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CULTURAL ASPECTS OF THE USE OF TRADE CREDIT

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Purpose: This paper aims to (1) provide insight into the cultural issues of the use of trade credit, focusing on the links between trade credit and trust, religion, and national culture, and (2) suggest potential directions for future research in this area.
Design/methodology/approach: A literature review was conducted to identify the key cultural issues addressed in previous studies on trade credit and to summarize the research on the use of trade credit in three focus areas: trust, religion, and national culture.
Findings: A literature review confirms that cultural factors, such as trust, religion, and national culture, play crucial roles in the provision and receipt of trade credit. Therefore, future research on trade credit should adopt a more comprehensive approach that extends beyond a purely financial perspective.
Research limitations/implications: This review does not address all potential cultural factors that may impact the use of trade credit. In addition, the review is constrained by the limited research conducted in this area and the heterogeneity of the studies analyzed.
Practical implications: Given the significance of trade credit in business operations, a thorough understanding of its cultural underpinnings can prove vital for the parties involved in a trade credit agreement.
Originality/value: Despite the crucial importance of trade credit for companies and the extensive research devoted to it, the cultural dimension of its use remains an underexplored field. This article addresses this issue by providing an overview of the current state of research on trade credit concerning three cultural aspects: trust, religion, and national culture. Furthermore, the article outlines several potential directions for future research in the subject of the study. The article's subject matter falls within the expanding domain of culture and finance.

Keywords: trade credit, trust, religion, national culture, ethics.

Category of the paper: Literature review.

1. Introduction

Trade credit occurs when a supplier delivers goods to a customer for which the customer does not pay immediately but promises to pay later (Wu, Firth, Rui, 2014; Chen et al., 2020).

Trade credit is ubiquitous worldwide (El Ghoul, Zheng, 2016) and used in multiple industries (Boone, Kurtz, Berston, 2019) and by companies of all sizes (Cowton, San-Jose, 2017). It is a permanent feature of market transactions and an important source of short-term financing (Seifert, D., Seifert, R.W., Protopappa-Sieke, 2013). For many firms, trade credit is vital to their operations (Atanasova, 2007; Cheng, Pike, 2003). The literature emphasizes the considerable importance of this source of business financing for smaller firms (Moro, Belghitar, Mateus, 2021; Peel, Wilson, Howorth, 2000; Van Horne, Wachowicz, 2008) and in particular for growing firms that encounter difficulties in accessing financing from institutional lenders (Wilson, Summers, 2002).

Research on trade credit is the subject of several reviews. For example, Paul and Boden (2008) synthesize research on the supply of trade credit. Del Gaudio, Porzio, and Verdoliva (2018) review the literature on trade credit with a particular focus on the SME environment. D. Seifert, R.W. Seifert, and Protopappa-Sieke (2013) analyze in detail four strands of literature on trade credit, including trade credit motives, order quantity decisions, credit period decisions, and settlement period decisions. Pattnaik et al. (2020) provide an overview of trade credit research's state-of-the-art by examining 1191 papers published from 1955 to 2019.

Culture is among the most critical factors influencing business decisions (Goodell et al., 2023). According to Bedendo, Garcia-Appendini, and Siming (2020), a manager's cultural background significantly affects the financing structure of firms. So far, empirical research on trade credit has especially covered such cultural aspects as trust (e.g., Wu, Firth, Rui, 2014; Levine, Lin, Xie, 2018; Xu et al., 2023), religion (e.g., Cao et al., 2019; Chen et al., 2020; Li, Zhu, 2021), and national culture (e.g., El Ghoul, Zheng, 2016; Moro, Belghitar, Mateus, 2021; Hoang et al., 2023). Despite the apparent interest in trade credit, there is a lack of studies that synthesize dispersed research on the cultural issues related to this financial tool.

As Guiso, Sapienza, and Zingales (2004) note, financial contracts depend not only on the legal enforceability of contracts but also on the degree to which the financier trusts the financed party. Offering trade credit requires trust that it will be repaid in the future (Johnson, McMillan, Woodruff, 1999). The payment situation related to trade credit is an example of a "trust situation" (Tammi, 2013, p. 315). Like other financial agreements, trade credit requires trust, one of the fundamental cultural issues in the economics and finance literature (Xu et al., 2023). Although trade credit is the informal source of financing (Cao et al., 2019), its providers, just like institutional lenders, are exposed to the future risk of default by their customers. As a result, people's belief plays a prominent role in trade credit decisions (Chen et al., 2020).

Religion is one of the crucial dimensions of culture (Barro, McCleary, 2003). Religiosity is recognized as an important element impacting ethical norms and judgments (Vitell, 2009). The literature supports a positive relationship between the predominant religiosity of a firm's environment and its ethical behavior (Cai, Shi, 2019). By fostering an atmosphere of good faith among the parties involved, religiosity helps to promote informal finance (Cao et al., 2019).

Research on the cultural aspects of trade credit also pays attention to the effect of national culture on the variation across countries in providing and receiving trade credit. In examining the above issue, this strand of literature refers particularly to Hofstede's cultural dimensions theory.

Given the increasing interest among researchers in the relevance of informal institutions to the use of trade credit and the critical importance of trade credit to firms, this paper aims to (1) provide insight into the cultural issues of the use of trade credit, focusing on the links between trade credit and trust, religion, and national culture, and (2) suggest potential directions for future research in this area.

According to the aim of this paper, the following is hypothesized:
Cultural issues, such as trust, religion, and national culture, affect the companies' granting and receiving of trade credit.

This paper employs a literature review to examine the cultural aspects of the use of trade credit. A literature review is an essential research method as advancing knowledge requires recognizing the boundaries of a given field. It aids in comprehending the extent of current research and, therefore, identifying areas that necessitate exploration (Xiao, Watson, 2019). This review integrates trade credit issues with trust, national culture, and religion, making a unique approach to the subject matter. It contributes to the literature on trade credit and aligns with the expanding research domain of culture and finance. In addition, review articles serve as useful sources of information for practitioners seeking up-to-date evidence to guide their decisions and professional practice (Paré et al., 2015). As such, this study is valuable for trade credit decision-makers as it enhances their understanding of this financial instrument. In sum, this study aims to increase awareness and comprehension of the cultural issues of trade credit use that benefit both researchers and practitioners.

The rest of this paper is organized as follows. Section 2 provides a brief introduction to the concept of trade credit. Section 3 presents the methodology adopted in this study. Section 4 reviews trade credit works considering the issues of trust, religion, and national culture. Finally, the last section provides concluding remarks and suggests possible future research avenues.

2. The nature of trade credit – theoretical background

The separation between the moment of delivery of goods and services and the time of payment gives rise to trade credit (Paul, Boden, 2008). Thus, unlike cash or near-cash payments, goods or services are provided "on credit," typically with an invoice outlining the payment terms (Cowton, San-Jose, 2017).

Trade credit acts as “a facilitative financial vehicle” as neither the demand nor supply of credit is the primary objective of the trading transactions or businesses involved (Paul, Boden, 2008, p. 273). Trade credit is a spontaneous source of financing resulting from ordinary business transactions (Brigham, Daves, 2021; Petty et al., 2015). As it is flexible and relatively easy to obtain (Moyer, McGuigan, Rao, 2017), trade credit is sometimes referred to as a source of on-demand financing (Petty et al., 2015). Since suppliers are more liberal in granting credit than financial institutions (Van Horne, Wachowicz, 2008), trade credit can provide financing for companies that encounter obstacles in obtaining funds via formal channels.

Numerous theories explain why suppliers extend trade credit to customers and why buyers use it (for an overview see, e.g., Petersen, Rajan (1997); Wilson, Summers (2002); Summers, Wilson (2003); Paul, Boden (2008); Zawadzka (2009); Kreczmańska-Gigol (2013); Becella (2019)). Since Schwartz’s (1974) formulation of two motives for trade credit sales, i.e., the financing and the transaction motive, further explanations for the use of trade credit have emerged. These various theories emphasize the benefits that counterparties derive from using trade credit. In this regard, it is also important to note the two-way nature of the transaction, as firms often decide to both provide trade credit as suppliers and use it as customers, which requires managing net trade credit position (Peel, Wilson, Howorth, 2000).

Although trade credit differs from bank credit, it is subject to similar risks of late payment or non-payment by the customer. Therefore, under a trade credit agreement, the seller finances the buyer’s inventory and is exposed to credit risk (Cheng, Pike, 2003). The belief that the debtor will meet his obligations is an inherent part of the decision to extend trade credit. Thus, it is possible to consider trade credit as a promise, as highlighted by Cowton and San-Jose (2017). According to this view, prompt payment is a promise-keeping case, while late payment represents a promise-breaking case (Cowton, San-Jose, 2017).

Trade credit creates “a network of financial dependency” (Białek-Jaworska, Nehrebecka, 2016, p. 190). While “stretching” accounts payable (also known as “leaning on the trade”), i.e., postponing payment beyond the end of the net (credit) period, provides a company with an additional source of short-term financing (Van Horne, Wachowicz, 2008, p. 284), it can also have multidimensional consequences for the parties directly (but not only) involved in the transaction. In addition, such debtor behavior raises ethical questions (Cowton, San-Jose, 2017). However, the ethical aspect of trade credit use has not been the subject of much in-depth research (Li, Zhu, 2021).

3. Research methodology

This study employs a literature review as a research method to examine previous research in the field and pinpoint areas that require further exploration. Conducting a literature review is a crucial aspect of academic research (Xiao, Watson, 2019) since research is a collaborative effort where researchers build on previous work (vom Brocke et al., 2009). Literature reviews, as independent studies, move the academic discussion forward (Kraus et al., 2022). The rationale for choosing this research approach is that a literature review can efficiently tackle research questions by combining outcomes and viewpoints from different empirical studies, surpassing the efficacy of individual studies (Snyder, 2019). An effective review provides a solid basis for the advancement of knowledge. It promotes theory development, closes over-researched domains, and spotlights areas necessitating additional exploration (Webster, Watson, 2002). A literature review can be regarded as a literature investigation (Chigbu, Atiku, Du Plessis, 2023) that serves multiple purposes. The rapid pace at which knowledge is produced in business research, combined with its interdisciplinary and fragmented nature, creates a challenge in keeping up with the latest research and evaluating collective evidence in a specific research area. Hence, the literature review as a research method is currently highly pertinent (Snyder, 2019).

The search for relevant literature for this review was conducted using Google Scholar. Given that the boundaries of what culture encompasses are unclear (Goodell et al., 2023), it was essential to limit the scope of the study. Therefore, an initial search was performed using keywords such as *trade credit + culture*, which revealed three areas of interest for further exploration: trade credit in the context of trust, religion, and national culture. Combinations of relevant terms, including *trade credit + trust, trade credit + religion,* and *trade credit + national culture*, were then searched to identify literature related to these topics. This search was supplemented by forward and backward reference searching. During the search, emphasis was placed on empirical studies published within the last five years.

4. Results

4.1. Trust as an inherent element of trade credit

As viewed by Arrow, “Trust is an important lubricant of a social system. It is extremely efficient; it saves a lot of trouble to have a fair degree of reliance on other people’s word” (Arrow, 1974, p. 23). Trust is a valuable factor in many forms of exchange (Doney, Cannon, Mullen, 1998).

According to Arrow (1972), trust is present in nearly all commercial transactions, particularly those that occur over an extended period. Similarly, Knack and Keefer (1997) note that trust-sensitive transactions comprise, among other things, exchanging goods and services for future payment. Koralun-Bereźnicka and Szramowski (2021) also emphasize this point, remarking that historically, trade credit was based on a relationship of trust between the merchant and the buyer, i.e., trust that the other party would fulfill the agreement and make payment within the agreed timeframe. Trade credit is so tightly fused with trust that it is even noted that it would vanish without trust (Dupont, Karpoff, 2020).

Trust is one of the building blocks of the buyer-seller relationship. As Ganesan (1994) shows, credibility, a dimension of trust, is vital for establishing long-term relationships between retailers and vendors. The significance of trust in building such relationships is further supported by Doney and Cannon (1997). They find that when buyers trust the supplier company and the salesperson, they are more likely to anticipate future interactions with the supplier.

The mechanism of trade credit involves the parties in a mutual relationship (Koralun-Bereźnicka, Szramowski, 2021). This results in trade credit being closely intertwined with issues of trust. Establishing and maintaining trust in credit relationships is an essential requirement for the functioning of trade credit in both developed and developing countries (Amoako, Akwei, Damoah, 2021). Without trust between the parties, transactions that could be mutually beneficial will not occur (Dasgupta, 2005). In the context of trade credit, a lack of confidence in the trustworthiness of customers and the associated concern that the company will not receive payment and will not be able to enforce repayment can lead to trade credit rationing (Fafchamps, 1997).

Since building and developing trust takes time (Doney, Cannon, 1997), suppliers may use some verification solutions when dealing with customers lacking a proven payment history. According to Fafchamps (1997), unfamiliar customers may receive trade credit only after an adequately long trial period. This period is an opportunity to build trust between the parties. Fafchamps also states that large companies may have an advantage in obtaining trade credit due to their reputation and market power. Amoako, Akwei, and Damoah (2021) further address the above issue, noting that companies may resort to partial payments in relatively new trade credit relationships where trust has yet to be established.

Although numerous studies explore the impact of trust on formal financial markets, there is a paucity of research examining its effect on trade credit. One such study by Wu, Firth, and Rui (2014), based on a sample of non-state listed firms in China, demonstrates the importance of social trust in overcoming institutional difficulties in financing private firms. Specifically, Wu, Firth, and Rui find that firms in higher social trust regions are more likely to offer and receive trade credit than those in regions with lower social trust. Furthermore, they provide evidence that social trust can substitute for a well-developed legal system in supporting the receipt and provision of trade credit. Notably, according to Wu, Firth, and Rui, social trust also influences the payment behavior of firms and the efficient collection of trade receivables. Their findings show that firms in higher social trust regions tend to pay their accounts payable with greater timeliness and receive their accounts receivable faster. The latter observation holds significant value as the problem of delayed payment presents a severe threat to business operations, and the question of the determinants of this phenomenon is relatively rarely addressed in the literature.

In their research, Hasan and Habib (2019) provide different results than Wu, Firth, and Rui (2014); however, their study employs a broader category of social capital. Using US county-level data, Hasan and Habib find that firms headquartered in high social capital counties use less trade credit as a source of financing (as measured by the relative level of accounts payable). In examining the mechanism for the impact of social capital on the use of trade credit, Hasan and Habib also identify two effects of social capital on the use of trade credit, i.e., a direct effect and an indirect effect (as social capital reduces financial constraints).

The interest in the relationship between trade credit and trust is also evident in studies embedded in various extreme situations that generate shocks to firms. One such study, conducted by Levine, Lin, and Xie (2018), addresses the problem of systemic banking crises. Using a sample of over 3,500 firms across 34 countries between 1990 and 2011 they document that liquidity-dependent firms in countries with higher social trust receive more trade credit and experience smaller profits and employment declines during systemic banking crises than those in countries with lower social trust. Their results suggest a “cushioning” role of social trust in mitigating the impact of systemic financial crises on trade credit financing and firm performance.

The functioning of trade credit during exceptional events is a question that arises not only in the context of financial crises. It also emerges in the pandemic shock setting. The research by Zhang et al. (2023) is particularly noteworthy in this area as it investigates the influence of both formal and informal institutions on trade credit across 107 countries during six pandemic crises (including COVID-19). Zhang et al. identify that formal institutions, grouped into legal-law and information transparency categories, affect trade credit differently than informal institutions, represented by religious attributes, social trust, and policy stability during pandemics. They document that while the country’s formal institutions lead to less use of trade credit during pandemics, informal institutions mitigate the negative effects of pandemic crises on trade credit.

The beneficial impact of social trust on trade credit usage is also revealed by Liu and Dong's (2020) research, which is embedded in an environment of economic policy uncertainty (EPU). Their findings indicate that although EPU decreases the provision of trade credit, social trust significantly mitigates this negative effect. Liu and Dong's results underscore the relevance of a favorable social setting in times of high policy uncertainty that constrain economic activities.

It is stressed that trust-based relationships take on particular importance in settings where legal institutions are weak. Amoako, Akwei, and Damoah (2021) indicate that entrepreneurs in such environments rely on personal trust and parallel institutional trust anchored in the norms of social and cultural institutions, including family/kin and friendships, community and trade associations, and religion, to extend trade credit to their partners. In addition, their findings show that the mentioned factors affect both the provision of trade credit and the enforcement of related agreements.

In the context of the significance of trade associations in the trust-building process, it is also worth noting the research of Xiu et al. (2023). Employing data on privately owned enterprises in China's stock market, Xiu et al. show that merchant guild culture contributes to increased access to trade credit, especially in regions characterized by poor general social trust. As they note, merchant guild culture, which refers to the codes of ethics followed by all business people in a merchant guild, can alleviate information asymmetry and build relational trust, thereby fostering greater access to trade credit for firms.

Some novelty in the approach to the issue at hand can be seen in the study by Xu et al. (2023), as they focus on the relationship between trust and firms' access to trade credit, examining the category of inherited trust. Based on a literature review, they propose two hypotheses about how trust affects access to trade credit for firms facing barriers to finance through formal channels. Since trust encourages information sharing and the perception of information as reliable, thereby reducing information asymmetry, the first hypothesis assumes a disproportionately positive effect of trust on access to trade credit for such firms. On the other hand, given that trust may weaken the motive for signaling product quality, the second hypothesis states a disproportionately negative effect of trust on access to trade credit for financially constrained firms. Using data from 19 countries from 2009-2019, Xu et al. find evidence supporting the first hypothesis. In addition, their study shows that trust plays a role in boosting the sales growth of financially constrained firms as it facilitates their access to trade credit.

Trade credit is so saturated with trust that it is sometimes treated as a trust variable. For example, McMillan and Woodruff (1999) refer to the amount of trade credit granted to capture a firm's trust in a customer. Johnson, McMillan, and Woodruff (1999) operationalize the notion of trust in two ways. The first method gauges a company's trust in its customers by asking about trade credit. The second method measures a company's trust in a supplier by assessing whether it would switch to a new, previously unknown supplier offering a 10% lower price. Further, Vučković, Škuflić, and Mangafić (2023) use the trade credit variable (based on the share of goods sold on credit) as a proxy for interpersonal trust in business relations and show its positive impact on firm productivity measured as sales per employee and expectations of sales growth in the coming period. In justifying the reference to trade credit as a proxy for trust, they point out that the decision to sell on credit is underpinned by the belief that firms will obtain payment because of trust in economic actors or a third party's ability to enforce payment. Their approach is consistent with that of Berulava (2013), who also employs the trade credit variable (based on the share of goods sold on credit) as a proxy for trust-based relationships in a study of their effect on firm performance in transition economies. On the other hand, Raiser et al. (2008), in examining the extent of trust in business relationships, refer to the level of prepayment suppliers require from their customers as a measure of dis(trust).

4.2. Trade credit and religion

According to Dana (2009), religions act as depositories of wisdom and values. Religion is thought to provide social capital, like religious beliefs that support more ethical behavior (Cao et al., 2019). Through promoting ethics and morality, religious culture transmits information about two fundamental values: honesty and faithfulness (Li, Zhu, 2021). According to Guiso, Sapienza, and Zingales (2003), religious people tend to trust others, government institutions, and the legal system more. They are also less likely to engage in illegal conduct (Guiso, Sapienza, Zingales, 2003). The ethical dimension of trade credit draws attention to the relevance of religiosity to its use. However, this area of research is relatively new and still leaves room for extensive investigation.

Among the few papers that address the above issue is the work of Cao et al. (2019), which provides insights into understanding the impact of religiosity on trade credit use and firms' payment discipline. Examining Chinese non-state listed firms, Cao et al. find evidence that firms in high-religiosity areas receive more trade credit than those in low-religiosity areas. Importantly, this influence is not the same for all religions but applies to Buddhism, Christianity, and Taoism (but not Islam). Cao et al. also show that the positive effect of religiosity on trade credit use is particularly evident in regions with weak formal institutions or limited access to formal finance. In addition, Cao et al. demonstrate that religiosity can improve borrowers' payment discipline, as it tends to reduce overdue trade credit.

Results from interviews conducted by Amoako, Akwei, and Damoah (2021) with Ghanaian entrepreneurs also underline the significance of religious matters in contract enforcement under weak legal institutions. They find that religious norms are among the informal trust-related institutions entrepreneurs use to enforce trade credit agreements with counterparties in domestic and West African markets.

The results of the study by Li and Zhu (2021), which also touches on the problem under consideration, correspond to the results of Cao et al. (2019). For a sample of Chinese listed firms, Li and Zhu show a positive effect of religious culture on trade credit received, an effect that is particularly pronounced for firms in areas with lower social trust. Within the context of signaling theory, they conclude that a stronger religious culture increases the level of obtained trade credit by alleviating agency problems and mitigating information asymmetry.

The studies conducted by Cao et al. (2019) and Li and Zhu (2021) track the importance of religious issues in trade credit usage from the perspective of trade credit recipients. Chen et al. (2020), on the other hand, refer to the accounts receivable category, thus focusing on providing trade credit. Based on firm-level data from 53 countries, Chen et al. reveal that firms in more religious countries tend to provide more trade credit to their customers. This positive effect of religiosity on trade credit use is further strengthened by high social trust and creditor rights protection in a country. The study by Chen et al. shows that religiosity, as an additional extra-legal institution, promotes the diffusion of trade credit among firms that may encounter barriers in formal financing.

Previous research on the role of religion in the use of trade credit also includes the study of Mättö and Niskanen (2019). Their study focuses on two groups of countries: Catholic-dominated and Protestant-dominated. In particular, Mättö and Niskanen report higher levels of trade credit use by firms (this applies to both sides of the balance sheet, i.e., the accounts receivable and accounts payable levels) in Catholic countries compared to Protestant ones. Furthermore, they find a positive effect of peoples' religiosity (measured by the percentage of people who believe in God) on the use of trade credit in Catholic countries.

4.3. Trade credit and national culture

As Barro and McCleary (2003) note, culture is widely seen as impacting economic outcomes by influencing personal traits such as honesty and work ethic. Breuer and Quinten (2009) highlight the twofold impact of culture within an economic framework. First, cultural values can indirectly shape the economic behavior of individuals through their expression in the formal institutions of society, such as a particular financial system. Second, they can directly affect the economic behavior of individuals via their influence on decision-makers' preferences (Breuer, Quinten, 2009).

The relationship between trade credit and national culture is discussed by, among others, El Ghoul and Zheng (2016). Using Hofstede's four cultural dimensions (collectivism/individualism, power distance, uncertainty avoidance, and masculinity/femininity) as proxies for national culture and data from 49 countries between 1993 and 2013, El Ghoul and Zheng find that firms located in more collectivist, high power distance, greater uncertainty avoidance, and more masculine countries provide more trade credit to their customers.

The above issue is also addressed by Hoang et al. (2023). Focusing on a sample of manufacturing SMEs from 37 countries from 1998 to 2018, they identify the positive impact of collectivism and uncertainty avoidance on trade credit granting. Hoang et al. also shed additional light on their findings by alluding to the financial, operational, and commercial motives for trade credit provision. They identify that in countries with high degrees of collectivism and uncertainty avoidance, the increase in trade credit granting is more apparent for firms facing unstable demand, representing low reputations, or having relatively easy access to financial markets.

The work of Moro, Belghitar, and Mateus (2021) also complements this strand of research by raising the issue of the impact of a country's culture on the use of trade credit but it focuses on the perspective of the trade credit recipient. Drawing on data from manufacturing firms from 16 Western European countries between 2003 and 2013, Moro Belghitar, and Mateus find that the degree of information asymmetry rooted in a country's culture is reflected in the short-term financing strategies of SMEs. In particular, they show that firms in countries characterized by high levels of power distance, individualism, masculinity, and uncertainty avoidance are more likely to resort to trade credit as a source of financing. These cultural conditions, which breed information asymmetry in the firm-bank relationship and consequently limit the availability of bank credit to firms, contribute to the SMEs' greater reliance on trade credit.

The question of the role of the cultural environment in the use of trade credit also arises in the study by Mättö and Niskanen (2019), which differs from the studies mentioned above by analyzing trade credit on both sides of the balance sheet. In this study, Mättö and Niskanen refer to five cultural variables - three of Hofstede's national culture dimensions, such as power distance, individualism, and uncertainty avoidance, and two of Schwartz's cultural orientation scores, such as embeddedness/conservatism and intellectual autonomy, and divide religions into two categories: Catholics and Protestants. For a sample of SMEs from 35 European countries, Mättö and Niskanen find mixed results on the impact of cultural values on trade credit, suggesting that it may vary depending on religion and/or the legal and financial environment. In particular, they obtain an unambiguous result for individualism, showing its positive relationship with the level of accounts payable.

5. Discussion and conclusions

Trade credit is a well-established financial instrument that has been studied extensively. Despite the considerable knowledge about its use, research on the cultural factors associated with trade credit has been relatively limited. This literature review explores the cultural influences on trade credit use. It consolidates and analyzes current, fragmented research on the cultural nuances inherent in trade credit decision-making.

An examination of publications on trade credit in search of a cultural element has identified three prominent strands of discussion. These include issues of trust, religion, and national culture in the use of trade credit. The literature review confirms the importance of these cultural aspects both for granting and receiving trade credit, thereby supporting the research hypothesis. More specifically, the literature review yields the following conclusions regarding the issues at hand.

Trust is a crucial element in transactions that involve deferred payments. This paper indicates that trust can explain why firms employ trade credit. The reviewed studies highlight the significance of a favorable social climate for business activities. Trust plays a vital role in alleviating difficulties that firms face in financing their activities during distinct scenarios, including systemic banking crises and pandemics. Additionally, the role of this informal institution appears to be particularly important in the context of economic policy uncertainty and weak legal systems.

Limited research exists on the influence of religious issues on trade credit decisions, but the available results confirm their importance in understanding such decisions. Existing studies suggest that religiosity positively influences the use of trade credit. They highlight the supportive role of a religious setting in promoting the prevalence of trade credit for businesses that confront limitations in obtaining formal financing. The research findings show that religiosity has a positive effect on timely payment. However, additional investigation is needed in this area.

There is little research on the use of trade credit within the context of national culture, similar to the discussion of religious issues and trade credit. However, investigation in this area highlights the significance of various national cultural dimensions in determining trade credit decisions. These findings shed light on the factors accounting for cross-country variations in the provision and use of trade credit as a source of financing.

Overall, the review results suggest that informal institutions play a vital role in explaining the cross-regional and cross-country differences in the use of trade credit. These findings enhance our understanding of the determinants of trade credit and its cultural underpinnings, establishing theoretical and practical implications. The results indicate that cultural issues affect firms' trade credit decisions and highlight the need for a more interdisciplinary view of this financial instrument. Without a perspective that properly considers the human component, our understanding of trade credit will remain insufficient. Therefore, future research on trade credit should adopt a broader perspective that extends beyond a purely financial focus and considers the role of informal institutions. Due to the crucial significance of trade credit in corporate operations, a comprehensive approach to trade credit is required for scholars and practitioners, indicating which issues should be given special attention when making trade credit decisions. Awareness of the multiple determinants of trade credit from both a demand and a supply perspective can significantly aid firms in making sound financial decisions.

While the cultural aspects are becoming more prevalent in research on trade credit, some issues should be more prominent in publications. The review suggests several opportunities for future research in the subject matter.

Firstly, due to the risk of late payment or non-payment of trade credit, it would be advisable to deepen research on the above phenomenon with a cultural component. Although some studies show an interest in this subject, the topicality of the problem of late payments and payment bottlenecks and the seriousness of their multiple consequences call for further and more comprehensive research. Secondly, given the specific nature of small businesses, these entities, especially micro-enterprises, are a particularly appealing area for research that combines trade credit with cultural dimension. As the functioning of these entities is closely tied to the person of the owner, who is often single-handedly responsible for different areas of the business, research conducted on such samples could be particularly fruitful in terms of conclusions. Finally, the recent COVID-19 pandemic has created new challenges for businesses, and more research is needed to understand its impact on the use of trade credit, including the cultural dimension. The above issues appear to be attractive and promising areas for future research.

This review has some limitations. The article focuses on the use of trade credit in the context of trust, religion, and national culture. As the notion of culture is broad, this review does not cover every possible cultural issue that may affect the use of trade credit. Further studies could, therefore, focus on exploring additional cultural aspects of trade credit. Moreover, the review is restricted by the limited amount of research conducted in this field. Additionally, there is a limitation in this review due to the heterogeneity of the analyzed studies. The differences in objectives, questions, environmental settings, and the range of variables considered make it challenging to compare studies.

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