A Transaction Cost-Based Approach to Partnership Performance Evaluation

Description

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Partnerships are often considered an alternative way to deliver programs provided by governments and organizations (potentially) more cost effectively. However, this assumption needs to be verified. Evaluators and auditors now face a challenge: how to assess the performance of this hybrid organizational form.This article suggests one powerful way of evaluating partnerships: transaction cost economics (TCE). A key hypothesis of TCE is that partners choose a governance structure that minimizes transaction costs (TCs). If a partnershipâ??s governance structure is misaligned with its transactions, higher TCs will decrease the partnershipâ??s performance. Hence, measuring the partnershipâ??s TCs is essential. After defining what constitutes a partnership, the article introduces the TC framework. It then identifies relevant factors in the literature affecting partnership performance. It concludes with key steps in applying the framework and shows how it fits into partnership performance evaluation.

Key Words: evaluation partnership â?¢ performance â?¢ transaction cost

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