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Connecting supply chain finance and buyer-supplier relationships

Understanding the balance of power and dependency

Supply Chain Management
Bachelor's thesis

Author(s):
Veera Levänen

Supervisor(s):
KTT Sini Laari

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Abstract

Supply chain finance (SCF) has gained increasing attention as a mechanism for improving liquidity and supporting financially constrained supply chain partners. Although SCF has been widely discussed from a financial perspective, its relational implications have received little attention. This thesis investigates how SCF influences the balance of power and dependency in buyer–supplier relationships and how existing power dynamics shape attitudes toward SCF solutions, such as reverse factoring and trade credit.

The findings show that attitudes toward SCF are strongly influenced by the initial power structure. Buyers typically view SCF as an opportunity to optimise working capital, whereas suppliers may exhibit reluctance when benefits appear unevenly distributed. Moreover, SCF generates three distinct relational outcomes: it can reinforce existing power asymmetry when used in benefits of the dominant firm; buffer supplier vulnerability by improving liquidity and creditworthiness; or increase mutual dependence and strengthen collaboration when implemented with egalitarian intentions.

This thesis contributes to the academic debate by demonstrating that SCF is not merely a financial tool but also a relational mechanism that reshapes inter-organisational power. In managerial terms, the results highlight that SCF is most successful when adopted to support — rather than exploit — partners in the supply chain. Future research should continue to examine SCF from a relational perspective and investigate how SCF functions in supply chains where power is imbalanced.

Keywords: Supply chain finance, buyer-supplier relationship, power, dependency, liquidity

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Tiivistelmä

Toimitusketjun rahoitus (supply chain finance, SCF) on noussut keinoksi parantaa yritysten likviditeettiä ja tukea taloudellisesti rajoittuneita toimitusketjun kumppaneita. Toimitusketjun rahoitusratkaisuja on tutkittu laajasti taloudellisesta näkökulmasta, mutta sen vaikutuksia ostaja–toimittajasuhteiden dynamiikkaan on tarkasteltu huomattavasti vähemmän. Tämä kanditutkielma tutkii, miten SCF vaikuttaa ostaja–toimittajasuhteiden valta- ja riippuvuustasapainoon sekä missä määrin olemassa oleva valtarakenne muokkaa yritysten suhtautumista SCF-ratkaisuihin, kuten ostajarahoitukseen (reverse factoring) ja kauppaluottoon (trade credit).

Tutkimus perustuu kirjallisuusanalyysiin, jossa SCF-ratkaisuja tarkastellaan suhteessa valta- ja riippuvuusteorioihin. Tavoitteena on ensinnäkin selvittää, kuinka valta- ja riippuvuussuhde vaikuttaa yritysten halukkuuteen hyödyntää SCF-ratkaisuja, ja toiseksi, kuinka SCF: n käyttöönotto muuttaa riippuvuusrakenteita ostajan ja toimittajan välillä.

Tulokset osoittavat, että asenteet toimitusketjun rahoitusta kohtaan määräytyvät vahvasti ostaja-toimittajasuhteen valtarakenteen mukaan. Ostajat näkevät SCF:n tyypillisesti työkaluna käyttöpääoman optimointiin, kun taas toimittajat voivat suhtautua siihen varauksella, mikäli hyödyt eivät jakaudu tasapuolisesti. Lisäksi tutkimus osoittaa, että SCF voi johtaa kolmeen erilaiseen suhdevaikutukseen: se voi vahvistaa olemassa olevaa valtaepätasapainoa, vähentää toimittajan haavoittuvuutta parantamalla sen likviditeettiä ja luottokelpoisuutta tai lisätä molemminpuolista riippuvuutta ja syventää yhteistyötä.

Kokonaisuutena tutkimus osoittaa, että SCF ei ole pelkästään rahoitusinstrumentti, vaan myös suhteita muokkaava mekanismi, joka voi joko heikentää tai vahvistaa ostaja–toimittajasuhdetta riippuen osapuolten hallintakäytännöistä ja tavoitteista.

Avainsanat: Toimitusketjun rahoitus (SCF), ostaja-toimittajasuhde, valta, riippuvuus, likviditeetti

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1 Introduction

Ultimately, everything comes down to money. While this may sound like a simplification, it is difficult to deny: without financial resources, nothing progresses, nothing is achieved and no actions can be made. This applies to supply chain management too. Supply chain partners often experience financial constraints in their operational activities, such as ordering and production decisions (Kouvelis P. et al. 2018). Imagine a situation, where a company's most important supplier declares an inability to supply products due to their poor financial state. This inability to supply can relate to problems with liquidity, which is needed for short-term financing in order to carry out activities (Kouvelis P. et al. 2018). Not only does the poor financial standing harm the supplier as a company but it also impacts the whole supply chain (Wang Q. et al. 2025).

The basic description of supply chain management is the optimisation of different flows, the flows of goods, information and the financial flow (Pfohl H. et al. 2009). The research on the third flow, the financial flow, has surprisingly been the most neglected area of supply chain management (Pfohl H. et al. 2009). Considering that the whole supply chain revolves around money and that all parts of the chain must be financed in some way, it's rather surprising that this area has remained underrepresented in research (Pfohl H. et al. 2009; Wandfluh M. et al. 2016). Supply chain finance is an especially interesting topic to study because research on it has grown rapidly only since the 2008 financial crisis (Lele et al. 2022).

Supply chains tie significant amount of capital in them. During the financial crisis in 2008, many firms went bankrupt due to their own problems in financing the chains or due to the financial problems of their most important suppliers (Lele et al. 2022). The 2008 financial crisis opened the discussion of the importance of financial flows in the supply chain. The main issues in a financially broken capital chain are related to the lack of financing options. This increased the demand for new financial solutions and programs that could support the whole chain and prevent disruptions within the chain. (Lele et al. 2022.)

Often the issue isn't a whole supply chain -wide disruption but rather a disruption in one part of the supply chain which creates blockages for the whole supply chain. These blockages can often be resolved faster if there is access to financial resources. A logical way to mitigate the risks would be to decrease the dependency on other companies. However, for many companies this is impossible due to the global nature of supply chains, which are widely adopted as a way to gain competitive advantages (Seifert R. et al. 2011). This suggests that the international nature of supply chains

highlights the importance of interorganizational relationships (Galaskiewicz J. 1985) that enable the use of financial instruments in supply chain financing.

Financial constraints are often linked to problems with capital flows and liquidity (Kouvelis et al., 2018). When a company faces financial limitations, its vulnerability increases and autonomy decreases, making it more dependent on other actors. This aligns with Emerson's power-dependence theory (1962), which serves as one of the theoretical frameworks for this thesis. Financial characteristics can create imbalances between firms, and unequal dependence leads to power asymmetry. Power asymmetry has negative consequences for inter-organizational relationships (Molm, 2015). Ultimately, buyer–supplier relationships are shaped by power and dependency, and their nature guide both strategic and operational decisions, making them a critical factor in business activities (Tanskanen, 2014).

The capability to finance actions is a strong resource for a company. Numerous companies are in a web of relationships, where they unknowingly rely on other organizations possessing their critical resources (Hald K. 2009; Jiang H. et al. 2023). This dependency, which defines the power balance in the relationship, affects the beliefs companies have towards supply chain finance solutions and how they are adopted within the relationship (see e.g. Emerson R. 1962; Wuttke D. et al. 2016).

The purpose of this thesis is to examine the connection between SCF solutions and the power-dependency balance in buyer-supplier relationships. Introducing supply chain finance into the buyer-supplier relationship raises important questions about how different financing solutions are adopted under varying power and dependency dynamics. This leads to the central research questions of this thesis: What is the link between supply chain finance and power-dependency dynamics within buyer-supplier relationships? How does power and dependency balance influence attitudes towards supply chain finance solutions? How can SCF solutions affect power-dependence balance in the buyer-supplier relationship? Giving the critical role of financing options, it can be assumed that supply chain finance affects the power-dependency balance between buyer and supplier – and that this balance in turn shapes the use of supply chain finance.

2 The buyer-supplier relationship

2.1 Understanding the buyer-supplier relationship

Due to a growing need for other organization's resources and capabilities, a thriving buyer-supplier relationships is crucial to ensure the survival and success of a company (Tanskanen K. 2014). In order to grasp the many levels of a buyer-supplier relationship, one requires insight on many different aspects. The buyer-supplier relationship is very significant when doing business since it enables both the suppliers and buyers' actions (Tanskanen K. 2014).

The relationship is built on the idea that both parties need each other; The buyer needs the supplier's products so they can be either sold or refined for the end customers. The supplier needs the relationship so they can collect receivables that enable their production and other business operations (Paulraj A. et al. 2025.) This dependency, and the power balance that forms from it, is an important aspect of the buyer-supplier relationship. Both of the themes have been widely taken into consideration in academic literature, and they act as two of the main research topics in this thesis.

The focus here is on interorganizational relationships. The term "interorganizational relations" has had a rising significance since companies are more willing to cooperate with each other. Outsourcing and procurement of materials have been reasons for the growing acknowledgement of inter-organizational relationships. (Galaskiewicz J. 1985.) Where intraorganizational relationships are defined as the relationships within a company (Ortiz B. 2021), for instance the relationships between departments, interorganizational relationships mean partnerships between organizations, such as suppliers, customers, competitors or the public sector (Ebers M. 2015).

A buyer-supplier relationship is an example of an interorganizational relationship, which is the central focus of this thesis. Matters rising quickly from literature that examines interorganizational relations are power, dependencies and uncertainty (Galaskiewicz J. 1985). Since the term "interorganizational relations" is an umbrella term for buyer-supplier relationships, many studies dealing with interorganizational relations can be used to explain buyer-supplier relationships.

According to one definition, buyer-supplier relationships are *"the vertical economic arrangements within any given dyad, ranging from market mediated to hierarchical transactions"* (Achrol R. et al. 1983, 55). Dyad here is defined as "two-party" and it represent the relational exchange in the dyad (Achrol R. et al. 1983). Achrol (1983) argues that the societal dimension of transactions is just as important as the physical financial exchange, as long as the transactions are goal-oriented meaning

that they achieve something meaningful. All the relationships in business are social in some ways, some more than others. This social relationship can create satisfaction or dissatisfaction for the parties depending on the state of the relationship. (Achrol R. et al. 1983.)

The goal of this thesis is to examine how financial flow affects the buyer–supplier relationship's key themes—power and dependency—and, correspondingly, how these relational mechanisms influence the financial flow. Although financial flow naturally focuses on the physical aspects of supply chain management, the buyer–supplier relationship is not defined solely by physical resources, but also by non-physical elements such as information exchange, trust, legitimacy (Gölgeci I. et al. 2018), as well as the market position of companies (Wang W. et al. 2025). These elements shape perceptions of power and dependency, which in turn guide how the parties behave and make strategic decisions. Therefore, power–dependency balance becomes a central factor in interorganizational relationships and raises the underlying question of how these balances are created and what influences them.

2.2 Understanding power in buyer-supplier relationships

2.2.1 Definition of power

Power is defined as *"having the discretion and the means to asymmetrically enforce one's will over entities"* (Gölgeci I. et al. 2018, 279). This definition of power describes it as having the authority to make someone act in a way that is favourable to themselves. Companies usually have a lot of resources that they either sell, refine or exploit, and the main goal is to use these resources efficiently to make profit. In other words, these resources are often powerful and a necessity for a company to survive, which is why supplier partners play a crticial role in companies' competitiveness (Hald K. 2009). When a company has control over another, a way to make another use their resources in favour of themselves (Kumari A. et al. 2025), is when a company holds power and exercises power use (Molm L. 2015).

The theory created by Richard Emerson originally in 1962, called the power-dependence theory, explains power, power use and power-balancing operations, as well as the basic concept of dependence between parties (Emerson R. 1962). Although this chapter's focus is leaning towards power, one can't discuss power without taking in consideration the role of dependency in every power dynamic.

In Emerson's theory, the participants in social exchange are called actors. The actors can be individuals, groups or organizations and in this context, they are the buyer and the supplier. The theory emphasizes that the resources are tied to relations rather than individual actors, meaning that resources are not a quality of an actor but rather quality of a relation. (Emerson R. 1962.) For example, company X may value something company Y holds, but company Z may not value that same resource at all. It is the relation that companies X and Y have that benefits both sides and is suitable for their unique situations.

This indicates that it is not a characteristic a company possesses that makes it desirable in the eyes of another, it is the specific relation between actors that create value for both parties (Emerson R. 1962). Company Y doesn't have any power over company Z, since company Z doesn't find company Y's resources desirable. This idea is also suggested in Tanskanen's article: He explains that the value is created within the relationship between a buyer and a supplier (Tanskanen K. 2024). Here the terms company and actor are used interchangeably and the companies in this context are the buyer and supplier.

2.2.2 Power use and power-based behaviour

Power use is the exercise of power and the structural potential that is derived from the construction between two companies. This behaviour is often defined and measured by the inequality of exchange (Molm L. 2015). Company Y may use their position as the less-dependent actor for good and test the limits of company X, who is more dependent on Y's resources and therefore values them more. Company Y may act in a way that is more favourable to themself simply because they can. This can be referred to as dominance behaviour, where the more powerful actor makes the weaker one act in their favour and where the actions are taken unilaterally (Gölgeci I. et al. 2018).

Power can be used in different ways, and power use is not only the expressions of but also reactions to power (Gölgeci I. et al. 2018). At this point, it is important to remark that this power dynamic between actors is not physically seen, which means it is based on assumptions, beliefs and expectations of the companies. Business relationships, for instance a buyer-supplier realtionship, and the condition of the relationships, are determined on the perceived value of the relationship (Gazdecki M. et al. 2025; Tanskanen K. 2024).

Cooperation between a buyer and a supplier is based on reliance on the other's resources. Power is constructed based on this dependency, which is rarely equally distributed. The constructs of power and dependency are detected in behaviours of transacting firms (Ireland D. et al. 2007), such as a

buyer and a supplier. There are many different power-based behaviours in supply chain dyads that depict how this power is used in the relationship (Gölgeci I. et al. 2018).

One of these, the dominance behaviour, was already introduced in the former chapter. Other power-based behaviours are egalitarian behaviour and submissive behaviour. Egalitarian behaviour is found between partners that see themselves as equals and act in a reciprocal way (Gölgeci I. et al. 2018.) This means even when a company has more power than the other, they choose to behave as equals and seek outcomes that are desirable for both actors. When the other company takes adaptive actions that are more compliant to the other company, the behaviour is called submissive (Gölgeci I. et al. 2018). Submissive behaviour occurs when a company needs to meet the requirement of another in order to repair the gap in power. Meaning that a company is more willing to accept submissive behaviour, if they notice they're more dependent on the other (Gölgeci I. et al. 2018).

2.3 Understanding dependency in buyer-supplier relationships

2.3.1 Definition of Dependency

Dependency has already been mentioned many times in this thesis, but a proper definition is needed since it is one of the main research topics. Power and dependence are suggested to be *"two sides of the same coin"* (Paulraj A. et al.2025, 4). Company Y's power over X is created out of X's dependence on the resources of company Y. In other words, power is equal to the dependency level of the other, which is depicted in the figure below (Emerson R. 1962).

Power of company Y = X's dependency on Y

Power of company X = Y's dependency on X

FIGURE 1. Power and dependency as a pair of equations (Emerson R. 1962).

Power and dependency define how parties control resources that others desire. When a company has alternative resources, dependency decreases towards the primary actor (Emerson R. 1962). For example, buyer's lack of alternative supply options gives power to supplier making the buyer more dependent on it (Tanskanen K. 2014). When a resource becomes more valuable to a company, it makes it more dependent on the other actor (Molm L. 2015.) When company X is dependent on company Y and vice versa, the cohesion between these companies is high. The more cohesive companies are towards each other, the more frequent and tighter the relationship is (Molm L. 2015.)

Naturally, when company X is more dependent on company Y, there is an imbalance of power between the relation (see e.g. Molm L. 2015). This imbalance can be harmful for the relationship, especially for the weaker actor. Awareness of this imbalance can already do damage to the relationship (Molm L. 2015). During difficult times companies often try to leverage power and take all the advantages of the power to ensure their survival. No matter how long and persistent the relationship had been, when it comes to the options of going bankrupt or to survive, companies will do anything to survive. This creates an unpredictable and restless situation for the weaker and more dependent actor, as they cannot always anticipate what the more powerful actor will do. Even though actions would not be made to take advantage of this asymmetry, the effects of power imbalance are still visible (Molm L. 2015).

Morally questionable ways a company may use its power over the other in order to survive is no secret. Moreover, it would be naive to assume a company wouldn't do everything in their power to stay afloat. Power, perhaps relating to financial aspects, represents the potential that a company has to make beneficials decisions for them at another company's expense (Cook K. 1983).

2.3.2 Resource dependency theory

Another relevant theory explaining dependency between parties is the resource dependence theory created by Pfeffer and Salancik in 1978, which takes into consideration insights from other theories relating to power and dependency, for example the power-dependency theory by Emerson (Jiang H. et al. 2023). Resource dependence theory (RDT) is said to be an appropiate and relevant theory, when studying supply chain dependency and buyer-supplier relationships (Kumari A. et al. 2025). Many authors, for example Cho and Carnovale, have used RDT in analysing relationships in the SCF context making it a relevant theory to examine here (Carnovale S. et al. 2019; Cho W. et al. 2019).

RDT emphasizes that companies are constrained due to their dependency on another company's resources. It is important to mention that this dependency is often inevitable in the globally connected

modern world, which makes understanding RDT particularly important. This dependency of resources makes the company lose its autonomy and forms uncertainty around the firm's strategic and operative decisions. (Jiang H. et al. 2023.) The unpredictability makes the company's decision-making a lot more complicated.

Lack of autonomy creates motivation for the company to try to change the basis of their resource exchanges in order to decrease the depencency or make it more managable (Jiang H. et al. 2023). A company may want to try to manage power that the other company has over them (Emerson R. 1962). This happens by reducing the dependency. It works the other way as well: A company may manage their own power over another in order to gain advantages from the other firm that depends on it (Kumari A. et al. 2025).

Resource dependence theory suggests that the resources needed in order to carry out their tasks are formed and depend a lot on the social environment of the business (Kumari A. et al. 2025). The social environment acts as a basis for the company to perform business activities (Kumari A. et al. 2025). The resources derived form the social environment in question can, and usually have, high financial importance, reinforcing the idea that a company's financial decisions are linked to the quality and structure of the inter-organizational relationships (Kumari A. et al. 2025).

2.4 Other relevant dimensions of buyer-supplier relationship

Necessary building blocks of buyer-supplier relationships are trust, satisfaction and commitment (Upasna A. et al 2020). The non-contractual characteristic of a buyer-supplier relationship emphasizes the "soft features" of the relationship, for example trust and commitment (Tanskanen K. 2024). Tanskanen's (2024) article suggests that an actor in a buyer-supplier relationship has plenty of resources that are not physical, but rather characterised as behaviour capabilities, which are formed within the relationship. These resources create value in the relationship. Therefore, Tanskanen (2024) supports Emerson's (1962) idea that value is not a quality of a company but a quality of the unique relationship. The relationship between a buyer and a supplier is often long and persistent. During this time companies create behaviour models, and they act in a certain way, all of which builds the relationship between a buyer and a supplier.

Trustworthiness shapes the behaviours creating value for both actors, at best (Tanskanen K. 2024). Trust can be defined as the confidence that the other company will do actions that have positive results on both sides, and relevant terms regarding trust are reliability and integrity (Morgan R. et al. 1994).

It is claimed that non-negotiated exchanges can create stronger levels of trust than negotiated exchanges (Tanskanen K. 2024), meaning that the way actors behave toward each other has a greater impact on the trust level than negotiated exchanges, such as a physical transaction. Trust holds a belief that both actors are ready to act on behalf of another. The "*willingness to rely*" can be viewed as an outcome of the confidence in the relationship, meaning both actors have the strength to rely on each other. (Morgan R. et al 1994, 23.) Because of how non-contractual the buyer-relationship is, the possibility of the relationship being asymmetrical is quite big (Tanskanen K. 2024).

Upasna (2020) argued that information sharing is one of the best ways to build a deeper trust in interorganizational relationships, such as a buyer-supplier relationship. Successful ways to communicate with the other actor, for example with effective information systems, has shown better results in supply chain performance and an improved interorganizational level of trust (Upasna A. et al. 2020). Satisfaction in business relationships is seen as a consequence of trust and commitment (Gazdecki M. et al. 2025).

Upasna (2020), as well as Tanskanen (2024) base their work on social exchange theory created by George Homans in 1958, and it is also widely referred to in buyer-supplier relationship literature, which is why it's relevant to shortly explain here (see e.g. Tanskanen K. 2024; Upasna A. et al. 2020). Social exchange theory suggests that actors respond to each other's actions and build relationships through mutual and rewarding exchanges. Both sides learn from past interactions, and the goal is to build a positive relationship. Reciprocity is also a relevant term when examining the social exchange theory. If reciprocity is not practiced in the relationship, it will eventually disappear. (Upasna A. et al. 2020.) In the theory the expectation is that if an actor supplies a benefit, the receiving actor should respond to it appropriately (Cropanzano R. et al. 2005).

3 Supply chain finance as a financial instrument

3.1 The concept of supply chain finance

Discussion about financial risks within a supply chain have mostly circled around risks relating to material flow, for example the cost of damaged goods. Risks of the actual financial flow, like changes in commodity price or liquidity problems of the supplier partner, have been left in the shadow. (Wandfluh M. et al. 2016.) Wandfluh (2016) also noticed the same gap in research when analysing the role of financial aspects in the supply chain.

Financial flow is what enables all the activities in the company, which is why it is an interesting matter in the supply chain management context. Fortunately, academic literature has increasingly recognized the significance of financial flow in supply chain management and researchers have started to investigate financing objectives more closely (Wandfluh M. et al. 2016). One of the rising subjects relating to financing the supply chain is supply chain finance, referred to as SCF. SCF is designed to simplify processes, mitigate supplier risk and align information, material and financial flows (Divya D. et al. 2025).

There is not a consensus about the definition or the concept of SCF (see e.g. Wandfluh M. et al. 2016; Wuttke D. et al. 2016). One definition of the financial practises or "solutions" in SCF are reverse factoring, receivables and prepayment (Pei Q. et al. 2023). Regardless of how the solutions are defined, their main purpose is to enhance cooperation and create integration between suppliers, buyers and service providers and to offer a source of competitive advantage (Chen S. et al. 2022).

SCF connects financial flows and its supporting processes with logistic processes. In simple terms, Pfohl (2009) explains it as the financial processes that are created when logistics happen, for example when capital is tied to inventory or when cash flows are managed effectively to support payments related to logistics functions. Pei (2023) also supports that SCF works in compliance with logistics, as well as in compliance with business and information flow in the supply chain. Pfohl's (2009) definition describes SCF as a broader subject, not a specific method or mechanism of SCF, where the main focus is on the inter-organizational aspect of financing. In contrast to Pfohl's (2009) description, Wuttke (2016) refers to SCF as a more specified mechanism: It is based on the idea that the supplier grants the buyer longer payment terms, after delivering the products to the buyer.

SCF isn't a normal financial activity, since it's programmed to serve supply chain partners and make the whole supply chain more resilient and agile. SCF differs a lot from traditional financial activities,

for example from normal bank lending or venture capital (Pei Q. et al. 2023). It includes varying financial instruments, or in other words solutions, which place the buyer and the supplier in different positions based on the relationship dynamic.

3.2 Financial solutions in SCF

3.2.1 Reverse factoring & prepayment

Reverse factoring can be understood as an early payment service enabled by financial institutions (van der Vliet K. et al. 2015). Reverse factoring is seen as the basic financial model of SCF, and the terms SCF and reverse factoring are sometimes even used interchangeably (Wuttke D. et al. 2016). The idea is that a company sells its assets or receivables against a premium to a financier, perhaps a financial institution, that is called a "factor" in this context (van der Vliet K. et al. 2015). Reverse factoring connects buyer to this, as the buyer gives an assurance to the financial institute that the payment will be settled (van der Vliet K. et al. 2015). This assurance enables both actors to get financing with the same rate as the buyer would get when applying funds independently (van der Vliet K. et al. 2015). Reverse factoring is more buyer-centric, and since buyer companies are often large, listed companies, the factors carry less risk and therefore ask for lower interest rates (Seifert R. et al. 2011). A strong credit rating means that the buyer finds it easier to secure bank loans and attain a significantly lower risk premium (Kouvelis P. 2018). Therefore, the supplier also enjoys same credit rating as the buyer through reverse factoring, which lowers financing costs (Seifert R. et al. 2011).

With reverse factoring, buyers promise the suppliers early payment options through the financial program, where financial institute pays the supplier sooner. Buyers often use SCF as a tactic to get longer payment terms. (van der Vliet K. et al. 2015.) In exchange of the possibility of prepayment, suppliers grant the buyers extended payment terms, which means the buyer gets to hold onto their cash for longer improving their net working capital (Seifert R. et al. 2011). The improvement of net working capital means that the buyer frees up significant amount of cash that can be directed elsewhere.

It is suggested that financially capable companies, typically the buyers, can support their financially constrained suppliers through prepayment, which can be referred to the situation when suppliers enable trade credit to buyers (Pei Q. et al. 2023). If prepayment is applied, the relationship between companies can be seen as developed, and it also improves the buyer's creditworthiness (Pei Q. et al. 2023). Prepayment financing is suggested to fall under the concept of trade credit (Guo Y. et al. 2024),

whereas other authors, for example Pei (2023), separate the two concepts, prepayment and trade credit, as two different SCF solutions. All in all, prepayment financing is closely connected to the model of reverse factoring, as well as trade credit, which will be explained in the next section.

3.2.2 Trade credit

Trade credit is defined as an internal financing solution that offers buyers deferred payment (Shilpy et al. 2025), but unlike reverse factoring, it does not directly involve a financial institution. It is explained as a short-term loan for the buyer, which ties up supplier's capital in an asset, or in other words in the receivable (van der Vliet K. et al. 2015). This financial instrument of SCF is supplier-led, meaning that it is allowed by suppliers in the benefits of the buyer (Shilpy et al. 2025). Trade credit helps the buyer improve its working capital by allowing them extended payment periods (Jena S. et al. 2023). These deferred payment periods are free of interest charge, and in some cases can include a possibility for a discount, if the buyer makes an early payment (Kouvelis P. 2018).

The most usual setting, when looking at the literature of trade credit as a SCF solution, is that the financially constrained supplier works with a large buyer to increase their availability to cash (Jena S. et al. 2023). Wang (2025, 2) also acknowledges this *"strong-weak structural relationship*", where the supplier is usually the smaller company with lower market power, and the buyer is the bigger with high market power. Guo (2024) suggests that trade credit helps especially small and medium-sized enterprises (SMEs) since their access to cash via supply chain finance is more significant as the larger company's strong credit classification helps them. This effect is called credit enhancement effect, which enforces similar credit benefits to suppliers as explained in reverse factoring. The smaller company enjoys the same credit ranking as the larger one due to the interconnected supply chain (Guo Y. et al. 2024).

In this context, SMEs can be considered as representatives of suppliers, of course acknowledging that real-world power dynamics may differ. As a result of the credit enhancement effect, Guo (2024) argues that the supplier becomes more financially stable when partnering with larger companies. Trade credit is said to improve liquidity in the buyer company as it offers short-term financial assistance (Shilpy et al. 2025). This setting of a buyer-supplier relationship is based on the idea that the relationship is unequal, and the power is distributed asymmetrically upon the parties (see e.g. Emerson R. 1962; Guo Y. et al. 2024).

Buyers are motivated to implement trade credit: Contrary to expectations, Kouvelis (2018) suggests that large buyers can also possess behaviours that comply with capital constrained companies. These

behaviours include f.e. maintaining very small cash ratio, which is a motivation for also the larger firms to implement SCF solutions, such as trade credit.

3.2.3 Receivables

The term receivables have been mentioned many times, but a clearer definition is needed. The concept of trade credit, as well as reverse factoring both include elements, such as receivables (see e.g. Guo Y. et al. 2024; Pei Q. et al. 2023). The company providing SCF solutions, such as trade credit, will increase the amount of receivables to its partnering company (Pei Q. et al. 2023). Pei (2024) suggests that receivables are one solution of SCF whereas other authors, like Guo (2024), use receivables as a term inside the concept of trade credit. Then again, Seifert (2011) uses the term receivables when explaining the basic idea of reverse factoring. Nevertheless, the term "receivables" is at the very core of the concept of SCF.

When suppliers can't get a bank loan, perhaps due to their poor credit rating, the receivables accessed through trade credit becomes an alternative for them (Guo Y. et al. 2024). Receivables are defined as value that a company is about to receive in the future (Klapper L. 2006). Receivables tie up a lot of working capital, but since they are coming from a financially strong company, they work as a transaction warranty (Guo Y. et al. 2024). This enhances the supplier's creditworthiness, therefore making it easier to retrieve external financing. In other words, banks are more likely to lend money to the supplier, since they estimate the supplier to be financially stable. (Guo Y. et al. 2024; Pei Q. et al.2023.)

Seifert (2011), on the other hand, uses receivables to explain reverse factoring, where the receivable is sold to a financial institution (Seifert R. 2011). For example, Unilever started to work with banks to ensure that their independent suppliers had better access to capital with Unilever's credit rates (Seifert R. 2011). The usage of accounts receivable financing has been growing significantly, and it is one of the most mature supply chain finance models (Guo Y. et al. 2024).

3.3 Why is supply chain finance applied?

3.3.1 Financial health & Liquidity

The concept of SCF is based on the idea that both parties benefit from the mechanism, as the buyer gets longer payment terms, and the supplier gets an easier access to financing (Wuttke D. et al. 2016). The goal of SCF is to create value in the supply chain by connecting financial flows into the chain

(Pei Q. et al. 2023) and this way enabling business activities to happen in the chain. As a result of the new financing solutions brought by SCF, capital can be utilized more efficiently and allocated appropriately aligning with strategic priorities of the company (Wuttke D. et al. 2016).

Capital utilization, enabled by SCF, can be referred to as a company having better liquidity. Liquidity is defined as the time it takes an asset to turn into cash, and it is said to offer flexibility. Liquidity is the readiness to direct cash towards new investments. (Lippman S. et al. 1986.) Due to the availability of financing options, the buyer can gain bargaining power meaning that they can negotiate better terms with their downstream customers, when working capital is provided (Pei Q. 2023). Since the financial institution makes the payment promptly on behalf of the buyer, ensuring that the supplier is paid immediately (Seifert R. 2011), liquidity of the whole chain is maintained.

By improving the financial health of the supply chain, SCF not only offers solutions for the constrained partners, but also supports the whole supply chain (Pei Q. et al. 2023). Due to the improvement, activities in the supply chain are completed efficiently and successfully (Dekkers R. et al. 2020). This strengthens the relationship and reinforces cooperation between the buyer and the supplier (Jena S. et al. 2023). Successful collaboration can stabilise the relationship and make the companies more motivated to work with each other in the future (Pei Q. 2023).

3.3.2 Avoiding disruptions with liquidity & lower financing risk

Improved liquidity, explained above, is at the core of mitigating many risks in the supply chain. The fact that suppliers can have access to prepayment, helps ensure supply capacity (Pei Q. et al. 2023). Funds are necessary for production; Without money a company cannot procure raw materials or invest in new machines, which are needed for production. Access to prepayment, which grants the supplier earlier funding, can improve the production capacity (Pei Q. et al. 2023). Ensured production capacity helps lessen supply disruptions in the supply chain. The prepayment options naturally also decrease risks from financial shortages now that financial sources are provided. This is essential for buyers in cases when there is a limited capacity of suppliers. (Pei Q. et al. 2023.)

The trading partners in the supply chain are often open and share information in a more elaborative way than banks (Guo Y. et al. 2024). Because the supplier is a direct member of the supply chain and perform day-to-day business operations with the trading partner, they have better insights on customer information and creditworthiness and can therefore perform better assessments of the buyer company compared to banks (Machokoto M. et al. 2022). As a result, the supplier has significant information advantage compared to banks, which is why it’s said that suppliers have a lower financing risk

compared to banks (Pei Q. 2024). This also supports the idea that SCF is designed to help not only in improving the financial flow but also the information flow, as one of the goals of SCF is to build stable connections with trading partners (Chen S. et al. 2022).

3.3.3 Mitigating principal-agent problem

Supply chain finance is suggested to also help reduce principal-agent problems (Wandfluh M. et al. 2016). Principal-agent problems can cause supply disruptions due to the asymmetrical information and create unhealthy relationships between companies. The problems arise from information asymmetry and conflicting goals between a principal and an agent, which can lead to opportunistic behaviour, lack of effort and ultimately supply disruptions. The basis of this theory is that the principal and agent do cooperation together but with different goals and distinct views toward risk. (Eisenhardt K. 1989.)

In buyer-supplier relationships, these issues are particularly harmful because collaboration depends on transparent information sharing and aligning both of the companies' goals (Wandfluh M. et al. 2016). Conflicting goals can cause opportunistic behaviour and lack of efforts in the relationship (Eisenhardt K. 1989). Wandfluh (2016) suggests that financial collaboration, such as adopting SCF solutions, mitigates the issues rising from principal-agent setting by improving information flow and aligning incentives between the partners.

Dekkers (2020) similarily links principal-agency theory to buyer-supplier relationships from the financial supply chain perspective. Therefore, although the principal-agent theory is not in the centre of this thesis, it is relevant to address the problems that arise from it, which harm collaboration and prevent improvements (Wandfluh M. et al. 2016). SCF can reduce information asymmetry and promote cooperative behaviour, which help prevent the buyer-supplier relationship from being damaged by mistrust and misaligned goals.

3.4 Challenges and limitations of SCF

As SCF is a relatively new concept, many of the solutions and models relating to it are still left to be recognized in a unified manner. Take an example of the terms SCF and reverse factoring, that Wuttke (2016) used as synonyms, but many others clearly see as distinctive terms (see e.g. Seifert R. et al. 2011; Wandfluh M. et al. 2016). This creates a setting where one must consider, how it defines the solutions, since it has a great impact on the analysis. Many authors, for instance Guo (2024) and

Wang (2025), base their work on the perspective that the supplier is constrained and therefore "needs" the assistance of the larger company. This isn't the only possible setting since the buyer may just as well be constrained in some way (see e.g. Cho W. et al. 2019; Jena S. et al. 2023).

It is also found in literature that SCF is not universally beneficial for companies (Pei Q. et al 2023). Jena (2023) argues that companies under financial stress will have to choose the right SCF programme in order to advantage from it, which is often due to the imbalance of power in the relationship. Companies may use this power imbalance immorally in their advantage (Jena S. et al. 2023; Wang W. et al. 2025). This is supported by van der Vliet (2015) in the context of reverse factoring: Reverse factoring is traditionally understood as a win-win situation, but in reality, a number of buyers use it for their own financial advantage.

There are differences in who SCF benefits the most. Suppliers with poor credit ratings would have a high interest rate, when applying financial aid straight from the bank. When using a SCF method, the supplier can get a payment with a relatively low interest rate, even though they have a poor credit rating. This may give suppliers with financial struggles a chance to still operate within the supply chain. (Wuttke D. et al. 2016.), which causes inequality among suppliers.

Giving access to financing even for suppliers with poor credit rating is designed to help increase financial returns and improve liquidity (Dekkers R. et al. 2020). Despite the short-term financial benefits, it raises a question whether there is risk for supply chain disruption due to the supplier's poor financial state that was corrected with the buyer's good credit rating. The traditional idea of bank credit is that only those that are financially capable and are believed to be able to meet their financial obligations are allowed to borrow money or use financial services. This is the reason why financially constrained companies have to rely on trade credit rather than bank credit. (Machokoto M. et al. 2022.) How much will the buyer's strong credit rating endure, if the supplier suffers from serious financial shortages? If the supplier goes bankrupt and the buyer won't be able to save it, the whole supply chain will face problems.

"Power asymmetries redistribute financial resources within the supply chain network" (Wang W. et al. 2025). The setting of a buyer-supplier relationship is often relying on the idea that the relationship is unequal and that it includes asymmetry of power creating severe dependencies (Guo Y. et al. 2024). As a result of the asymmetry, the more powerful company can aggressively leverage their power, which can be harmful for the buyer-supplier relationship (Wang Q et al. 2025). How the buyer-supplier relationships power-dependency balance affects the attitudes towards SCF solutions, while also analysing how SCF can change this relationship dynamic, will be discussed in the next chapter.

4 Relationship between SCF and power in buyer-supplier dyads

4.1 SCF and the relationship from the buyer's perspective

4.1.1 Power reinforcement through extended payment terms

Resource dependency theory especially focuses on the aspect of how much a company needs resources from another to stay afloat (Jiang H. et al. 2023). The more dependent a company is of another's resources, the more generous it may be in allowing different financial terms, such as longer payment terms or access to the same credit rating. The reliance on other company's resources is not unusual or necessarily a bad thing, as procurement and sourcing aim to be a cost-saving activity for companies (Wandfluh M. et al. 2016). But to what degree a company depends on a specific resource, is what defines the dependency and therefore power balance in the relationship (Jiang H. et al. 2023).

Buyer's lack of power may suggest that they don't have anything to leverage from the supplier. Since trade credit is a supplier-led activity and has to be accepted by the supplier (Shilpy et al. 2025), the buyer needs to have power in the relationship in order to persuade the supplier to accept trade credit. A buyer can reduce administrative costs with trade credit by decreasing the number of payments, in other words pooling the payments (Seifert R. et al. 2011). With trade credit, the buyer can also manage cash flow more efficiently by reducing the need for on-hand cash (Seifert R. et al. 2011; Shilpy et al. 2025). When suppliers face financial troubles, they are not as likely to liquidate the assets compared to banks, which makes buyers choose suppliers rather than banks (Seifert R. et al. 2011). Another reason why the buyer prefers suppliers rather than banks is because it's an easier option to get financing, for example in situation where the buyer is a small company and cannot get a loan from banks (Seifert R. et al. 2011).

The benefits of trade credit to buyers are quite clear, whereas it's suggested that deferred payment terms implemented through trade credit reduce attractiveness of SCF for suppliers (Wuttke D. 2016). This raises a question to why suppliers would accept trade credit as a SCF solution. Because of the power asymmetry, the supplier may be forced to implement trade credit in order to maintain a stable supply chain relationship (Guo Y. et al. 2024). Emerson's (1962) power-dependence theory suggests that when the more powerful actor uses their power advantage, it can often be described as the weaker actor achieving less value. Therefore, suppliers accept this deal where they receive less value, because they want to maintain the relationship they are dependent on. Additionally, suppliers may not always have a choice but to implement trade credit, because often loaning from financial institutes is not possible due to the financial constraints in firms' business (Lo Nigro G. et al. 2021).

Although, supply chain finance activities aim to a win-win outcome for all of the parties involved (Jena S. et al. 2023), it is often not the case. If credit terms are excessively long, it might lead the supplier to have financial difficulties, maybe even bankruptcy, ultimately harming the whole supply chain (Wang Q. et al. 2025). Cho (2019) has proved that powerful firms exercise their leverage to implement extended payment terms. Trade credit can be useful for the supplier too, when it works as a secured bank loan enhancing the supplier's chance to get financing from a bank (Guo Y. et al. 2024), which buyers can use as an argument to get the supplier to accept trade credit. If the buyer wants to implement SCF to its partners, they can also use a more satisfying option for suppliers: reverse factoring.

4.1.2 Reverse factoring for the win-win

Jena (2023) suggests that the buyer tends to hold a dominant position in the relationship due to its higher credit rating. In other words, the buyer can leverage its financial strength to help their suppliers get lower financing fees – fees that suppliers could not obtain independently (Seifert R. 2011), as well as enjoy longer payment period themselves (Jena S. et al. 2023).

Connecting this idea to the resource dependency theory, the buyer can be understood as having better financial resources than the supplier. Gazdecki (2025) argues that companies have more freedom and possess greater psychological ownership in a buyer-supplier relationship, if they have more financial resources. The supplier can benefit from the buyer's financial resources, but it constrains the supplier's autonomy making it more dependent on the buyer (Jiang H. et al 2023), which creates a power imbalance in the relation (Emerson R. 1962).

Seifert (2011) suggests that reverse factoring is equally helpful for both the buyer and the supplier in improving working capital. Jena (2023) explains that reverse factoring generates higher profits to both the supplier and the buyer, though it's suggested that the supplier gains more relative benefits compared to the buyer. However, there was found that some reverse factoring models help the buyer more than the supplier (Jena S. et al. 2023). Jena (2023) found that "hybrid reverse-factoring", HRF, where trade credit and reverse-factoring are combined, was more beneficial for the buyer then the supplier. In HRF the buyer pays part of the invoice before receiving the products, and pays the rest through the reverse factoring programme, where a credit term is applied (Jena S. et al. 2023). Most of these findings suggest that reverse factoring helps both parties equally, whereas some highlight the buyers' benefits and the superior position they have in the relationship. Nevertheless, reverse factoring can be seen as a beneficial solution from the buyer's perspective and also a SCF solution that increases the supplier's dependency on the buyer.

4.2 SCF and the relationship from the supplier's perspective

4.2.1 Reducing vulnerability with the right SCF solution

Kouvelis (2017) suggests that suppliers consistently gain significant advantages from collaborating with stronger buyers. If a supplier is valuable to a buyer, the buyer has motive to support them with SCF solutions to ensure the supplier's survival. This is because a significant benefit of SCF is the mitigated bankruptcy risk in the supply chain, which is done through reverse factoring (Chen L. et al. 2021). A financially stable buyer, who has a good credit rating, has an ability to grant high-risk suppliers a lower credit risk level (Chen L. et al. 2021), which helps the supplier financially. In addition, the supplier can get prepayments through reverse factoring (van der Vliet K. et al. 2015).

Since suppliers are argued to derive significant benefits when engaging with a financially superior buyer through reverse factoring, participation in these arrangements becomes practically irresistible for suppliers (Kouvelis P. et al. 2017). However, buyer's bargaining power dictates how much suppliers must accept unfavourable terms in order to be granted with reverse factoring. The buyer's bargaining power determines how well they are able to negotiate more favourable terms for themselves, such as deferred payment terms (Wang W. et al. 2025). Extended payment terms diminish the attractiveness of SCF for suppliers (Jena S. et al. 2023). Even if reverse factoring would benefit the supplier, the length of the payment terms determines whether the supplier is willing to accept the deal — and, if accepted, signals how dependent the supplier actually is.

The supplier's willingness to accept longer payment periods can be understood through the concept of cost reduction. Emerson (1962) explains "cost reduction" as the process through which the burdens associated with fulfilling the demands of the buyer decrease. Meaning that if the supplier can negotiate shorter payment terms, there is a cost reduction for the supplier, since the sacrifices align better with the supplier's benefits. Emerson (1962) claims that cost reduction is not a balancing operation itself but can improve the supplier's position in the relationship.

If reverse factoring is adopted with favourable terms for both the buyer and the supplier, it shows that the power advantage is used in the benefits of the other, in a reciprocal way. This is an example of egalitarian behaviour introduced by Gölgeci (2018) in the earlier chapters, which was defined as behaviour practised in a relationship where both partners feel equal. Despite the buyer being financially stronger, which would suggest greater bargaining power, it chooses to deploy its own resources to help the weaker actor, the supplier, with financing. These power-based behaviours represent how supply chain partners express and respond to power within their relationship (Gölgeci

I. et al. 2018). Therefore, when egalitarian behaviour is noticed, the relationship can be seen as relatively balanced.

This indicates that when reciprocity is shown, where the buyer uses efforts to implement SCF to help both the supplier and the whole supply chain, the asymmetry in power is reduced, and the relationship can be seen as reaching balance. Based on the evidence presented, reverse factoring can be seen as a SCF solution that, in an optimal scenario, decreases the asymmetry in power-dependency balance.

Trade credit, on the other hand, appears to not be the best way to balance the buyer-supplier relationship on the supplier's perspective. The advantages of extended payment periods outweigh the benefits of using receivables to obtain a bank loan (see e.g. Guo Y. et al. 2024; Jena S. et al. 2023). This is because extended payment periods support all buyers, whereas receivables only benefit suppliers who require a bank loan and who also meet other credit requirements. Hence, the "valuable" receivables don't guarantee external financing. The weaker actor will *"achieve one value at the expense of other values"* (Emerson R. 1962, 34). The supplier achieves minimal value at the expense of increasing their dependence on the buyer, as well as jeopardizing their own liquidity with extended payment terms. The table below illustrates, how the benefits of trade credit and reverse factoring are distributed among the actors.

TABLE 1. Supplier's and Buyer's benefits from trade credit and reverse factoring

	Trade Credit	Reverse factoring
Supplier's benefits	Credit enhancement effect (Guo Y. et al. 2024), transaction warranty through receivables (Pei Q. et al. 2023)	Lower financing costs, early payments (Wuttke D. et al. 2016), risk mitigation (Moretto A. et al. 2019), higher profits (Jena S. et al. 2023), maintaining a cooperative relationship (Seifert R. et al. 2011)
Buyer's benefits	Improved working capital (Wuttke D. et al. 2016), extended payment periods (Jena S. et al. 2023), suppliers being better partners than banks (Seifert R. et al. 2011)	Working capital optimization, negotiation leverage (Guida M. et al. 2021), improved operational performance (Moretto A. et al. 2019), maintaining a cooperative relationship (Seifert R. et al. 2011)

These findings suggests that trade credit may be harmful for the power balance and therefore the relationship. Pei (2023) supports the argument of the imbalanced relationship by pointing out that financial trade credit theory suggests that actors often have unequal advantages. Wang (2025) confirms that companies with stronger market power, which are often the buyers, can negotiate better trade credit terms for themselves. If the buyer exploits its position opportunistically, implementation of SCF can undermine trust and damage the long-term relationship (Cho W. et al. 2019).

In addition to the direct benefits generated by high market power, the more powerful buyer can also gain advantages by setting rules and agreements that push suppliers to act in ways that support their own financial goals (Wang W. et al. 2025). In this case, actions are not reciprocal and can be seen as having characteristic of dominance (Gölgeci I. et al. 2018). When dominance behaviour is practised, the actions are done in the intent to make the other actor behave in favour of the more powerful (Gölgeci I. et al. 2018). As reciprocity is essential for a balanced power-dependence relationship (Emerson R. 1962), adoption of trade credit can reinforce an existing power imbalance.

4.2.2 Supplier's reluctance towards SCF

Buyer's dominant position has been numerically proved: in most buyer-supplier dyads, buyer benefits more than supplier (Tanskanen K. 2015). Tanskanen (2015) found that in three of the examined dyads, the buyer benefited more, in two there was equality in the benefits, and only in one dyad the supplier benefited more. Tanskanen (2015) also proposed that the buyer may easily be able to increase their power by finding alternative resources. Resource dependency theory supports this, as it suggests that when there are alternative providers of the same critical resources, the dependency decreases (Casciaro T. et al. 2005).

The acknowledged dominant position of the buyer might be one of the reasons for suppliers' attitudes towards the implementation of SCF. The supplier's refusal to participate in SCF solutions is recognized in literature (Chen L. et al. 2021). This kind of reluctance is often found in interorganizational relationships (Galaskiewicz J. 1985). Galaskiewicz (1985) argued that the reluctance stems from organizations not wanting to be in interorganizational relationships, like a buyer-supplier relationships, because they're afraid it'll limit their autonomy. Despite the fact that organizations often find the collaboration restrictive, they know that they will have to engage in one to obtain the resources they need (Galaskiewicz J. 1985).

Seifert (2011) supports this by pointing out that buyers often have challenges in convincing suppliers to participate in SCF, for example the implementation of reverse factoring. One of their interviewed

executives said that suppliers found the programme too complicated, and as they didn't understand the multidimensional structure of SCF, they didn't want to participate in it (Seifert R. et al. 2011). Van der Vliet (2015) also noticed that suppliers sometimes experience intense pressure from trading partners to implement SCF solutions. Another reason for the avoidance can also come from the fact that the supplier simply doesn't know which SCF programme is the most suitable for their situation (Jena S. et al. 2023).

4.2.3 SCF in improving liquidity

Managing liquidity has been said to be one of the most important aspects of SCF (Wang W. et al. 2025). The power balance in the buyer-supplier relationship has an effect on how well a company can manage liquidity. In the familiar "strong-weak" power setting, the company with lower market power has to apply to more strict trade credit terms with shorter payment periods and higher interest rates, which limits the ability handle liquidity issues (Wang W. et al. 2025).

The market power theory lies on the fact that a company has an advantage compared to others, which makes it a "preferred customer" (Patrucco A. et al. 2018). This makes the company more attractive to others, because there are no alternative companies providing the same resources (Patrucco A. et al. 2018; Casciaro T. et al. 2005). Seifert (2011) also sees that different trade credit strategies are conceptualized based on the relationship and the competitive stance of the companies.

An example of this is Wal-Mart, that has high market power compared to other SME companies and can negotiate better trade credit terms with their suppliers (Wang W. et al. 2025). The negotiated terms enable extended payment periods, which help Wal-Mart successfully manage their liquidity and lower their financing costs (Wang W. et al. 2025). Wal-Mart has a power advantage due to its clear market power position which forces the suppliers to apply to their rules (Wang W. et al. 2025).

This kind of behaviour by the supplier can be seen as submissive behaviour, which is defined as actions that align and accommodate to the demands of the partnering company despite it not being as beneficial to the obeying actor itself (Gölgeci I. et al. 2018). The weaker supplier has no choice but to obey the terms, which may complicate management of its own liquidity. The same goes the other way: when a buyer has limited alternative options to supply, supplier gains a power advantage (Tanskanen K. 2015) and therefore makes the supplier more attractive to buyers (Casciaro T. et al. 2005). The more power one has, the more abilities they have to improve liquidity. Liquidity is a significant component in companies' operations, as it can help a company invest, manoeuvre and optimize money usage (Lippman S. et al. 1986).

4.3 Bridging dependency dynamics with the adoption of SCF solutions

4.3.1 Trade credit strategies based on the dependency dynamic

Seifert suggests that there are three different strategies for trade credit choices a company makes: win-win, follow and squeeze (Seifert R. et al. 2011). As said in the former chapter, the competitive stance and the relationship of the companies shape these strategies (Seifert R. 2011).

The win-win trade credit strategy is intended for companies that want to build a long-term relationship and whose interactions are repeated (Seifert R. et al. 2011). The core elements of this strategy are integrating activities in the chain, as well as sharing information (Seifert R. 2011). For example, companies seek to understand their partners cost of capital to ensure that all the actions in the chain are as efficient as possible (Seifert R. et al. 2011). The win-win strategy can be applied to a situation where the buyer-supplier relationship is balanced, since the actions are reciprocal. When both of the actors depend on each other to the same extent, they show reciprocity and the power is balanced in the relationship (Emerson R. 1962).

Emerson (1962) explains that power isn't neutralized from the equation in the case of a balanced relationship but instead used for good. Seifert (2011) explains that in a win-win situation the companies help their partners to get better access to funding or liquidity, because by using their power to help the partner, they help the relationship, as well as the whole supply chain. This reciprocity can be explained through the social exchange theory, where the norm is to respond to a positive action with another positive action, reinforcing kindness in actions (Tanskanen K. 2015).

Seifert's squeeze strategy is often implemented when the more powerful actor practises dominant behaviour, as it is characterised as a way to reduce working capital by capitalising strong market position against its trading partners (Seifert R. et al. 2011; Gölgeci I. et al. 2018). In the follow strategy, a company can be said to behave in a submissive way. Here the actor is weaker, where they must accept standard payment terms and prevailing market norms because of their weak competitive position. (Seifert R. et al. 2011; Gölgeci I. et al. 2018.)

4.3.2 How does financial power and reciprocity shape buyer-supplier dependency?

The norm of reciprocity, explained before in the context of social exchange theory (Tanskanen K. 2015), sets the ground for understanding how the dependency dynamics change when companies collaborate with each other. Gazdecki (2025) suggest that money and financial power not only affect the financial side of a business relationship but also influence how the parties feel about the

relationship. The asymmetry, that stems from differences in financial resources, is present especially when psychological ownership is practised (Gazdecki M. et al. 2025). While economic conditions are a basis for a buyer-supplier relationship, the behavioural elements boost the relationship and create value, which becomes a critical factor once financial demands are satisfied (Gazdecki M. et al. 2025).

Prior research consistently highlights the same power asymmetry in the buyer-supplier relationship. However, this may simply reflect that the buyer and supplier enter the relationship from different positions. The basic setting of a buyer-supplier relationship is a buyer wanting to purchase the products and a supplier offering the products. It is quite uncommon for a supplier to simply declare that they will stop producing a product or stop offering it to a specific buyer, at least without any negotiation. (Itzkowitz J. 2013.) In comparison, the buyers can simply inform the suppliers that they don't need the products anymore, which is why the buyers may not need the same kind of financial protection as the supplier (Itzkowitz J. 2013).

However, the supplier's position in the buyer-supplier relationship doesn't suggest that the dependency is necessarily always a bad thing. If a supplier's products are important to a buyer, the buyer is suggested to be concerned over the supplier's financial distress (Itzkowitz J. 2013). Although the supplier may be more dependent, the buyer is dependent enough to act in a reciprocal way. This dependence dynamic, even when the buyer holds greater bargaining power, can still be advantageous for the supplier. Buyer's motive for implementing SCF could be to help the other actor rather than simply trying to improve their own position, thereby practising egalitarian behaviour (see e.g. Gölgeci I et al. 2018).

It's suggested that buyer's benefit if they invest in relationship-specific assets, where the supplier is dependent (Itzkowitz J. 2013). A relation specific asset refers to value that arises only in a specific relationship, and buyer's investment in these assets could help a supplier pass more favourable terms, for example price increases, to the buyer (Itzkowitz J. 2013). Here value appears in the exchange relationship itself, created within the specific relationship (Emerson R. 1962).

If buyers have invested in these relationship-specific assets, they are more motivated to support the supplier financially, because the relationship specific assets disappear when supplier is in financial distress or has problems with liquidity (Itzkowitz J. 2013). Therefore, buyers may have motives to help the financial distressed suppliers. If reciprocity is practised, it is easier for the buyer to keep working with the supplier, even when this sometimes requires providing financial support to them (Tanskanen K. 2015). For example, in a balanced relationship where reverse factoring is adopted, the buyer has motive to implement prepayments, in order to help the supplier finance their activities. A

more self-centred reason for buyers to be generous when implementing SCF solutions, is because supply risk, that can be the consequence of supplier's bankruptcy, is a relevant concern for buyers (Moretto A. et al. 2019).

Padgett also supports that when a buyer has desire to work with a specific supplier, for example due to their unique products, it is more likely to cooperate and invest in the relationship (Padgett D. et al. 2024). With cooperative relationship, the actors have a chance to improve their financial performance, which is the goal of SCF (Padgett D. et al. 2024; Divya D. et al. 2025).

4.3.3 The role of trust in managing successful SCF solutions

Gazdecki (2025) claims that financial power has an effect how actors behave in areas of non-economic dimensions, such as trust and strategic cooperation. It is also suggested that suppliers gladly renew relationships with buyers, when trustworthiness between the companies increase (Ta H. et al. 2018).

The asymmetrical power balance shapes the nature and quality of interactions, where the financially stronger can perform actions easier and can shape the relationship to align better with their own strategic goals. (Gazdecki M. et al. 2025.) This kind of opportunistic behaviour does harm for the buyer-supplier relationship and increases negative behaviour (Gazdecki M. et al. 2025), and it also decreases the trustworthiness in the other company (Ireland D. et al. 2007). Wang (2025) also sees that when companies have varying levels of market power, which is often connected to low information transparency, it's hard for companies to cooperate with each other resulting from lack of trust.

The companies need to have a balanced buyer-supplier relationship, where the actors trust each other, in order for SCF to work: Gazdecki (2025) argues that if the relationship is not balanced and healthy, the actors will either implement SCF solutions only partially or not implement it at all. Cho (2019) suggests that just the implementation of SCF is already a sign of a commitment to long-term cooperation signalling that the partners have a healthy relationship, as well as a strong foundation of trust. When the buyer has strong motives for collaboration and long-term commitment towards the relationship, it can restraint it's power by not exploiting SCF solutions in favour of themselves. The goal here is to maintain a good buyer-supplier relationship, rather than trying to improve their own position in the relationship (Cho W. et al. 2019).

Although dependency is often portrayed negatively, high dependency can indicate a healthy relationship (Pei Q. et al. 2023). Padgett (2024) points out that the positive effects of the role of

dependence in performance haven’t been thoroughly studied yet. When companies are highly dependent on each other, it promotes organizational commitment, which enforces the development of trust (Pei Q. et al. 2023). A buyer-supplier relationship with close collaboration, as well as coordinated operations, improve SCF performance and enhance the whole supply chain (Cho W. et al. 2019)

5 Conclusions

Connecting two broad subjects, such as SCF and the buyer-supplier relationship, requires understanding the structure of these concepts. The goal was to answer the research questions, which contemplated whether there was a link between SCF and the power-dependency balance in buyer-supplier relationships, and if the link was found, how SCF influences the buyer-supplier relationship, and vice versa. The link between SCF and the buyer-supplier relationship was definetly found.

In buyer–supplier relationships, it is important to use the most relevant theoretical perspectives that support this thesis, as well as understand the core themes of power and dependency. The thesis relies on power-dependency theory, as well as resource dependency theory to examine how power is distributed between the actors. Power asymmetry creates dependencies, which are typical in supply chain management (Kumari A. et al. 2025). In the context of SCF, one must understand not only the SCF solutions but also the different financial instruments inside it, as well as how they work in practise. By focusing on these SCF solutions and their key elements, as explained in Chapter 3, the goal is to determine how SCF influences the power-dependency balance in buyer–supplier relationships.

The implementation of SCF solutions increase the dependency mutually. The key findings indicate that attitudes toward SCF are shaped by existing power and dependency positions. Buyers typically approach SCF as a means to strenghten liquidity and optimise working capital, while suppliers may be reluctant to participate because the benefits often appear unequal. The potential benefits of SCF are explained under chapter 3.3, where the goal is to give an insight to why companies may want to adopt SCF solutions. Acknowledging the benefits help to understand the attitudes companies may have toward SCF, which provides insight into the research questions.

SCF is said to be a group of solutions that companies implement to provide financial support to their supplier (Guida M. et al. 2021). Guida's description of SCF already highlights the assumption that suppliers are often the financial constrained ones in the buyer-supplier relationship, which is another important finding in this thesis (see e.g. Guo Y. et al. 2024; Lekkakos S. et al. 2016; Jena S. et al. 2023). For example, Cho (2019) argued that usually large buyers have more bargaining power, which places the supplier in a subordinate position in the relationship. Wang (2025) also suggests that the buyers are often the ones with higher market power compared to suppliers.

In this thesis, reverse factoring is suggested to be a better SCF solution for companies seeking power balance, since it has been proved to be beneficial for both the buyer and the supplier (Seifert R. et

al.2011; Wuttke D. et al. 2016), whereas trade credit has been argued to not be as beneficial to the supplier. The findings show that the benefits of trade credit are not equally distributed between the parties. Therefore, power imbalance is reinforced after the implementation (Emerson 1962).

Although the supplier's weaker position is often viewed neagtively, power asymmetry is not always harmful. Through SCF, the supplier can benefit from the buyer's stronger credit rating and gain improved liquidity – a critical advantage for financially constrained firms (Wuttke D. et al. 2016; Lo Nigro G. et al. 2021). Without the buyer being more powerful and having more market power, the supplier would not have the chance to enjoy the credit rating or have the possibility of prepayment.

This said, answering the other research question about the supplier's and the buyer's attitudes toward SCF solutions, companies may have different attitudes depending on the solution. Overall, the evidence presented suggests that there is more reluctance from the supplier perspective (Chen L. et al. 2021), although they are the ones that are more likely in a need of financial support. The buyer may want to implement SCF to leverage power, as SCF solutions can help with liquidity management and offer extended payment terms. Alternatively, the buyers may have a more genuine motive, where they want to implement SCF to help the financially constraint supplier to survive. The financial survival of the supplier can have high importantance in order for the whole supply chain to function (see e.g. Wang Q. et al. 2025; Chen L. et al. 2021; Moretto A. et al. 2019). Thereby, SCF can work as a buffer for the supplier to survive financial difficulties while simultaneously enhancing the whole chain.

The impact of dependency – beneficial or harmful – is shaped by the nature of the relationship. If dominant behaviour is practised, the implementation of SCF can reinforce the power imbalance in the relationship (Gölgeci I. et al. 2018), which may make the relationship deteriorate. On the other hand, if the behaviour is egalitarian, SCF can be implemented successfully making the increased dependency a sign of a committed and healthy buyer-supplier relationship (Gölgeci I. et al. 2018; Pei Q. et al. 2023). Corsi (2023) also describes dependence in a positive way saying that small companies can increase their determinant role and therefore their interdependence within the whole chain. In this way, no matter how large the buyer is, they need the supplier in order to practise their business activities. Therefore, to answer my final research question on how SCF solutions can affect the power-dependence balance in the buyer-supplier relationship, SCF can either reinforce an existing negative power asymmetry, or increase mutual dependency between the companies, ultimately strengthening the buyer-supplier relationship. Drawing all of the findings together, three different types of power outcomes can be found when implementing SCF. The outcomes are illustrated in the table below.

TABLE 2. Three power outcomes produced by SCF

1. Power reinforcement	The more powerful actor leverages their position, therefore making SCF increase asymmetry in the buyer-supplier relationship.
2. Power buffering	SCF helps the weaker actor survive financial constraints making it reduce its vulnerability.
3. Mutual dependence enhancement	SCF increases interdependence between actors deepening the buyer-supplier relationship while also enhancing the whole supply chain.

Since the two themes have been left in the shadow in literature (Gelsomino L. et al. 2016), there's a need for further research that connects SCF solutions and the buyer-supplier relationship and closes this research gap. Research on SCF itself is still quite new, which indicates that there are many aspects of SCF that have not been studied yet. There's a lot of information available about buyer-supplier relationships, which gives a solid foundation to investigate how these two themes connect. For companies, the implementation of SCF solutions should be looked at the perspective of what the state of the buyer-supplier relationship is. The power asymmetry that arises from dependencies have an effect on the health of the relationship. SCF can be good for companies that seek to deepen their relationship and develop cooperative operations. In contrast, if buyers are more powerful and adopt SCF with the intention to advance their own power position, the benefits are not distributed equally. In this case, SCF solutions are not advisable, as their implementation may harm the buyer-supplier relationship.

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Appendices

Appendix 1 Explanation of the use of AI (if AI is used; fi. Selvitys teköälyn käytöstä)

AI was used as a supporting tool in this thesis. Tools used and the ways of use, as well as the assessment of the answers, is described below. I assure, that I have used all AI tools in an appropriate manner and reported their use in accordance with the university's guidelines. I have written this thesis myself. I take full responsibility for all content presented in this bachelor's thesis.

1. Tool: Open AI ChatGPT (version 5.1.)
2. Stage of thesis process:
    a. I used AI for ideation of my subject. The tool gave me an idea where supply chain finance was involved, which is where I got the initial idea to use it as one of the main themes in this thesis. Then I started to refine the idea and came up with the subject and created my own title for this thesis.
        i. Example (10.09.2025.): Can you suggest bachelor thesis subjects that involve the financial aspect of supply chain management?
    b. I used AI for language revision. I asked AI to improve the structure and style of sentences. After it gave me improved suggestions, I used some AI provided phrases to enhance my language, but the changes to the sentences I had already created were relatively small. AI also helped me find synonyms in order to minimize using the same words repeatedly.
        i. Example (20.11.2025): Other ways to say this: "as it is described as a way to reduce working capital with leveraging high market position against its trading partners" – ChatGPT suggestion: "as it is presented as a means of minimising working capital by capitalising on superior market power over trading partners" → the final sentence I created, found in 4.3.1.: "*…as it is characterised as a way to reduce working capital by capitalising strong market position against its trading partners*"
        ii. Example (2.12.2025.): Give me synonyms for the word "connected" – ChatGPT answers: "linked, joined, attached, aligned" → the final word I used in the introductory chapter: *"linked"*