms Counter-Negotiation ......................... 3
   1.3 Research Objectives ................................................................................................... 5
   1.4 Research Questions ...................................................................................................... 6
   1.5 Research Justifications ................................................................................................. 7
   1.6 Research Approach ....................................................................................................... 8
   1.7 Outline of Thesis ........................................................................................................... 8

2 Literature Review .................................................................................................................. 9
   2.1 Classical Motivations of Trade Credit ........................................................................ 9
      2.1.1 Bridging and reducing credit risk information asymmetry of buyers.............. 9
      2.1.2 Developing cost & operating efficiencies ......................................................... 10
      2.1.3 Exploiting & managing imperfections in financial markets ......................... 11
      2.1.4 Effecting wealth-creating short-term asset management investments ...... 11
      2.1.5 Promotional & pricing strategies for competitiveness & corporate image . 12
   2.2 Evolving Variants of Trade Credit Research ............................................................ 13
   2.3 Adding to Evolving Research – Trade Credit Terms Counter-Negotiation .............. 13

3 Conceptual Framework and Hypotheses Development .................................................... 16
   3.1 Endogenous Factors – Independent Variables .......................................................... 18
      3.1.1 The Effects of Relationship Asymmetry on Managerial Decision............... 18
      3.1.2 Effects of Risk Taking on Managerial Decision .............................................. 19
      3.1.3 Effects of Perceived Value of the Relationship on Managerial Decision ...... 21
      3.1.4 Effects of Commitment on Managerial Decision ......................................... 22
      3.1.5 Effects of Exchange Performance Comparison on Managerial Decision ..... 23
   3.2 Moderating Effects - Competitive Hostility as an Exogenous Factor .................... 24
| 3.2.1 | The moderating effects of competitive hostility on relationship asymmetry.. | 26 |
| 3.2.2 | The moderating effects of competitive hostility on risk taking .............. | 26 |
| 3.2.3 | The moderating effects of competitive hostility on the perceived value of a relationship | 26 |
| 3.2.4 | The moderating effects of competitive hostility on commitment ............ | 27 |
| 3.2.5 | Moderating Effects of Competitive Hostility on Exchange Performance Comparison | 27 |
| 4 | Research Methodology ................................................................................. 29 |
| 4.1 | Design and Strategy .................................................................................... 29 |
| 4.2 | Sample and Data Collection ...................................................................... 30 |
| 4.2.1 | The Data ..................................................................................................... 30 |
| 4.2.2 | Sample profiles .......................................................................................... 32 |
| 4.3 | Measurement .................................................................................................. 33 |
| 4.3.1 | Independent Variables .................................................................................. 34 |
| 4.3.2 | Moderating Variable................................................................................... 35 |
| 4.3.3 | Control Variable.......................................................................................... 35 |
| 4.3.4 | Validity and Reliability .............................................................................. 35 |
| 5 | Results and Analyses .................................................................................... 40 |
| 5.1 | Descriptive Statistics of the Measures and the Correlation Matrix .......... 40 |
| 5.2 | Results of Main Effects and Corresponding Analysis .................................. 41 |
| 5.2.1 | The effects of Relationship Asymmetry on Managerial Decision .......... 41 |
| 5.2.2 | The effects of Risk Taking on Managerial Decision ................................ 41 |
| 5.2.3 | The Effects of Perceived Value of Relationship on Managerial Decision .. 42 |
| 5.2.4 | The Effects of Level of Commitment on Managerial Decision ............... 45 |
| 5.2.5 | The Effects of Exchange Performance Comparison on Managerial Decision | 46 |
| 5.3 | Results of the Moderating Effects and Corresponding Analysis ............... 47 |
| 5.3.1 | Moderating Effect of Competitive Hostility on Relationship Asymmetry on Managerial Decision | 48 |
5.3.2 Moderating Effects of Competitive Hostility on Risk Aversion on Managerial Decision ...................................................................................................................... 48
5.3.3 Moderating Effects of CH on Perceived Value of Relationship ................. 49
5.3.4 Moderating Effects of Competitive Hostility on Commitment .................. 50
5.3.5 Moderating Effects of Competitive Hostility on Exchange Performance Comparison................................................................................................................ 50
6 Discussion and Conclusion .............................................................................................................. 54
  6.1 Implications for Theory .............................................................................................................. 54
  6.2 Managerial Implications ............................................................................................................ 55
  6.3 Limitations and Directions for Future Research ................................................................. 57
  6.4 Conclusion .................................................................................................................................. 58
References .............................................................................................................................................. 60
Appendix I: Questionnaire ............................................................................................................... 73

Figure 1: The Retailer’s Original and Proposed Trade Credit Payment Timelines .... 5

Figure 2 Conceptual Model for the Managerial Decision to Grant Further Trade Credit Deferment ................................................................................................................... 17

Figure 3: Model Results for the Managerial Decision to Grant Further Trade Credit Deferment ................................................................................................................... 52

Table 4-1 Sample Demographics ..................................................................................................... 33
Table 4-2 Confirmatory Factor Analysis of Measures ........................................................................ 38
Table 4-3 Results of Discriminant Validity ....................................................................................... 39
Table 5-1 Correlation Matrix and Descriptive Statistics of the Measures ..................................... 40
Table 5-2 Regression Results of Main Effects .................................................................................... 47
Table 5-3 Regression Results of Interactions .................................................................................... 52
Table 5-4 Summary of Hypotheses Testing Results ........................................................................ 53
Chart 1: Frequencies of the Scores of the Three Items ...................................................... 44