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Analysing the Factors and Consequences of Trade Credit in Karachi's Retail Hardware Market: An Exploratory Study

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Abstract

The use of trade credit in markets and its recurrence in business operations by merchants have been a subject of study. Previous research has investigated trade credit's benefits, incentives, drawbacks and associated costs. Based on interviews with four retail traders in the hardware market of Karachi, this paper identified the critical effects of trade credit and the factors driving its utilisation. To accomplish this, the paper expanded its scope by distributing a survey questionnaire containing these identified factors to other traders in the same market. This was done to generalise the results obtained from the interviews and validate them. From the analysis of both qualitative and quantitative data, the paper concluded that the adverse effects of trade credit outweighed the positive ones on the traders in Karachi's Retail hardware market. The data analysis results indicate that trade credit has a more detrimental impact on the traders' economic, social, and psychological well-being. The motivating factors behind the use of trade credit in their business operations originated from suppliers, buyers, and the trade itself, compelling traders to rely on trade credit in their commercial activities.

Keywords: Trade Credit, Retail Hardware Market, Karachi, well-being.

Introduction

Over the past few decades, a complex relationship has unfolded between economic prosperity and the extensive reliance on credit to achieve it (Hodson et al., 2014). In the late 1990s, the world

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experienced a seemingly robust period of prosperity marked by rising living standards (Bernthal et al., 2005), often irrespective of income level (Soederberg, 2013). However, this period was characterised by a significant shift (Roach et al., 2019) where debt became an easily accessible tool to augment consumption patterns. (Bergman, 2022) While momentarily enhancing the illusion of prosperity (Christen et al., 2005), the unrestrained use of credit led to a precarious consumption bubble (Lloyd et al., 2022), exposing the inherent flaws in debt-driven "prosperity" (Kose et al., 2021).

In response to these developments, researchers began scrutinising the repercussions of this relentless pursuit of debt-fueled consumption (Qamar et al., 2022) on a global (ECB 2020; UNICEF, 2021), corporate (Facundo et al., 2020; Bartik et al., 2020) and household level (Sweet et al., 2013: Santos et al., 2014). Their investigations unveiled a complex interplay between the pursuit of social status and the normalisation of a culture (Peñaloza, 2011) heavily reliant on excessive debt (Lupica, 2009; Llyod et al., 2022; Ritzer, 2005; Schor, 1999; Page, 1990). It becomes evident that a strong consumer culture, driven by the constant desire for social status (Banuri, 2020), has been the driving force behind this debt-driven phenomenon (Sotiropoulos et al., 2012), emphasising the overarching theme of a consumption society (Roach, 2019).

Within this broader exploration, researchers have increasingly acknowledged the pivotal role of trade credit in shaping the business landscape (Atanasova et al., 2003; Olegario, 2009; WTO, 2021; Wilson et al., 2002). Trade credit, often overshadowed by consumer credit in research, serves as the lifeblood of numerous enterprises, facilitating business growth (Ferrando et al., 2011; Westerfield, 1938), attracting customers (Burkart et al., 2004), and fostering competitiveness (Osiichuk et al., 2021). Notably, the consequences of this debt-driven culture transcend national boundaries and resonate globally, cutting across cultural diversity. However, unanswered questions persist, particularly regarding the impacts of the rising prevalence of trade credit on individual businesses and the intricate power dynamics within the retail sector, where buyers and suppliers play central roles. This research gap underscores the pressing need for a deeper dive into this domain, challenging conventional assumptions and unravelling the nuances of the real-world scenario.

The subsequent research delves into the implications of trade credit within a market characterised by recurrent adverse transactions, shedding light on traders' perspectives and their role in shaping a global debt culture. It seeks to comprehend the effects of trade credit on retailers and the market, particularly its economic repercussions and the motivations driving the adoption of credit cycle systems in businesses. Uncovering the detrimental impact of trade credit on merchants, the study addresses a research gap, emphasising its negative correlation with business growth. Specifically focused on the hardware market in Karachi, the research considers economic, social, and psychological dimensions while underscoring that it does not propose solutions, emphasising that the study needs to generalise to all regions and markets. Data from interviews with local retailers in Karachi and generalising it within the same sample population supports the exploration’s validity.

Literature Review

The research on trade credit, its incentives, drawbacks, and the relationship between trade credit and debt culture has gained prominence in recent years. Providing a comprehensive understanding of the various aspects of trade credit and its implications for large and small businesses is essential.

Trade credit, a form of informal lending (Gaudiyse et al., 2016), is crucial in facilitating business transactions (Fisman, 2003). While previous studies (Paul, 201; Astvansh et al., 2022; Atanasova et al., 2003; Bruno et al., 1997; Burkart, 2004; Cuñat, 2007, 2012; Cosci et al., 2020; Canto-Cuevas et al., 2019; Seifert et al., 2013; Fabbri et al., 2010; Deloof et al., 1996; Teruel et al., 2010; Neeltje, 2004; Dongya et al., 2016; Mahmud et al., 2022; Mateut et al., 2018; Bussoli et al., 2018; Smith, 1987; Tsuruta, 2013; Wilson et al., 2002; Osiichuk et al., 2021; Murfin et al., 2015; Martínez et al., 2012; Kapkiyai et al., 2015) have explored its benefits, drawbacks, and incentives, this paper adds to the existing body of research by focusing on retailers in the Hardware market of Karachi and the impact of trade credit on their operations.

Trade credit is an essential aspect of commerce and a significant factor in shaping the global business landscape. (Canto et al., 2019) It is a means by which businesses extend credit to their customers, enabling them to purchase goods without immediate payment. (Huyghebaert, 2006) Trade credit fosters customer loyalty (Wilson, 2002; Long et al., 1993; Smith, 1987), supports business growth (Ferrando, 2013; Kapikiyai et al., 2015), and enhances market competitiveness (Neeltje, 2004; Fabbri et al., 2016). Additionally, it is an economical source of external financing for companies with limited access to traditional bank credit or public capital markets (Atanasova et al., 2003; Deloof et al., 1996).

Several studies have demonstrated that trade credit positively influences sales and profits (Nadiri, 1969). Businesses that offer trade credit tend to enjoy higher sales volumes and increased profitability (Nguyen, 2011; Babalola et al., 2013). It attracts financially constrained customers who rely on credit for purchases, especially during economic stability (Atanasova et al., 2003). By retaining customers and sustaining long-term business relationships, (Hwang et al., 1995), trade credit helps companies face adverse shocks (Martin et al., 2009), such as decreased customer demand or cash flow disruptions (Bussoli et al., 2018; Wang et al., 2019; Bruno et al., 1997).

While the benefits of trade credit are well-documented, drawbacks and financial costs are also associated. The primary concern is that trade credit may lead to excessive business debt. (Mateut et al., 2018) This can make capital illiquid and hinder investment projects, impacting overall growth and budgetary expenses (Gomez, 2018).
Numerous studies have highlighted the complex relationship between trade credit and firm performance. While trade credit can be advantageous at low levels, excessive use can increase marginal costs, leading to diminishing returns (Martinez et al., 2012). Small businesses may be particularly vulnerable to the adverse effects of trade credit, as they have less bargaining power, tolerate payment delays, and experience difficulties with credit constraints (Gianetti et al., 2011; Murfin et al., 2015; Wilson et al., 2002). Regarding financial costs, trade credit can result in several expenses for suppliers and merchants. Defaulting on trade credit debt can lead to additional costs (Cosci et al., 2020), including the present value of the debt, overdue payment interests (Smith, 1987), and penalties imposed by buyers on sellers (Olegario, 2009). Another concern is the potential impact of trade credit and bad debt on mental health (Brown et al., 2005). Studies have indicated that increasing debt is associated with psychological distress, depression, sleep disorders, and anxiety (Bridges et al., 2010). Trade credit and bad debt can lead to economic costs and adverse effects on the mental health of merchants, particularly sole proprietors (Ferreira et al., 2021; Scourfield et al., 2012).

As Hart states, prior studies allow us to identify the gap between previous scientific investigations. It also allows them to justify how the proposed research contributes to the current body of knowledge, its significance, the historical scope, research methodologies employed within its field, and the avoidance of unproductive approaches (Hart, 2018). Reviewing the literature on trade credit and the instability of its benefits and costs for a small business retailer calls to explore the impact of trade credit on a specific market initially to understand the impact of trade credit. Hence, this paper aims to uncover the impact of trade credit on small business retailers by mapping its correlation with business growth and guiding future research for discussing the solutions.

Methodology

Exploratory Research Methodology: The article explores the factors and reasons (exploring a phenomenon) that led traders in the hardware market in Karachi to establish and use the credit cycle system. It also seeks to explore the effects that this system has on them. Essentially, exploratory research is used when the subject is new, has not been previously studied with a specific sample or group of individuals, or when current theories do not apply to a particular sample or group (Creswell, 2017). In research related to social sciences, this methodology is designed to discover generalisations that contribute to describing and understanding various aspects of social or psychological life (Stebbins, 2001). This study will use a mixed-method approach to explore and uncover the factors and consequences of trade credit on retailers of the hardware market in Karachi by collecting and analysing quantitative and qualitative data.

Research Design: This study uses a mixed methods approach, combining qualitative and quantitative methods to understand the research problem better (Creswell et al., 2018). It expands their understanding of the research questions (Cresswell, 2009). For example, qualitative research in this study is used to identify the phenomena of trade credit in the chosen population based on the detailed experiences of participants, providing a contextual understanding of the data (Maxwell, 2012). On the other hand, quantitative research allowed for collecting data from a larger participant pool, facilitating the generalisation and validation of study results (Bryman, 2012). This study uses qualitative methods in the form of interviews and quantitative methods by preparing a survey questionnaire to ensure its findings' validity, generalizability, contextuality, and credibility (Fetters et al., 2013).

Research Process: This study adopts a sequential exploratory design in data collection and analysis, consisting of three stages: qualitative, quantitative instrument development, and quantitative analysis (Dawadi et al., 2021). The rationale for choosing this approach is twofold: firstly, to initiate the research by exploring the unknown factors that led traders in the hardware market to establish the credit cycle system, as these are not well-documented (Creswell et al., 2018); secondly, to clarify the potential for generalising qualitative results to the hardware market, which occurs in the third stage of this process, making it an evolutionary approach.

Data Collection

Qualitative: The study utilised semi-structured, in-depth interviews as the primary qualitative data collection method. These interviews involved open-ended questions directed at willing participants, all business owners responsible for managing their businesses, the primary subject of the study (Lowe et al., 2010). Before conducting the interviews, the necessary permissions were obtained from the participants. They were conducted via phone (Gubrium et al., 2012), focusing on the motivating factors behind the credit cycle system's implementation by traders and its consequences in Karachi's hardware market.

The interviews featured open-ended questions that served exploratory purposes (Dawadi et al., 2021). As this exploratory study aimed to uncover the motivating factors behind the credit cycle system's adoption and its consequences, a phenomenon not extensively studied before, the open-ended questions allowed participants to freely express their thoughts and experiences, contributing to a rich dataset (Sage Encyclopedia, 2017; Creswell et al., 2007). The researcher contacted participants to explain the study's objectives, ensuring they met the criteria as users of the credit cycle system in their businesses. Following their consent, interviews were scheduled via Zoom. To enhance study validity and minimise bias, a second researcher from the same university was involved, working collaboratively to maintain credibility and objectivity.

Quantitative-Developing Instrument and Collecting Data: The researcher analysed the emerging themes after collecting and analysing qualitative data. For the research design's third stage, the researcher chose a survey (Ponto, 2015) as the data collection method. The survey was distributed among traders in the hardware market in Karachi to achieve generalisability of the findings. Google Forms was the primary tool for data collection, but paper-based questionnaires were also used, administered store by store, and made phone calls. The quantitative data was collected through a survey containing closed-ended questions to generalise the results obtained from qualitative data.

Sample Population: In this study, the researcher employed purposive sampling (Maxwell, 2012; Campbell, 2020), choosing four traders (Marshall, 1996; Creswell et al., 2007; Creswell et al., 2018) from Karachi's hardware market for the qualitative phase and 130 traders from the same population (Onwuegbuzie et al., 2015) for the quantitative phase. The number 130 represented the total trader population in the market, with 50 traders participating in the survey to generalise the qualitative findings. Karachi was chosen as the study's focal point due to its prominence and the researcher's prior interactions with hardware traders, aiming to understand the implementation of the credit cycle system's impact on their businesses, particularly retail traders, who often adopt the mentioned practice due to limited capital.

Data Analysis: In the first stage of this study, a thematic analysis approach was used to analyse qualitative data collected from interviews. Thematic analysis is a qualitative method of data analysis that involves reading through the dataset, identifying different codes within the data, and abstracting these codes to provide a concise overview of key themes and common meanings recurring across the interviews.

In the second stage, the study used a survey to generalise and disseminate the qualitative results. The study employed descriptive statistical analysis to analyse the quantitative data collected from the survey. Descriptive statistics summarise and organise data by describing the relationship between variables within the specified sample. After analysing both data sets using the appropriate methods, the discussion and results are presented together to provide a comprehensive understanding.

Ethical Considerations: In conducting this research, strict adherence to ethical principles was paramount to maintain the study's integrity. The researcher prioritised ethical considerations by securing voluntary consent from participants, safeguarding their personal information, and striving for impartiality to avoid potential bias. Participants were informed of their voluntary participation, and their personal details were carefully protected. The study's impartiality

S.NO	Codes	Frequency	Themes	Participants	Average %
1.	Increasing varieties of goods	3	The buyers (supply side from the traders' perspective).	4	75
2.	Acquiring Customer trust	3		4	75
3.	Catering to Customer demand to prevent loss	4		4	100
4.	Marketing New Products	3	The suppliers (demand side from the traders' perspective)	4	50
5.	Dependence on Suppliers	4		4	100
6.	Lack of credit regulation	2		4	50
7.	Fear of suppliers	3		4	75
8.	Limited Capital	4	The Trade Itself	4	100
9.	Maximising Profits	3		4	75

10.	Gaining a Competitive Advantage	4		4	100
11.	Suspicious Sales Quality	2		4	50
12.	Market Reputation	3	Buyers and Suppliers	4	75

was emphasised to mitigate any conflict of interest, underscoring the commitment to ethical conduct and the well-being of the participants.

Results:
As discussed, the research is based on a sequential exploratory design, in which qualitative data and its analysis become the base to acquire quantitative data, validating the research. The qualitative data was acquired through interviews, from which codes and themes were analysed in the thematic analysis framework.

The study went through the process of sequential exploratory design, analysing the qualitative and quantitative data to explore the positive and negative relation of trade credit on retailers in the hardware market in Karachi regarding its factors and consequences. The first phase of this design was to collect and analyse qualitative data for the basis of quantitative research.

Qualitative results

Qualitative data was divided into the motivating factors for retailers to implement the credit cycle system in their business operations and the consequences of trade credit on retailers in various aspects of their lives. The same was analysed by developing codes from the interviews conducted through inductive coding. Combining these relevant codes, the researcher formed themes representing the data extracted from the interviews. Table 1 and 2 illustrates the codes, frequencies, and themes developed from the data regarding the factors and consequences, respectively.

Table 1: Factors for implementing trade credit in Retail Hardware Market

S.NO	Codes		Frequency	Themes	Participants	Average %
1.	Increased Sales		4		4	100
2.	Attracting Buyers		4		4	100
3.	Capital Tied		3		4	75
4.	Decreased Cash Flow		3		4	75
5.	Lack of Liquidity		3	Economic	4	75
6.	Profit Reduction		2		4	50

7.	Reduced Operating Expenses		3		4	75
8.	Non-Liquid Inventory		3		4	75
9.	Reduced Inventory quantity (Inflation)		2		4	50
10.	Stress-Increased Debt		3	Psychological	4	100
11.	Anxiety and Depression		3		4	100
12.	Anger Arousal		2		4	75
13.	Supplier Exploitation		2	Social	4	50
14.	Neglecting Family Responsibilities		2		4	50

15.	Buyer Exploitation		2		4	50
16.	Competitive Advantage		3		4	75
17.	Market Reputation		3		4	75
18.					4	

Table 2: Consequences of trade credit on retailers of the hardware market

The analysis presents three compelling themes as the motivating factors driving traders to implement the practice of trade credit in their businesses. Factors that emerged are thematically divided into the supply and demand sides from the traders' perspectives and the trade itself. The factors exemplified are witnessed as captivating traders in the cycle of trade credit for running their business in the hardware market of Karachi.

Similarly, the analysis projects three stimulating themes as the consequences and effects of trade credit on the retailers, categorised into economic, psychological, and social aspects.

As most of the consequences are inclined towards affecting the retailers negatively in all aspects, a negative impact of trade credit on retailers of the hardware market in Karachi is to be found.

Quantitative results

After obtaining qualitative results, the study's second phase was to develop an instrument to collect quantitative data. A questionnaire was developed to validate and generalise the qualitative results by integrating the views of a larger population of traders in the same market. The factors and consequences from those results were utilised to make questions for the survey accordingly.

Table 3 and 4 illustrates the codes, frequencies, themes, positive and negative responses, and their sample mean from the quantitative data regarding the factors and consequences, respectively. The result of the quantitative data was mainly based on positive and negative responses to the survey. A sample mean for every response was calculated to locate the centre of the data and its impact. The calculated means from the survey responses were positive and supported qualitative data analysis, validating the study's overall results.

S.NO	Codes	Themes	Participants	Positive Responses (N=participants)	Negative responses (N=participants)	Sample Mean (% of Positive Responses)
1.	Increasing varieties of goods	The buyers (supply side from the traders' persp	50	40	10	80
2.	Acquiring Customer trust		50	29	21	58
3.	Catering to Custo		50	25	25	50

	mer demand to prevent loss	ective).				
4.	Marketing New Products	The suppliers (demand side from the traders' perspective)	50	33	17	66
5.	Dependence on Suppliers		50	32	18	64
6.	Lack of credit regulation		50	13	37	26
7.	Fear of suppliers		50	-	-	-
8.	Limited Capital	The Trad	50	45	5	90
9.	Maximising Profits		50	30	20	60

10	Gaining a Competitive Advantage	e Itself	50	19	31	38
1	Suspicious Sales Quality		50	17	33	34

Table 3: Factors for implementing trade credit in Retail Hardware Market

S.NO	Codes	Themes	Participants	Positive Responses (N=participants)	Negative responses N=participants)	Sample Mean (% of Positive Responses)
1	Increased Sales	Economic	50	23	27	46
2	Attracting Buyers		50	29	21	58
3	Capital Tied		50	27	23	54
4	Decreased Cash Flow		50	31	19	62
5	Lack of Liquidity		50	40	10	80

6	Profit Reduction		50	35	15	70
7	Reduced Operating Expenses		50	38	12	76
8	Non-Liquid Inventory		50	40	10	80
9	Reduced Inventory quantity (Inflation)		50	39	11	78
10	Stress-Increased Debt	Psychological	50	42	8	84
11	Anxiety and Depression		50	42	8	84
12	Anger Arousal		50	39	11	78

13	Supplier Exploitation	Social	50	32	18	64
14	Neglecting Family Responsibilities		50	29	21	58
15	Buyer Exploitation		50	35	15	70
16	Competitive Advantage		50	27	23	54
17	Market Reputation		50	24	16	18

Table 4: Consequences of trade credit on retailers of the hardware market

Discussion

Integration of qualitative and quantitative results

Factors

The factors driving the implementation of the trade credit retail business cycle were influenced by three entities: buyers (supply side of the trade), suppliers (demand side of the trade), and trade itself.

The study identifies three driving factors for trade credit from the supply side (trader's perspective): Firstly, the abundance of diverse goods in the market encourages retailers to employ trade credit, enabling them to stock a broader range of products without incurring immediate costs. Secondly, gaining customer trust by offering credit for future purchases is essential, fostering solid customer-retailer relationships. Lastly, the market's competitive nature makes it crucial for traders to provide goods on credit to meet customer demands, mitigating the risk of losing sales. The study's findings validate these drivers using quantitative data, confirming the impact of product variety, customer trust, and competitive fears on the use of trade credit in Karachi's hardware market.

Similarly, the study identifies the motivation behind suppliers encouraging retailers to utilise trade credit. This motivation arises from marketing new products, as suppliers facilitate access to these products by extending credit to retailers—additionally, the fear of suppliers pressuring traders to accept credit. Quantitative data confirms that most retailers are compelled to employ commercial credit due to the necessity of marketing new products, the benefits derived from supplier reliance, and apprehensions of supplier influence.

Lastly, the study highlights the circumstances of the business itself that drive traders to use trader credit. It emphasises the lack of capital to stock all demanded goods and the need to inspect product quality as key factors compelling traders to choose trade credit. Participants in the qualitative data assumed that using credit would enhance profits, but quantitative data analysis showed that the reality differed. It concluded that traders resort to credit out of necessity, and while it may offer short-term advantages, it does not guarantee long-term profitability, contradicting their initial assumptions.

Consequences

Economic

The economic impact of trade credit on retailers focuses on two key aspects: increased sales and liquidity challenges. Traders interviewed in the study emphasised the role of trade credit in boosting sales, as it allowed them to acquire goods without immediate payment, thus attracting buyers who could make large credit-based purchases. This positive impact was supported by both qualitative and quantitative data, underscoring the effectiveness of commercial credit in drawing in buyers.

However, the article also sheds light on the downside of trade credit, primarily revolving around liquidity issues. Delayed payments by buyers disrupt the cash flow within the trade cycle, affecting both traders and suppliers. The lack of liquidity and a debt culture lead to difficulties in repaying credit. These findings align with existing research, highlighting the adverse economic impact of trade credit on liquidity.

Furthermore, the article underscores that traders have identified reduced profits as a significant indirect consequence of trade credit. Several factors contribute, including lower profit margins on goods purchased on credit, delayed buyer payments causing price increases, and credit usage affecting daily operational expenses due to cash flow disruptions. The study validates these effects in Karachi's hardware market, confirming a negative influence on profits.

Social

The social effects of trade credit on the market encompass positive and negative aspects. Four key social impacts were identified:

supplier exploitation, buyer exploitation, competitive advantage, and market reputation. Supplier exploitation occurs when traders needing additional funds are taken advantage of by suppliers aware of their financial vulnerability. It negatively affects the market environment. Similarly, buyer exploitation arises when buyers pressure traders to take goods on credit. While trade credit may offer a competitive edge and status in the market, the cost often outweighs the benefit. Overall, the article highlights that trade credit has more negative social effects regarding the market environment.

The economic ramifications of credit influence traders' behaviour in trade, at home, and in society. It includes increased anger, strained relationships with family members, and negligence of familial responsibilities due to heightened stress caused by mounting debt. Quantitative data from the surveyed hardware market in Karachi supports the negative impact of increasing debt via trade credit on traders' social lives.

Psychological

Psychologically, trade credit can lead to negative economic impacts, including reduced profits and capital. This financial stress triggers feelings of anxiety, depression, and behavioural changes among traders, causing tension in their personal lives. Empirical data gathered from interviews with traders corroborates these psychological effects and aligns with existing research on the subject. The study also highlights a concerning issue: the potential for suicide among traders experiencing extreme financial distress due to traders' credit.

Conclusion

The paper concludes that trade credit has predominantly negative economic effects on trade, leading to reduced profits, liquidity problems, and cash flow constraints. It emphasises creating a negative relationship environment between suppliers, buyers, and traders due to exploitation, causing social implications and impacting market dynamics. Furthermore, the article asserts that trade credit has negative psychological and social effects on individual traders. These indirect impacts stem from the economic repercussions, causing heightened anxiety, altered behaviours, neglect of responsibilities, and, in extreme cases, suicidal tendencies. The article interconnects these effects in a comprehensive overview, indicating that economic repercussions, such as increased worry and anxiety, lead to psychological consequences, like anger and behavioural changes, affecting the individual trader's social life.

Additionally, the paper underscores the need to investigate the motivating factors for retailers in Karachi's hardware market to employ credit transactions. These factors are divided into those driven by suppliers (demand-side factors), buyers (supply-side factors), and the trader's internal trade objectives. Understanding these factors is crucial as it can pave the way for exploring alternatives to replace credit transactions and optimising business operations. The paper underscores commercial credit's adverse economic, social, and psychological effects on trade. It encourages further exploration of motivating factors and potential solutions for the trade sector in Karachi.

Recommendations

This paper recommends further research to understand the factors driving traders to adopt credit transactions. It suggests examining potential solutions that could replace or modify the credit model in commercial operations. The paper also advises delving into detailed studies that thoroughly investigate the different effects of commercial credit, such as its economic, psychological, and social impacts. This comprehensive approach will help provide a deeper understanding of the subject matter.

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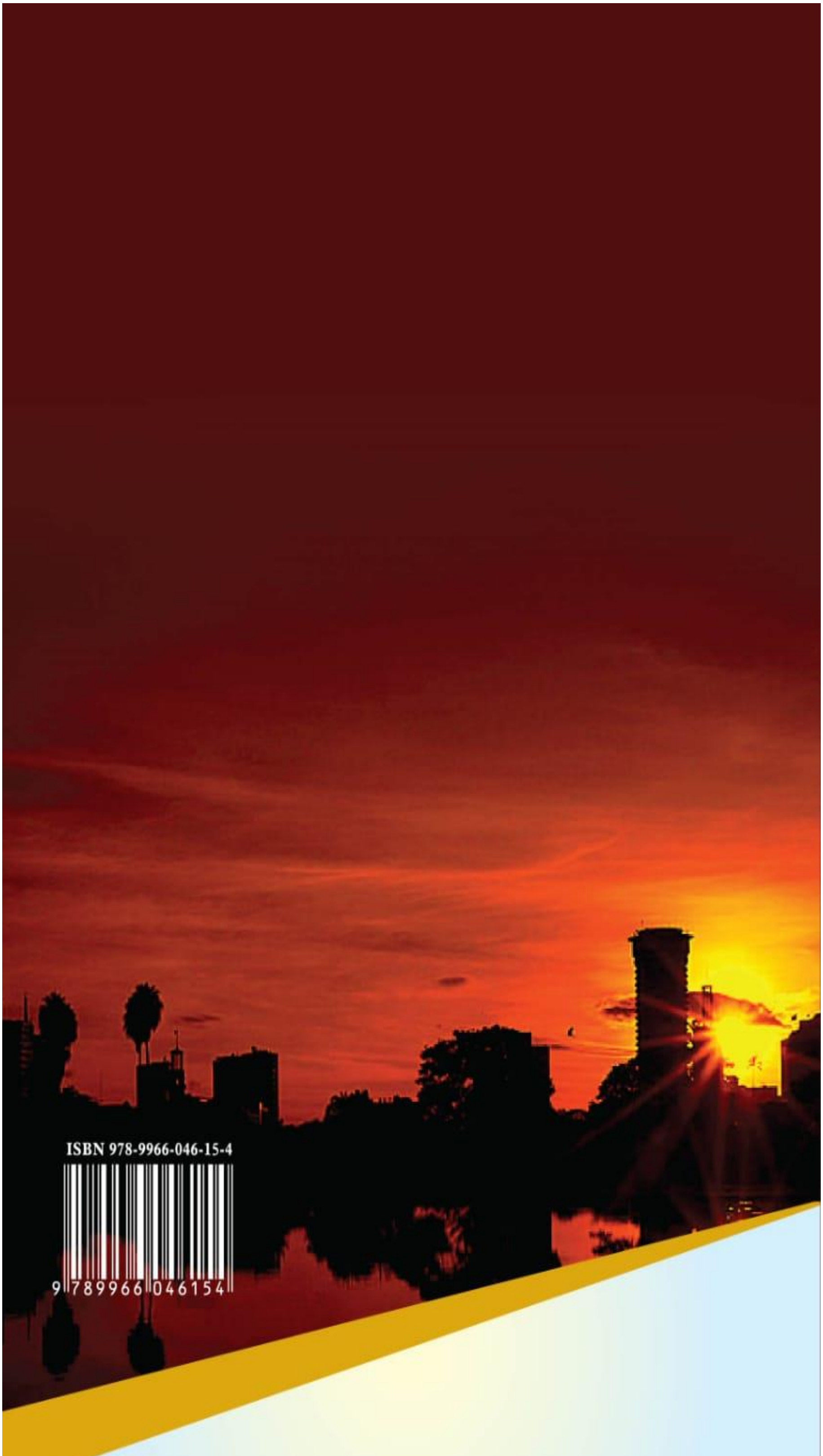

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