

The Impact of Supply Chain Finance Initiatives on Performance of Quoted Service Providers in Nigeria

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Abstract

The purpose of the study is to examine the impact of supply chain finance initiatives on performance of quoted selected service providers in Nigeria. The study has been conducted using a sample of 25 supply chain service providers listed on the Nigeria Stock Exchange (NSE). Data were obtained from the published financial statements of selected firms and daily official listing of Nigeria Stock Exchange from 2013 to 2022. Ordinary least square regression (OLS), correlation and analysis of variance (ANOVA) were utilized in the analysis of data obtained for the purpose of the study. The results of the OLS regression, correlation and analysis of variance were statistically significant at 0.05 level. The research evidence revealed that supply chain finance initiatives improve the performance of sampled supply chain service providers in Nigeria.

Keywords: Supply chain, Market value, Stock prices, Profitability, Liquidity.

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1. Introduction

Supply chain management is viewed by managers of leading firms around the world as a key determinant of competitive advantage in a company (Christopher, 2016). Supply chain refers to the network of people, organisations, resources, activities and technology involved in the production and sale of a commodity (Lutkevich, 2021). Research evidence has shown that supply chain management has improved significantly due to recent developments in information technology such as the invention of just-in-time (JIT) systems (Kannan & Tan, 2005). Just-in-time system is a system in which goods are received from the supply only when they are required. In recent times, companies are utilizing their financial resources on supply chains so as to outperform their competitors in the industry (McKinsey, 2015). The supply chain finance emphasizes on the integration of cash flows associated with supply chain with a view to improving working capital for customers and suppliers (Wuttke et al., 2016). Working capital is the capital available for day to day running of a business (Wuttke et al., 2016).

The management of the supply chain finance initiatives usually generates a lot of opportunities for

firms (McKinsey, 2015). Previous research evidence has shown that supply chain finance usually creates a win-win situation for service providers as well as trading partners (Steeman, 2014). Service providers are various organisations that offer supply chain finance to their clients. Supply chain finance enables customers to rearrange their payment obligations to maintain a good relationship with suppliers. Supply chain allows suppliers to access capital at a lower interest rate so in order to receive immediate cash from the buyer (Steeman, 2014).

Furthermore, supply chain finance allows the supply chain service providers to interact with the customers so that they could be involved in global supply chains through the provision of supply chain finance initiatives that meet the gradual needs of the customers and suppliers (Cavenaghi, 2014). Supply chain finance is usually provided by commercial banks and in recent times, non-bank investors have also entered into the supply chain finance market using internet in order to provide cash to customers before or after the approval of invoices (Martins & Hofmann, 2017).

The supply chain creates a growing awareness

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for capital commitment (Chen et al., 2004). These changes are attributable to the adoption of modern technology by companies while ensuring an improvement in their corporate performance (Mulire, 2011). The adoption of supply chain finance initiatives facilitates the integration of the entire supply chains and in some cases; it leads to the creation of global logistics networks (Gomm, 2019). The supply chain finance initiatives create a high potential for optimization of resources which impacts the overall financial performance and market value of a company (Gomm, 2019). The combination of supply chain management with leading technologies will result in higher efficiency, transparency, traceability and significant savings in operating cost (Kouhizadeh et al., 2020). This study investigated the impact of supply chain finance initiatives on performance of quoted supply chain service providers in Nigeria.

2. Statement of Problem

Large supply chains have increased the pressure to finance the supply chain efficiently as a result of globalisation (Mulire, 2011). Globalisation is the process by which ideas, knowledge, experience, information, goods and services are transferred around the world. A lot of companies encounter huge financial difficulties due to the complexity of supply chains and fluctuations of the global markets (Mulire, 2011). These financial challenges also include the risks associated with the supply chain in connecting the buyers and sellers. Supply chain finance initiatives refer to a set of approaches that aims to optimize the financial supply chain arrangement in terms of liquidity (ability to provide immediate cash) as a yardstick for gaining competitive edge over the competitors. In recent times, supply chains are expected to undergo continuous change which emanates from the ability of management of companies to search for opportunities to gain competitive advantage over their competitors (Mulire, 2011).

Supply chain is difficult to manage because of its complexity and the exposure of each person in the supply chain network to different forms of risk and uncertainty (Lam et al., 2019). Each supplier in a supply chain is a buyer of some kind and as a consequence, there should be access to working capital at every stage of the supply chain (Lam et al., 2021). Liquidity is also required in numerous areas of the supply networks in order to facilitate the flow of goods and services. Liquidity is the ability of the supply chain service providers to provide cash to their clients as and when due. Supply chain finance must have ability to address the liquidity problem encountered at any stage of the supply chain.

Furthermore, supply chain finance initiatives should also be able to accommodate the multi-dimensional aspect of trade as a result of improvement in technology (Zia & Tang, 2011). The supply chains of

large companies are often financed internally due to their high credit worthiness. Medium-sized companies, on the contrary, are usually unable to finance their supply chains on their own as a result of low credit worthiness, which implies that they will be unable to fund their supply chain finance initiatives (Zia & Tang, 2011). There is also the likelihood that the medium-sized companies may not have the same agency that will assist them in the elongation of the supplier payment terms. Another challenge confronting medium-sized firms is their inability to possess in-house expertise that is required to manage difficult contracts and supplier engagement. These issues are highly significant and have meant that medium-sized companies have not been able to make effective use of supply chain finance initiatives (Lam et al., 2019).

3. Objectives of the Study

The main objective of this study is to investigate the impact of supply chain finance initiatives on the performance of quoted supply chain service providers in Nigeria. In the course of the study, the following specific objectives were achieved:

- To investigate the impact of supply chain finance initiatives on stock prices of service providers in Nigeria
- To measure the relationship between supply chain finance initiatives and profitability of service providers in Nigeria
- To examine the relationship between supply chain finance initiatives and liquidity of service providers in Nigeria

4. Research Questions

In the course of the study, the following questions were answered:

- What is the impact of supply chain finance initiatives on stock prices of service providers in Nigeria?
- Is there any relationship between supply chain finance initiatives and profitability of service providers in Nigeria?
- Does any relationship exist between supply chain finance initiatives and liquidity of service providers in Nigeria?

5. Research Hypotheses

In this research, the following hypotheses were tested:

Hypothesis 1

H₁: Supply chain finance initiatives impact stock prices of service providers in Nigeria?

Hypothesis II

H₂: There is a relationship between Supply chain finance initiatives and profitability of service providers in Nigeria

Hypothesis III

H₃: There is a relationship between supply chain finance initiatives and liquidity of service providers in Nigeria

6. Literature Review

The supply chain finance initiatives have been explained by supply chain management literatures in the past (McKinsey, 2015). Mc Kinsey (2015) argued that supply chain finance offers huge opportunities for many firms on a large scale with an estimated \$2trillion investment in readily available financeable payables around the world. Although, the adoption of supply chain finance initiatives is expected to improve from time to time, a lot of market potentials are yet to be tapped (McKinsey, 2015). The provision of supply chain finance services is done through the development of a web-based service platform in order to ensure that companies are provided with real-time access to capital (Martin & Hofmann, 2017). The supply chain finance service providers have the responsibilities to balance the financial requirements between customers and suppliers in a given situation (Martin & Hofmann, 2017).

Supply chain service providers play a key role in the reduction of interest rate and improvement of business efficiency through the application of modern technologies (Pfoh & Gomm, 2009). Specifically, supply chain tends to be more sensitive in relation to risk management and as such, supply chain finance creates value in supply chain management through the collaboration with significant business partners (Sodhi et al, 2012). For example, an appropriate supply chain finance initiative helps to reduce the risk of bad debt that results from the loan offered by the service provider.

A lot of research evidence has revealed that supply chain finance initiatives provide a basis for the integration of all stakeholders in the supply chain management to reduce business risk and financial risk (Abbasi et al, 2017). Furthermore, when supply chain initiatives are announced by the service providers, there is an indication that their businesses are smoothly run (Banking Tech, 2018). The information is taken by the stock market as a positive signal on the listing of the service providers on the stock market (Klapper et al; 2011).

Alternatively, the announcement of supply chain financial initiatives by the service providers sets out a clear requirement for their supply chain finance services and as such, it brings about positive growth in revenue (Xia & Tang, 2011). The information improves the investors' confidence due to the fact that operational risks are outweighed by the positive growth in revenue (Yang et al., 2014). This enhances a positive reaction in the stock market (Yang et al., 2014). The supply chain service providers are confident of their future businesses when supply chain finance initiatives are

announced (Seifert & Seifert, 2009). The announcement of supply chain finance initiatives solves the long-term problem of financial risk of a firm apart from solving the short-term liquidity problem (McKinsey, 2015).

Due to stringent regulation of the banking sector by the Central Bank of Nigeria, other companies are now embarking on the offering of supply chain finance to investors (Gelsomino, et al., 2016). These companies are now changing the thinking of the buyers about the supply chain business thereby assisting them to gain a large control of market shares in their industries (McKinsey, 2015). For instance, 10-15% of the supply chain frame market is gained by fintech companies through collaboration with supply chain companies (McKinsey, 2015).

A large number of non-bank firms are driven by the rapid growth of supply chain finance to become supply chain finance service providers (Martin & Hofmann, 2017). Unlike conventional banks, the modern supply chain service providers exhibit a stronger customer-supplier interdependence, technical product complexity, flexible purchasing options and utilize a huge volume of data in order to reduce asymmetric or insider information (Ambos & Schiegeimlch, 2007). These firms are now building robust financial models, which allow them to provide excellent supply chain finance services (Steeman, 2014). Supply chain finance initiatives of commercial banks tend to be more reliable than those provided by non-bank supply chain service providers (Steeman, 2014). The non-bank supply chain service providers can easily minimize the risk of disruption in supply chain and the supply chain service development costs since they are already working in supply chain (Wallenburg & Lukassan, 2011). Furthermore, the non-bank supply chain service providers receive low attention from the press and not strongly monitored by analysts and as a result of this, any supply chain initiative disclosed by these companies usually receives lower attention in the stock market in comparison to conventional banks (Wallenburg & Lukassan, 2011).

Economies of scale (cost-saving advantages) are achieved where there is an integration of numerous supply chain lines in a single company in order to reduce transaction costs rather than offering services individually (Christopher, 2016). Firms are expected to redesign their existing services in order to survive fierce market competition (Prajogo & Sohal, 2003). The launching of new products and the redesigning of existing products are preconditions for the attainment of competitive advantage in supply chain finance markets (Hofmann & Belin, 2011). The offering of supply chain finance service is relatively risky. The redesigning of existing supply chain finance services is easier and cheaper compared to the launching of an entirely new supply chain finance services to remove any element of risks and uncertainties and the service providers may

likely receive positive feedback while the investors' confidence will be improved (Lam et al, 2019).

Alternatively, the redesigning of existing supply chain finance services improves the probability of survival of the supply chain finance programmes in the industry because positive and new information will be received by customers regarding the service delivery, which will have a positive impact on their decisions (Wu et al., 2004). Furthermore, supply chain finance initiatives provide positive information about the reliability of the supply chain service provider, which raises the confidence of the customers about the credibility of the service provider (Wu et al., 2004). Each aspect will be considered by the stock market in the analysis of the performance of supply chain finance service providers.

The announcement of the upgrade or improvement in existing supply chain finance initiatives offers more positive information as regards the improvement of quality of service offered by the service provider. The response of the market to the redesigning of existing services provides robust information about the quality of service provided by the service provider and the successful implementation of prior supply chain finance initiatives (Lam et al; 2019).

7. Empirical Review

There are a lot of studies that examines the effect of supply chain finance initiative on various aspects of business performance. These theories are empirically reviewed in the part. Frohlich and Westbrook (2001) investigated the effect of supply chain finance on business performance. The study revealed that the outward facing companies in supply chain performed better than other firms in most of the criteria of evaluation. Narasimhan and Kim (2002) examined the effect of supply chain finance on diversification and competitive performance of a firm.

The study revealed that the relationship between diversification and performance was modified by supply chain. The evidence of the findings also revealed that the adoption of supply chain finance initiatives and diversification strategies have a statistically significant positive effect on firms' performance.

Rosenzweig et al. (2003) examined the effect of supply chain on business performance in the consumer products sector. The competitive capabilities affecting the relationship were also considered in the study. The evidence of the study suggested that supply chain finance is directly proportional to business performance. Vickery et al. (2003) investigated the implications of coordinated supply chain initiatives on customer service and financial performance of firms. The study revealed that the financial performance was indirectly related to the supply chain initiatives while the customer service performance is found to be

directly related to the supply chain initiatives.

Lee et al. (2006) investigated the effect of suppliers' and customers' integration on the performance of supply chain initiatives. In the study, performance was measured by cost and reliability. The evidence of the findings shows that the basic determinant of reliability and overall performance is integration with suppliers. Koh et al. (2007) examined the impact of supply chain finance on performance of small and medium-sized enterprises. The evidence of the study revealed that supply chain finance positively impact firms' performance. Susan (2008) investigated the effect of supply chain design, integration and information sharing on performance of supply chain finance initiatives. The study revealed that design, integration and information sharing have statistically significant positive effects on performance of supply chain finance initiatives. The study also showed that supply chain design has a positive effect on performance in relation to resources and output.

Mulure (2011) studied the relationship between supply chain finance and performance of small and medium-sized enterprises (SMEs) in Nairobi. The research utilized a sample size of 41 SMEs in the manufacturing sector and the data were analyzed using ordinary least square regression and correlation models. The study revealed that there is a significant relationship among sales growth, cashflow, cost of sales, inventory turnover, gross profit margin, net profit margin, return on assets, return on capital employed and SME performances.

Lam et al. (2019) investigated the impact of supply chain finance initiatives on market prices of listed service providers in China. The study analysed the supply chain finance of 177 companies from 2008 and 2018 using event study methodology. The study revealed an increase in market price of listed service providers in China due to the announcement of supply chain finance initiative by non-bank investors.

Wetzel and Hofmann (2018) examined the relationship among supply chain finance, financial constraints and corporate performance. The research evidence revealed that a significant positive relationship exists between supply chain finance and corporate performance.

Karakus and Zor (2017) investigated the effect of supply chain finance on market value of firms in 16 countries using a sampled data of 2,421 firms. Data were analyzed with the aid of panel data analysis for the period of 2009 to 2013. The study also examined another 46 companies that adopted supply chain finance initiatives between 2006 and 2013 using Wilcoxon test. The study revealed that supply chain finance affects the market value of sampled firms. The second part of the study indicated that supply chain finance initiative did not have any impact on the

market of sampled companies.

Wuttke et al. (2017) conducted an empirical analysis on the adoption of supply chain finance initiatives in the United States of America using link tests, cox-snell tests and concordance tests. The result revealed that a large estimated reduction in a supplier's financing costs is related to faster adoption here and rates in supply chain finance. Ogomogunam (2023) investigated the effect of supply chain management practices on performance of manufacturing firms in Nigeria. Data were analysed using Pearson Product Moment Correlation (PPMC). The evidence of findings revealed that supply chain management practices positively impact the performance of manufacturing firms in Nigeria.

Shobayo (2017) measured the impact of supply chain management on operational performance in Nigeria using a panel regression model. The research evidence suggested that supply chain management has no effect on operational performance in Nigeria. Ugoani and Ugoani (2017) investigated the impact of supply chain management on productivity in Nigeria using ordinary least square (OLS) regression model. The study revealed that supply chain management has a positive effect on productivity in Nigeria.

8. Methodology

Methodology refers to the procedures used by the researcher for the collection and analysis of the data required for the purpose of the study (Patel & Patel, 2019). It is the systemic analysis of the methods used in a study (Patel & Patel, 2019). Thus, it is key for the researcher to understand the appropriate method to be used in carrying out a research work.

Generally, data can be collected through two main sources, namely, primary and secondary data. Primary data refer to those data that are collected from field survey using questionnaire, interview and focus group discussion. Secondary data are data that are already processed and readily available. These data can be collected from journals, publications, textbooks, stock exchange official listing, annual reports etc. The choice of selection of the appropriate source of data depends on the nature of the study. In this study, data were obtained from the annual reports of selected service providers and the daily official listing of Nigeria Stock Exchange (NSE).

Population refers to a set of objects, individuals or events that possess specific features and are of interests to the researcher (Thomas, 2023). The population of the study is composed of 40 companies that are supply chain service providers in Nigeria. A sample size is a component of the population, which is drawn through a specific procedure for the collection of data required for the study (Singh & Masuku, 2014). A sample of 25 supply chain service providers was used for the purpose of the

company. This was selected through the application of simple random sampling technique. Simple random sampling technique is a sampling technique in which every element of the population has an equal likelihood of selection (Noor et al., 2022).

The use of quantitative research is justified in this study because the research examined the effect of supply chain finance initiatives on performance of selected quoted supply chain finance service providers in Nigeria. In this research, the pattern of relationship between the dependent variable and the independent variable was described by ordinary least square regression. The variables statistically analysed and measured were market prices of selected supply chain services providers and supply chain finance initiatives. The data obtained in this study were analysed using ordinary least square (OLS) regression model, correlation model and analysis of variance (ANOVA).

The models used in this study were specified as follows:

Model One

$$SPSP = \beta_0 + \beta_1 SCFI + \mu$$

Where

SPSP = Stock prices of service providers

β_0 = Intercept

β_1 = Regression coefficient

SCFI = Supply chain finance initiatives

μ = Stochastic error terms

Model Two

$$PAT = \beta_0 + \beta_1 SCFI + \mu$$

Where

PAT = Profit after tax, which measures the profitability of service providers

β_0 = Intercept

β_1 = Regression coefficient

SCFI = Supply chain finance initiatives

μ = Stochastic error terms

Model Three

$$CR = \beta_0 + \beta_1 SCFI + \mu$$

Where

CR = Current ratio, which measures the liquidity of service providers

β_0 = Intercept

β_1 = Regression coefficient

SCFI = Supply chain finance initiatives

μ = Stochastic error terms

Hypothesis 1

H_1 : Supply chain finance initiatives impact stock prices of service providers in Nigeria

The hypothesis was tested using ordinary least square (OLS) regression model. The coefficient of determination (R^2) was 0.581 (Appendix 1) while the adjusted R^2 was 0.453 (Appendix 1). The coefficient of determination (R^2) indicated that 58.1% variation in stock prices of service providers in Nigeria was explained by supply chain finance initiatives (Appendix

1). The result of the OLS regression showed a statistically significant positive association between supply chain finance initiatives and stock prices of service providers in Nigeria. The analysis of variance of 78.695 indicated that a simultaneous change in stock prices of service providers in Nigeria was caused by supply chain finance initiatives. The correlation coefficient also showed a strong positive association between supply chain finance initiatives and stock prices of service providers in Nigeria. This was supported by correlation coefficient of 0.762 (Appendix 1), which was statistically significant at 0.05 level

Hypothesis 2

H₂: There is a relationship between supply chain finance initiatives and profitability of service providers in Nigeria

The ordinary least square (OLS) regression results of supply chain finance initiatives and profitability of service providers in Nigeria revealed a coefficient of determination (R²) of 0.741 and the adjusted R² of 0.615 (Appendix 2). The coefficient of determination (R²) indicated that 74.1% variation in profitability of service providers in Nigeria was explained by supply chain finance initiatives. The above results showed that there was a significant positive relationship between supply chain finance initiatives and profitability of selected service providers in Nigeria. The analysis of variance of 72.051 revealed that a simultaneous change in profitability of service providers in Nigeria was caused by supply chain finance initiatives. The correlation result showed that there was a significant positive relationship between supply chain finance initiatives and profitability of service providers in Nigeria. This was justified by correlation coefficient of 0.861, which was statistically significant at 0.05 level

Hypothesis 3

H₃: There is a relationship between supply chain finance initiatives and liquidity of service providers in Nigeria

The ordinary least square (OLS) regression results revealed the relationship between supply chain finance initiatives and liquidity of service providers in Nigeria. The coefficient of determination (R²) was 0.511 (Appendix 3) and the adjusted R² was 0.468 (Appendix 3). The coefficient of determination (R²) indicated that 51.1% variation in liquidity of service providers was explained by supply chain finance initiatives. The result of the ordinary least square regression showed that there was a strong positive association between supply chain finance initiatives and liquidity of selected service providers in Nigeria. The analysis of variance of 50.131 suggested that a simultaneous change in liquidity of service providers in Nigeria was brought about by supply chain finance initiatives. The correlation result indicated that there was a significant positive relationship between supply chain finance initiatives and liquidity of service providers in Nigeria.

9. Conclusion

Supply chain finance is a major consideration in supply chain management. This study is motivated by the fact that supply chain is a key business function which should be exploited by firms in order to gain competitive advantage as well as financial advantage in the market place. Supply chain finance initiatives improve the stock prices, liquidity and profitability of quoted service providers in Nigeria through the reduction in operating cost and interest rates. Although, a wide range of empirical studies have investigated the impact of supply chain finance on shareholders' wealth but there is no empirical study that emphasizes on the effect of supply chain finance initiatives on the performance of quoted service providers in Nigeria. This study addressed the gap by investigating the impact of supply chain finance initiatives on performance of quoted service providers in Nigeria. Thus, this study contributes to the body of knowledge on the impact of supply chain finance initiatives on the market value of quoted service providers in Nigeria. Through the analysis of supply chain initiatives of 25 companies quoted on the Nigeria Stock Exchange for a period of 10 years (2013-2022), the findings revealed that the supply chain finance initiatives improve the performance of service providers quoted on the Nigeria Stock Exchange.

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APPENDIX 1

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.762a	.581	.453	.317

a. Predictor: (Constant), Supply chain finance initiatives

Source: Author’s Computation, 2023

COEFFICIENTS

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	.535	.701		.664	.021
	5.141	3.148	.872	4.963	.028

Source: Author’s Computation, 2023

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	0.884	9	.874	78.695	.016b
Residual	2.622	15	.269		
Total			3.506	24	

Source: Author’s Computation, 2023

- a. **Dependent Variable:** Stock prices
- b. **Predictor:** (Constant), Supply chain finance initiatives

CORRELATION

		Supply chain finance initiatives	Stock prices
Supply chain finance initiatives	Pearson Correlation	1	.762
	Sig. (2-tailed)		.02
	N	25	25
Stock prices	Pearson Correlation	.762	1
	Sig. (2-tailed)	.02	
	N	25	25

Source: Author’s Computation, 2023
 Significant at 0.05 Level

APPENDIX 2

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861a	.741	.615	.517

a. **Predictor:** (Constant), Supply chain finance initiatives

Source: Author’s Computation, 2023

COEFFICIENTS

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	.494	.713		.621	.04
	6.017	2.035	.573	5.025	.01

Source: Author’s Computation, 2023

ANOVA^a

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.814	9	.727	72.051	.02b
	Residual	4.453	15	.386		
	Total	5.267	24			

a. **Dependent variable:** Profitability

b. **Predictor:** (Constant), Supply chain finance initiatives

CORRELATION

		Supply chain finance initiatives	Profitability
Supply chain finance initiatives	Pearson Correlation	1	.861
	Sig. (2-tailed)		.01
	N	25	25
Profitability	Pearson Correlation	.861	1
	Sig. (2-tailed)	.01	
	N	25	25

APPENDIX 3

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.715a	.511	.468	.471

a. Dependent variable: Liquidity

b. Predictor: (Constant), Supply chain finance initiatives

COEFFICIENTS

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	.286	.442		.503	.03
	4.361	2.012	.776	3.413	.01

Source: Author's Computation, 2023

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1Regression	.747	9	.653	50.131	.02b
Residual	2.025	15	.215		
Total	2.772	24			

a. Dependent Variable: Liquidity

b. Predictor: (Constant), Supply chain finance initiatives

CORRELATION

		Supply chain finance initiatives	Liquidity
Supply chain finance initiatives	Pearson Correlation	1	.715
	Sig. (2-tailed)		.03
	N	25	25
Liquidity	Pearson Correlation	.715	1
	Sig. (2-tailed)	.03	
	N	25	25

Source: Author's Computation, 2023

Significant at 0.05 Level