

A Review of the Research on Supply Chain Relationships and Corporate Finance

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Abstract: The interaction between supply chain relationships and corporate finance has become a focal issue in academic and practical circles, especially under the dual drivers of globalization and marketization. This paper systematically reviews existing research on this topic, covering theoretical foundations from perspectives such as agency theory, stakeholder theory, and co-opetition game theory, which explain the nature of customer-supplier relationships. It also combs through empirical studies from four core angles: competition-cooperation, signal transmission, spillover effects, and information transfer, summarizing findings on how supply chain relationships impact corporate investment, financing, operations, and performance, as well as existing controversies. The aim is to clarify the research context, identify theoretical and empirical gaps, and provide theoretical support and direction for deepening future research on supply chain and corporate finance.

Keywords: Supply chain relationships; Corporate finance; Competition-cooperation; Signal transmission; Spillover effects

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1. Introduction

Driven by globalization and marketization, competition among enterprises has gradually evolved into a collaborative contest between supply chains. As the core link in supply chain networks, the relationship between customers and suppliers increasingly influences corporate operations and management. The “organizational capital” theory points out that long-term cooperative relationships between enterprises and stakeholders are important intangible assets, which can complement tangible assets to enhance corporate value. Stakeholder theory further emphasizes that, as key participants in the product market, customers deeply engage in corporate operations through specific investments and risk-taking, with influence second only to shareholders. Against this backdrop, how supply chain relationships affect corporate financial decisions and economic consequences has become a focus of both academia and practice.

Scholars have conducted extensive research on the interaction between supply chains and corporate finance, yielding rich theoretical and empirical results. Existing literature mainly develops from four core perspectives: competition-cooperation, signal transmission, spillover effects, and information transfer. These perspectives

construct analytical frameworks for understanding the relationship between supply chains and corporate finance from the dimensions of relationship nature, information mechanisms, external impacts, and information utilization, respectively. Despite significant progress in each perspective, issues such as fragmented theoretical logic and controversial empirical conclusions remain. Especially in different institutional and market environments, a unified explanation for how supply chains affect corporate finance has not yet been formed. This paper aims to systematically sort out domestic and foreign research results on supply chains in corporate finance, integrate theoretical foundations and empirical findings from different perspectives, analyze the roots of research controversies, and prospect future directions, providing insights for deepening supply chain financial research.

2. Supply chain relationships from different theoretical perspectives

2.1. Supply chain relationships under agency theory

The customer-supplier relationship meets the two prerequisites of an agency relationship and is bidirectional. First, customers and suppliers exist as independent enterprises, satisfying the first prerequisite. Second, information asymmetry leads to role reversal: suppliers, with more information on product quality, production costs, and inventory when producing raw materials for customers, act as agents while customers are principals; conversely, suppliers may be information-disadvantaged due to uncertainty about customers' future demand, making customers agents and suppliers principals. This bidirectional relationship, lacking effective supervision and incentives, may trigger opportunistic behaviors. Customers may frequently change product demands, deliberately delay payments, or demand price reductions, directly or indirectly encroaching on suppliers' profits; suppliers, fearing uncertain demand or customer bankruptcy, may refuse to provide trade credit or invest in specific relationship assets to produce unique products for customers.

2.2. Supply chain relationships under stakeholder theory

Customers and suppliers are important stakeholders of each other. On one hand, suppliers must deliver qualified products or effective services on time; otherwise, customers may halt production due to a lack of raw materials. Customers are the main source of suppliers' cash flow, and only timely payments ensure suppliers' healthy operation. According to Freeman and Reed ^[1], both customers and suppliers are organizations that influence and are influenced by each other's goal achievement. On the other hand, both parties invest specific relationship assets and bear risks in cooperation. In summary, from the stakeholder theory perspective, the customer-supplier relationship is mutually interdependent—harm to one party will inevitably affect the other.

2.3. Supply chain relationships under co-opetition game theory

Supply chains emphasize “co-opetition,” simply meaning the coexistence of competition and cooperation. Cooperative and non-cooperative game strategies in game theory are widely recognized as optimal methods to analyze supply chain relationships: cooperative games focus on mutual cooperation, while non-cooperative games emphasize competition. From a non-cooperative perspective, if both parties pursue individual profit maximization, neither will achieve optimal results, leading to the so-called “prisoner's dilemma.” This dilemma often occurs in customer-supplier relationships: customers may frequently change demand or cut prices, eroding suppliers' profits; suppliers may secretly compromise quality to save costs, deceiving customers. For example, suppliers may refuse trade credit to customers in financial distress, causing customers to fail to purchase raw materials and face unsold products and inventory backlogs. In short, due to information asymmetry and lack of trust, both parties may

choose non-cooperation, resulting in mutual losses.

3. Literature review

3.1. The perspective of supply chain competition and cooperation

Existing literature mainly explores how supply chain relationships affect corporate investment, financing, operations, and profitability from the perspective of customer concentration. From a competitive angle, customer concentration reflects suppliers' dependence on customers—the higher the concentration, the more suppliers rely on a few major customers, enhancing customers' bargaining power. From a cooperative angle, high concentration reduces transaction partners, facilitating supply chain integration. Thus, customer concentration, reflecting both competition and cooperation, is an excellent perspective to study supply chain impacts on corporate financial behavior. A few studies also explore this relationship from the perspective of supply chain distance.

Regarding corporate investment decisions, Chu et al.^[2] examined the impact of customer-supplier geographical distance on suppliers' innovation, finding that closer distance enhances suppliers' innovation capability. The mechanism is that proximity enables timely customer feedback, allowing suppliers to adjust R&D in intermediate stages, and reduces transportation costs, increasing customer demand and stimulating innovation input.

Corporate financing includes debt and equity financing. In debt financing, Campello and Gao^[3] found that higher customer concentration increases cash flow and liquidity risks, leading to wider loan spreads, shorter terms, and more restrictive clauses. In equity financing, Dhaliwal et al.^[4] sampled U.S. listed companies and found that customer concentration increases the difficulty and cost of equity financing, especially for suppliers likely to lose major customers or suffer huge losses from such a loss.

For corporate operations, high customer concentration gives customers stronger bargaining power—suppliers must produce and invest according to major customers' orders, and frequent demand changes may cause huge losses. However, it also brings benefits, such as reduced marketing/management costs and leveraging customers' brand reputation to boost sales. Overall, customer concentration has pros and cons for suppliers, but corporate performance is the comprehensive indicator. Patatoukas^[5] found a significant positive correlation between customer concentration and supplier performance: despite lower gross margins, suppliers with concentrated customers have lower management expenses per dollar of revenue, less inventory, and higher asset turnover, resulting in a positive net impact. Irvine et al.^[6] empirically found that the correlation between customer concentration and profitability turns from negative to positive as the relationship matures: initial heavy relationship asset investment leads to poor performance, but later scale effects of these assets improve profitability. However, Hui et al. found a significant negative correlation^[7].

3.2. The perspective of supply chain signal transmission

In customer-supplier relationships, either party may terminate cooperation if it doubts the other's ability to fulfill implicit commitments^[8]. Thus, both have incentives to send positive signals about their operations to shape favorable expectations. Graham^[9] surveyed 400 executives and found that suppliers and customers of startups need more future guarantees, and stakeholders' implicit claims significantly influence these enterprises' accounting decisions. Bowen et al.^[10] noted that earnings management can enhance reputation among stakeholders, securing better transaction terms. Dou et al.^[11] found that customers use earnings smoothing to show sound financial

conditions, attracting more supplier investment in specific assets.

Corporate bankruptcy renders specific relationship assets of non-financial stakeholders worthless. Since financial leverage is directly related to bankruptcy risk, it is an important signal between customers and suppliers. Kale and Shahrur^[12] used R&D expenditure as a proxy for specific asset investment and found that more such investment from customers/suppliers leads to lower asset-liability ratios, indicating enterprises reduce leverage to attract more investment. Banerjee et al.^[13] further found that enterprises dependent on a few major suppliers or customers have lower leverage to attract beneficial specific investments, resulting in a significant negative correlation between supply chain concentration and financial leverage. However, higher supply chain concentration strengthens counterparties' bargaining power. Higher debt reduces profits available for counterparties to encroach, so enterprises facing stronger bargaining power may choose higher debt levels.

3.3. The perspective of supply chain spillover effects

Spillover effects refer to an organization's actions affecting not only itself but also others. Supply chain spillover effects arise because customers and suppliers, as key nodes in contractual networks with close competition and cooperation, inevitably influence each other. A classic example is the "bullwhip effect" in supply chains: demand forecasts, price fluctuations, and supply shortages amplify along the chain, distorting reality. In the early 1990s, U.S. companies like HP and P&G confirmed this effect, sparking extensive research in supply chain management.

Literature in corporate finance explores how events like bankruptcy, mergers, and management changes at one end of the supply chain affect the other: Hertz et al.^[14] found that customer bankruptcy announcements have significant negative contagion effects on suppliers' stock prices, mainly due to high replacement costs. Fee and Thomas^[15] found that after customers' horizontal mergers, suppliers losing relationships suffer stock price drops, while those maintaining relationships gain positive returns with no substantial operational changes. Shahrur^[16] found that corporate horizontal mergers bring positive abnormal returns to customers and suppliers, contradicting the expectation that larger scale enhances bargaining power to harm counterparts but supporting the efficiency view of mergers. Brown et al.^[17] found that leveraged buyouts, often accompanied by changes in management ownership and board composition, may prompt managers to use high leverage to encroach on suppliers, leading to significant negative abnormal returns for suppliers. Ntintoli et al. treated customer CEO changes as events disrupting existing supply chain relationships and found, using a difference-in-differences method, that such changes significantly reduce suppliers' sales to the customer. Carvalho et al.^[18] found that due to close regional supply chain networks, the 2011 Tohoku earthquake in Japan reduced the disaster area's economic growth by 1.5% and Japan's overall real GDP by 0.47% one year later.

3.4. The perspective of supply chain information transmission

Supply chain information transmission means information disclosed by one end helps users predict the other's cash flows and judge its current operations and future prospects. Research in this area focuses on two aspects: whether enterprises adjust decisions based on supply chain information, and whether capital market participants (investors, analysts, auditors) use information from one end to evaluate the other.

In terms of enterprises adjusting decisions, Chiu et al.^[19] studied how risk information in customers' annual reports affects suppliers' investment efficiency, finding that such information improves efficiency, especially when suppliers are in a weak bargaining position, in durable goods industries, or are more concerned about future demand. Chen et al.^[20] explored how customer earnings quality and text readability affect suppliers' investment

efficiency, showing that higher quality or readability reduces information asymmetry between suppliers and customers (and other stakeholders), improving efficiency. Cho et al. ^[21] studied the relationship between supply chain information externality and voluntary disclosure, finding that earnings announcements from major customers may substitute suppliers' earnings disclosure; conversely, if such announcements increase uncertainty about suppliers' prospects, demand for suppliers' disclosure rises, prompting voluntary disclosure after customers' announcements.

In terms of investors using supply chain information, Olsen and Dietrich ^[22] examined U.S. retail suppliers' stock price reactions to customers' sales bulletins, finding stronger reactions to better sales, especially for important customers, indicating investors use customer sales information. Similarly, Cheng and Eshleman ^[23] found that suppliers' stock prices fluctuate with customers' earnings announcements, showing investors use such information. Lior and Oguzhan ^[24] found a positive correlation between customers' and suppliers' fundamentals, with informed traders like institutional investors and analysts using this for trading. Madsen ^[25] noted that, as key stakeholders and direct cash flow sources, customers are focal points for investors, and their market reactions partially predict suppliers' future stock prices.

For analysts using supply chain information, Guan et al. ^[26] found that analysts covering both customers and suppliers have higher forecast accuracy. Bayer et al. ^[27] constructed a composite index of customer information disclosure detail and found that more detailed disclosure reduces analysts' uncertainty in cash flow forecasts and earnings forecast errors. From an auditor's perspective, Johnstone et al. ^[28] found that auditors auditing both an enterprise and its major customers improve efficiency and reduce information collection costs, resulting in lower audit fees and higher quality.

4. Research evaluation and prospects

The existing research on supply chain relationships and corporate finance has built a multi-perspective analytical framework, covering competition-cooperation, signal transmission, spillover effects, and information transfer. It reveals how supply chains impact investment, financing, and performance. However, limitations exist: fragmented theoretical logic causes contradictory conclusions; insufficient context-dependent studies ignore institutional and industry differences; and research dimensions are limited, lacking exploration of two-way interactions and emerging issues like digitalization. Future research should integrate theories, strengthen cross-sample comparisons, expand into new areas such as ESG and digital supply chains, and adopt interdisciplinary methods and diverse data to deepen understanding of supply chain-finance dynamics.

Disclosure statement

The author declares no conflict of interest.

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