Chapter 95
Do Collaborative Relationships in Supply Chain Pay-Off?

Ik-Whan G. Kwon
St. Louis University, USA

Seock-Jin Hong
University of North Texas, USA

Sung-Ho Kim
Yonsei University, South Korea

ABSTRACT

Collaborative relationship is said to foster sustainable supply chain operations. It is argued that relationship based supply chain produces financially tangible results in many areas of supply chain. The concept is based on transaction cost theory arguing that the final price is determined in the market by total cost. A collaborative relationship fosters trust that leads to lowering transaction cost and speed up time to market which creates "serial equity" rather than "spot equity". Recent research on collaboration and supply chain performance seems to suggest tangible financial gains. Yet, no theoretical framework has been developed and empirical evidences have been lacking to support such hypothesis. A clearly defined theoretical framework and supportive empirical evidence between these two constructs are needed for future research in this area. This article attempts to articulate the theoretical foundation of collaborative relationship in supply chain and survey empirical results on financial gains reported in various research studies.

INTRODUCTION

One of the main objectives for supply chain is to create financial "surplus" for every participant in the supply chain community. The weakest supply chain link has to be addressed before the community "surplus" is considered possible. If the weakest link is left unaddressed, the maximum supply chain surplus cannot be materialized and everyone in the link becomes a "loser" from the operations.

DOI: 10.4018/978-1-7998-0945-6.ch095

The main source for poor supply chain performance operations is a weak foundation for supply chain structure. Kwon, Hamilton and Hong (2011) argue that a successful supply chain requires three stages in its structure; foundation, tools/engines and ultimate reward (financial returns). The goal for supply chain management is to improve the profitability for all partners within the supply chain. However, such goal may not be achieved or even feasible if the supply chain foundation is not firmly established. Research indicates that business transactions become efficient (cost saving) and effective (customer responsiveness) once commitment is established (Barney and Hansen, 1994; Dyer, 1997). Commitment, however, is seldom enforced unless a certain level of trust between supply chain partners is formed (Kwon and Suh, 2005). Collaboration among supply chain partners is the first step to establish such trust. A collaborative relationship is a long-term, win-win partnership among organizations based on joint value creation for the supply chain network focused on the end-customer needs. This type of supply chain is based on trust. Collaboration encourages two or more enterprises (or persons) working closely together to achieve shared strategic goals that produce greater values for all parties than could be gained by acting alone. Information sharing is a first step toward establishing a collaborative relationship. In short, information sharing creates environment that fosters collaborative framework, which, in turn, opens the door for trust building process.

Accordingly, it is reasonable to stipulate that trust and information sharing are central tenets of supply chains. When not fully integrated because of lack of trust, or information sharing, the transaction costs of doing business increase and the ability to respond to potential risk/disruption diminishes (Eshkenazi, 2009). Some researchers even argue that one of the reasons for limiting collaboration among supply chain partners is the lack of trust amongst each other (Fawcett, et al., 2009).

The premise of collaboration in supply chain performance improvement is that supply chain collaboration should look at developing close working relationships with customers and suppliers. Should these collaborative efforts succeed, then it is reasonable to expect performance improvements. For example, Simatupang and Sridharan (2005) show that there is a strong correlation ($R^2 = 0.74$, $p < 0.01$) between a collaboration index (measured by degree of information sharing, degree of decision synchronization, and degree of incentive alignment) and the performance index (measured by fulfillment rate, inventory turnover, and responsiveness). Their argument seems to be supported in a more recent study by Henke, et al. (2014) who measured the relationship between revenue per vehicle and trust index. Still another research study further indicates that firms in supply chains with high levels of collaboration have a greater competitive advantage than those in less collaborative supply chains (Themistcloeous, et al, 2004; Myhe and Speckman, 2005). The supply chain operation in a typical case starts with cooperation (to capture extra benefits) which may lead to collaboration (to create future value) which in turn creates an environment conducive to building trust with trading partners where business transactions actually are consummated (Kwon and Suh, 2004).

The purpose of this study is to explore the theoretical framework where and how collaboration leads to financial improvement for all supply chain participants. Empirical results reported in research publications should support our theoretical framework. This article consists of literature review, theoretical foundation, empirical results, summary and conclusions and managerial implications.

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