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.

**KEYWORDS**
Cloud-based Supply Chain, Commitment, SC Foundation, Supply Chain Financing, Supply Chain Optimization, Transaction Cost

**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.

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 (Themistocleous, 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.

**LITERATURE REVIEW**

There has been some confusion as to the terms of collaboration, coordination and cooperation. Coordination implies that “I do it because I am told to do so”. No feeling and no vision. Cooperation, on the other hand, carries the implication that “I do it because I see immediate benefits for me” (spot equity). Finally, for collaboration, “I do it because I see a long-term value for me and for my organization” that fosters creating trust and produces “serial equity” as opposed to “spot equity” (Pekman, et al., 1998). Collaboration, therefore, suggests 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 (Monczka, 2014). The characteristics of collaboration, therefore, are deep, intensive communication among the partners, open and free information sharing, and some form of joint planning including mutually shared goals (Stallkamp, 2005).

Strategic collaborators are those partners in a supply chain who are closely aligned in their long-term business strategy and shared values. Together, both parties are making complimentary investments in technology, intellectual property, and new products. With each of the partners in this supply chain so directly relying on the performance of the others, maximum information sharing is desired and needed, and is so stipulated in governance agreements (Giguere and Householder, 2012). At the end of the day, supply chain management is about relationship management. A supply chain is managed; link-by-link, relationship-by-relationship, and the organizations that manage these...
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