

The Hong Kong University of Science and Technology

Department of Information Systems,
Business Statistics and Operations Management

Seminar Announcement

***The Provision and Impact of Trade Credit in
Supply Chains with Imbalanced Bargaining Power:
An Empirical Study***

by

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Date: Friday, 2 December 2011

Time: 1:45 – 2:45 pm

**Venue: Conference Room 2397
(near Dept of Finance, L17/18)**

~~~~~ All interested are welcome ~~~~~

**Abstract:** Trade credit plays an important role in facilitating trades in supply chains. With a large dataset that links non-service U.S. suppliers with their major customers, we empirically investigate the provision and impact of trade credit. First, we find that (1) the customer-to-supplier's borrowing-cost ratio is positively associated with trade credit but the customer-to-supplier's borrowing-capacity ratio is negatively associated with it, explaining trade credit provision from financial collaboration perspective. In addition, trade credit is a complement rather than a substitute to bank credit for major customers. (2) The relationship duration between a supplier and a customer is positively correlated with trade credit provision, indicating that suppliers carefully evaluate their new customers. (3) A supplier's horizontal market power (market share) decreases trade credit whereas its vertical bargaining power with its customers increases trade credit. Next, we examine the impact of trade credit provision on a firm's performance. Even though the supplier benefits from a higher gross margin by offering trade credit, it also incurs more costs and experiences a lower inventory turnover. Moreover, we also find that trade credit improves the supply-chain gross margin, lowers the supply-chain inventory turnover, and increases the supplier's share on supply-chain overall profit.

**Bio:** Dr. Hsiao-Hui Lee is currently an assistant professor at the School of Business, University of Hong Kong. Her research interests include service outsourcing and process design, health care management, and empirical operations management. Prior to joining University of Hong Kong, she was a visiting assistant professor at University of Connecticut.