

# Literature Review of the Impact of Supplier and Customer Relationships on Corporate Behavior

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## ABSTRACT

As important stakeholders, suppliers and customers of different aspects of business development activities will play a vital role. Therefore, enterprise and upstream suppliers, downstream customer relations in recent years the subject widely attention, Scholars began to cross research field involved in the supply chain, a series of abundant research results. In this paper, by analyzing supplier/customer relationship and enterprise information environment, business activities, financial activities, audit, such as literature, in order to provide new ideas for the future research direction.

**KEYWORDS:** *Supplier/customer relationship; The company behavior; Literature review*

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## INTRODUCTION

In recent years, enterprises are facing the pressure of competition to increase, the competition between enterprises gradually transformed into competition between supply chains. Enterprise want to gain a foothold in the complicated and changeable competitive environment, obtain maximum competitive advantage, must maintain the good under the supply chain upstream suppliers and tourists. Thus, supply chain relationship management has become an important part of restricting the survival and development of enterprises. As an important stakeholders, enterprises under the upstream suppliers and visitors will worth of enterprise management strategy, an important financial decisions, audit and so on each aspect. In particular, the downstream customers are the direct demanders to bring the company's products to the market, providing operating profits and cash flow for the sustainable and healthy development of the company, and, as the stakeholders second only to the shareholders, they are bound to have an impact on the company.

In recent years, the supplier/customer relationship of the impact of corporate behavior this topic with

practice and academic attention. Many scholars have examined how the supplier / customer relationship affects corporate behavior from the perspectives of accounting information quality, cash holding level, R & D investment, financing activities and audit. This paper summarizes a large number of domestic and foreign literature studies, analyzes the research status of supplier / customer relationship, and puts forward future research prospects on this basis.

## 1. MEASUREMENT OF SUPPLIER / CUSTOMER RELATIONSHIP

The key to supply chain management lies in the mutual connection and cooperation between various nodes in the supply chain. Maintaining long-term and close relationships with other companies in the supply chain can encourage companies to quickly respond to customer needs and maintain a competitive advantage. Therefore, it is very necessary to study the cooperation relationship in the supply chain. The essence of the supply chain relationship refers to the business relationship established between enterprises and suppliers or customers in the daily transaction activities, as well as other derivative relationships (Di

Zhang et al., 2016). In view that supply chain management is a cross-enterprise and cross-department theory, different scholars will choose different priorities according to their own research fields.

At present, domestic and foreign scholars generally define it as customer or supplier concentration when conducting research on supplier / customer relationship. Supplier / customer concentration reflects the intensity of the transaction relationship between the enterprise and suppliers and customers, from which we can judge which suppliers / customers the enterprise is strongly dependent on. In foreign literature research, the standard of 10% of annual sales is used to divide important customers, and the sales proportion of important customers is square to measure customer concentration. In most domestic literature, the index uses the sum of the proportion of the top five suppliers / customers' sales in the total sales volume disclosed in the financial statements. In view of the fact that enterprises are not required to disclose supplier information under the background of supplier concentration, the research results of foreign scholars are few, mainly from China.

A few scholars determine supplier/customer relationships from a stability perspective. For example, Maojian Yu and Yuanxin Sun (2014) measure the relationship mechanism between suppliers and customers and enterprises with the number of enterprises listed in the top five customers / suppliers for two consecutive years. Yang (2017) measures the strength of the customer relationship by determining whether the sales volume of the first five years accounts for 10% of the company's total sales volume. To sum up, the supplier / customer relationship has been gradually paid attention to by scholars, but the measures in the existing research can only reflect a single feature of the supplier / customer relationship, and cannot objectively and comprehensively reflect the real transaction relationship of the enterprise. At the same time, because the specific key data involving the supplier / key customer relationship is classified, it greatly limits the in-depth research of scholars to a large extent.

## 2. SUPPLIER/CUSTOMER RELATIONSHIP OF RELEVANT RESEARCH RESULTS

Scholars have been fruitful about the impact between supplier / customer relationships and corporate behavior. The study found that the relationship between enterprises and suppliers / customers will have an important impact on the business decisions in the information environment, business activities, financial activities, audit behavior and many other aspects.

## Supplier / Customer relationship and the enterprise information environment Surplus management

The hidden rights and interests of stakeholders encourage the company to adopt accounting methods to increase earnings to meet its earnings expectations for the company. Raman and Shahrur have provided empirical evidence for this conclusion. Dedicated investment funds will be formed in the cooperation process between the supplier / customer and the enterprise. In order to increase the dedicated investment and maintain the long-term partnership, the company will have a strong motivation to manipulate the report surplus to affect the customer / supplier expectations for the company's development prospects. On this basis, domestic scholars combined the situation with Chinese characteristics for further research. Scholars have shown that when enterprises build close partnerships with suppliers and customers, as the proportion of relationship transactions with suppliers / customers increases, enterprises will tend to adopt surplus management methods to meet the expectations of suppliers or customers (Hongxing Fang et al., 2016), and the implementation of upward accrued surplus management and real surplus management intensity (Hong Xu et al., 2015). Xiaogan Gu (2021) carried out a research on the specific direction of surplus manipulation, and found that enterprises were more likely to use inflated surplus and smooth surplus, two major means for surplus management, which finally significantly reduced the transparency of surplus information.

## Information disclosure

As an important part of financial information users, the close relationship between suppliers / customers and the company will also affect the quality of the information disclosed by enterprises. When customer resources are more important, they will encourage companies to disclose information about profit forecasts and convey to them the company's ability to fulfill invisible contracts. When corporate proprietary investment is higher, more timely and more frequent earnings announcements are issued (Cao, 2013). Crawford (2016) believes that with the deepening of the cooperation relationship, the supply chain relationship provides space for the communication of suppliers and customers' private information, and reduces the motivation of enterprises to disclose information. Further research found that when suppliers are in litigation disputes, suppliers tend to delay disclosure or conceal bad news in order to avoid the adverse effects caused by the litigation loss, which is more obvious, especially when customer conversion costs are low (Cen, 2014). Xi Chan Chen and Xing Liu (2021) show that the supplier /

customer relationship not only reduces the motivation for companies to disclose information, but also transfers the consequences of information disclosure violations. The higher the concentration of suppliers (customers), the more likely the enterprise is to have information disclosure violations, and it is also easier to transfer the negative consequences of violations, which expands the research on the impact of supply chain relationship on enterprise behavior from the perspective of investor protection.

### **Supplier / customer relationship and business activities Commercial credit**

Commercial credit mainly comes from suppliers and customers in the enterprise supply chain, which can provide convenience for enterprise financing. Summers and Wilson found that if customers have strong bargaining power, the commercial credit that suppliers provide to customers would increase. If the enterprise only establishes relationships with a few or even a single supplier, it will be given more favorable negotiation conditions, and the business credit obtained by the enterprise will be greatly reduced. And Rensi Li and Hongxia Liu (2016) think when enterprise supplier / customer relationship with high concentration, suppliers and customers will provide more business credit, to support enterprises using commercial credit financing (Wenli Zhu, Junya Bai, 2018), to ease financing constraints (Zong Fang, Xinxin Zhao, 2021), show the cooperation effect of supply chain relationship. The research results of Tiesheng Zhang and Yu Sheng (2021) show that there is a negative "U" curve between supplier relationship and enterprise business credit. That is, there is a peak in the supplier relationship. As the closer cooperation between enterprises and suppliers becomes enterprises, it can significantly promote enterprises to obtain more business credit, but once the relationship exceeds the peak, there will be significantly negative correlation. These studies enrich the literature on the impact of supply chain relationship on business credit.

### **Research and development innovation ability**

Supplier / customer relationship and enterprise research and development activities and innovation degree are a relatively hot research field. Zhonggao Lin and Chunyan Zhang (2017) found that when enterprises focus on a few fixed big customers, enterprises may carry out innovation activities to meet the needs of specific customers, and it is difficult to timely perceive the changes in market demand. In addition, large customers with high bargaining power will erode part of suppliers' profits, greatly increase corporate risks, and make it difficult for enterprises to obtain stable cash flow. Therefore,

these factors will reduce corporate R & D investment. The research of by Qing Wan (2017) shows that customer concentration is significantly negatively correlated with the innovation investment of enterprises, which is mainly realized by intensifying the financing constraints of enterprises. Similarly, Meifeng Zou and Xindong Zhang (2020) found that a high supplier concentration would weaken the company's internal and external financing capabilities, thus inhibiting its R & D investment and R & d output. However, some scholars do not agree with this conclusion, believing that customers in a strong bargaining position will encourage suppliers to take the initiative to improve their product research and development capabilities to ensure the irreplaceability of products, so as to change the dominant position of key customers. From the perspective of enterprise business relationship network, Xu Hong et al (2016) found that there is an inverted "U" relationship between customer concentration and the intensity of enterprise R & D investment.

### **Behaviour of tax avoidance**

Supplier / customer relationship is also closely linked to corporate tax avoidance. If the number of suppliers / customers remains highly concentrated, it will increase the operational risks and financial risks, and the enterprises can reduce the additional cash outflow and increase the accounting surplus through effective tax avoidance strategies to cope with the corporate risks and increase the supply chain flexibility. Therefore, the closer the strategic partnership with suppliers and customers, the more enterprises will actively implement tax avoidance strategies (Cen, 2017). The cooperation relationship in the supply chain promotes the effective and rapid dissemination of information among the cooperative enterprises, and facilitates the enterprises to implement tax avoidance behavior. Domestic studies have drawn similar conclusions. Bin Dai et al. (2016) confirmed that the higher the proportion of supplier / customer relationship transactions, the greater the company's aggressive tax avoidance. Yue Cao et al. (2018) further found that perfect internal control can significantly inhibit the positive impact between supply chain / customer concentration and tax avoidance degree, but this impact only exists in aggressive tax avoidance enterprises, but does not have an obvious effect on conservative tax avoidance enterprises.

### **Supplier / Customer Relations and Financial Behavior The financing efficiency**

Campelloa and Gao see a high concentration of customer resources as a bad signal for supplier credit.



They chose the US capital market as a research sample, and found that concentrated customer relations would give enterprises higher risks, thus increasing the cost of debt financing and increasing the difficulty of enterprise financing. However, the research conclusion of China's capital market is different. Di Wang et al. (2016) show that the highly concentrated supplier / customer relationship is conducive to alleviating the common information asymmetry in credit decision-making, giving enterprises certain borrowing advantages, and significantly enhancing the lending ability of enterprises. Net commercial credit obtained from suppliers and customers can play an intermediary transmission effect (Wenli Hu, Huajun Tang, 2021). Wenli Hu and Xiaojin Li (2020) think only when the supply chain overall concentration, corporate bank borrowing, total debt financing will increase, a single customer or supplier concentration on total debt financing is not significant, exposed enterprises only by improving the one-way supply chain relationship with customers or suppliers for the limitations of debt financing.

The equity financing cost of enterprises is affected by the risks contained in the business model and business environment. Dhaliwal et al found that a concentrated supplier / customer relationship would increase the business operation risk, and would also increase the risk return rate required by investors, thus leading to an increase in the cost of equity capital. The research results of domestic scholars are inconsistent with them. Jun Chen (2015) scholars conducted research based on China's specific institutional environment, and found that customer concentration provides convenient conditions for supply chain integration, while supply chain integration emphasizes risk sharing and information sharing among partners, and these factors significantly reduce the equity capital cost of suppliers. Donghua Zhou and Jing Wang (2017) further expanded their research scope, but found that concentrated customer relationships increased the equity financing costs.

### **The business performance**

Increasing customer concentration can enable the company to accelerate the inventory turnover rate, shorten the corporate cash recovery period, and thus effectively improve the enterprise accounting performance, and improve the market value (Ak and Patatoukas, 2015). Based on the research background of China's listed companies, Yuejun Tang has confirmed that when the company has a low dependence on suppliers / customers, the better the company's performance is. However, some scholars

do not support this conclusion. Zhenglin Chen and Yu Wang (2014) jointly reflect the concentration of the supply chain based on the transaction scale and transaction stability, and found that a high concentration of customer / supplier relationship will reduce corporate transaction costs and period costs, thus improving financial performance. In addition, some scholars have found that the impact between supplier / customer relationship and enterprise performance is not always a simple positive or negative correlation, the research results of Jiangbo Xu and Xiaohao Jiang (2018) show that the influence of supplier concentration and customer concentration on business performance is different. Supplier concentration is significantly and positively correlated with business performance, while customer concentration is negatively correlated with it. After considering the dynamic factor of customer relationship life cycle, Irvine et al found that in the early stage of customer relationship establishment, customer concentration will bring high fixed costs and high operating leverage to the enterprise, increasing the possibility of business failure. However, with the deepening of the relationship between the two sides, customer concentration will bring intangible benefits such as information sharing and collaborative efficiency to enterprises, and thus improve their profitability.

### **Business investment**

Xiaoli Wu's (2021) research found that compared with other enterprises, enterprises with high customer concentration also have a higher degree of unefficient investment, which is specifically manifested as excessive investment and underinvestment. The fierce market competition environment significantly alleviates the unefficient investment decisions caused by customer concentration. Haifang Wang et al. (2021) study found that supplier concentration has a significant positive impact on enterprise financial investment, and operational risk plays a significant intermediary effect between supplier concentration and enterprise financial investment. However, Fangcheng Sun et al. (2020) found that supply chain concentration and excessive investment between inverted U curve, namely when suppliers / customer concentration below a certain threshold, enterprise for solid supply chain relationship dedicated asset investment will intensify excessive investment, but when beyond the threshold, enterprises and enterprises of upstream and downstream to form synergistic integration effect can optimize enterprise governance to a certain extent and curb excessive investment.

### Supplier / customer relationship and audit practices

In terms of audit expenses, due to the existence of influencing factors such as bargaining power and relationship-specific investment, Xiaohong Liu and Shuo Ma (2020) verified that the improvement of the operating risk level caused by customer relationship dependence will increase the business risk of auditors, thus increasing the audit pricing level of listed companies. Sharing auditors with suppliers and customers in the supply chain can significantly reduce audit risks and audit costs, which is mainly based on the "information transmission" effect of specific relationship shared auditors (Yun Wang et al., 2020). Some scholars have reached completely opposite research conclusions, Qi Liu and Zhonglian Luo (2018) studies show that customer relationship transactions have a negative relationship with audit pricing, and this negative effect only significantly exists in companies with weak product market competition and high governance efficiency. Similarly, Feng Yang's research found that with the increase of supplier concentration can reduce audit costs, and the company's strategic differences significantly weaken the correlation between customer concentration and audit charges (Wei Li, 2021). In addition, the customer's political background also affects the relationship between customer concentration and audit fees. Chao Dou et al. (2020) believe that the stronger the sustainability of key customers with government background and the higher the political level, enterprises can get lower audit fees. In terms of abnormal audit costs, scholars have found that customer dependence is negatively related to abnormal audit costs, and high-quality internal control can play a strengthening role (Zhipeng Cao, Ning Guo, 2021). In addition, Shuang Xue et al. (2018) scholars found that supplier/customer concentration will drive enterprises to purchase audit opinions, while sharing the same auditor with suppliers or customers can reduce audit opinion purchases under the pressure of supply chain relationships.

### 3. LITERATURE REVIEW AND RESEARCH PROSPECTS

The theme of supplier-customer relations and the impact between enterprises has always been focused on by scholars in various disciplines, and it still continues to be further studied in this field. This paper discusses the factors affecting corporate behavior from the perspective of external stakeholders and lays the foundation for future research. This paper suggests that future research can be conducted in the following aspects:

First, build more scientific and comprehensive indicators to measure supplier / customer relationships. In the existing research, the management scholars mainly obtain the data of the supplier / customer relationship through the questionnaire survey, while in the accounting field, the scholars mainly use the specific measurement of the public information disclosed by the financial statements. Therefore, in future research, different subject points can be integrated to build scientific measurement models from multiple aspects to comprehensively measure supplier / customer relations.

Second, further study the mechanism of action of the supplier-customer relationship. Most of the existing studies are verified from the perspective of empirical test. In the future, more case study methods can be introduced to deeply explore the action mechanism and the specific path of the impact of supplier / customer relationship on enterprise behavior.

Third, explore the influence of supplier / customer relationship on enterprises according to the institutional background of China's capital market. Foreign literature has carried out rich research on the supply chain from different levels. However, China's institutional background is significantly different from that of foreign countries, and its special situation determines the different action mechanism of many links in the supply chain on enterprises. Some scholars have studied the impact of supplier / customer relationship from the aspects of China's monetary policy, audit standards, environmental uncertainty, and can continue to explore the institutional background of Chinese characteristics in the future. In addition, in recent years, domestic supply chain finance has a relatively strong development momentum, providing an effective way for enterprises to finance, but whether the supplier / customer relationship plays a role in it is worth in-depth study.

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