A Transaction Cost-Based Approach to Partnership Performance Evaluation

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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 partnership’s governance structure is misaligned with its transactions, higher TCs will decrease the partnership’s performance. Hence, measuring the partnership’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.

KEYWORDS: evaluation partnership; performance; transaction cost

Partnerships: An Introduction

The objectives of this article are twofold: to introduce the transaction cost theory to program evaluators and auditors and to propose, in a ‘how to’ format, an approach to evaluating partnership performance in the development aid sector based on transaction cost theory.

Partnerships are often considered an alternative way to implement public policies and deliver services that traditionally have been provided by various levels of government, and/or different types of organizations. This phenomenon is not new; it appeared 20 years ago (Gray and Jenkins, 2003; OECD, 2002). Partnerships have also been subject to recent attention from evaluators and auditors (Gray and Jenkins, 2003; Liebenthal et al., 2004). Even though there is little data on the importance of partnerships and a lack of consistency in the definition of a partnership, a recent OECD study emphasized that many governments use this form of service delivery and that partnerships range in term of public spending: often above 50 percent and sometimes above 75 percent of public spending (OECD, 2002: 16).
For instance, in Canada the Auditor General referred to partnerships as ‘collaborative arrangements’ (OAGC, 1999). The government of Canada issued a framework in 1995 to guide departments in creating partnerships (OAGC, 1999; TBSC, 2002).

Not only are partnerships used by national governments to implement public policies and deliver services, they are used even more extensively by multilateral organizations such as the World Bank in the development aid sector (Erickson, 2001; Liebenthal et al., 2004; OECD, 2002). One of the reasons for their increased use is the recent paradigm shift in development aid. It has moved from donor clubs (where aid is mainly under the control of donors) to a present focus on outputs. It is now gradually moving toward ‘country ownership and partnerships’, in which the recipient country fully controls the aid after demonstrating good governance capacity (Gwin, 1999, 2002). Table 1 summarizes the development paradigm shift.

Indeed, the Millennium Goals (endorsed in 2000 by all 189 United Nations countries) refer explicitly to ‘partnering with others’ by encouraging the ‘development of a global partnership for development’ from which seven targets have been identified (World Bank, 2002a). Also, the United Nations Conference on Financing for Development, held in Monterrey, Mexico, in March 2002, captured the new development paradigm and reflected a broad-based consensus about aid effectiveness (World Bank, 2002a, 2002b). This paradigm was part of the Comprehensive Development Framework (CDF) launched in 1999 by the World Bank, in which partnerships were again highlighted. The CDF itself is based on four principles that capture this new paradigm of development effectiveness (see Box 1).

The World Bank can thus be perceived as a multilevel partnership. Partners (the World Bank and recipient countries) elaborate processes, set reciprocal obligations, and make joint decisions. Projects are concrete expressions of their development partnership, or outputs. At the country level, partnerships are processes managed by each recipient country: country-led development. At the regional level, partnerships are being used to address regional and global issues, such as AIDS and natural disasters (Picciotto, 2004: 65–6). Partnerships are also an integral part of CDF for at least three reasons: partnerships (a) can provide access to additional knowledge; (b) can enhance the effectiveness of the development

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<th>Table 1. Change of Paradigms in Development Aid</th>
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*Source: Adaptation from Picciotto (2002)*
sector; and (c) are at the heart of the corporate vision of the World Bank (Picciotto, 2004: 64–5). In fact, development aid providers have struggled for a while with transaction costs (TCs); the multiplicity of development projects that need to be managed, the high number of donors and their lack of coordination have led the development aid community to focus more and more on aid harmonization (OECD, 2003b).

Because partnerships are used as a public-sector delivery mechanism more often today than in the past, they are scrutinized by evaluators and auditors, who must adjust their methods to appropriately evaluate them. There are four reasons for this:

1. Even though partnerships are increasingly used, there is very little evidence of their performance (Liebenthal et al., 2004; Mayne et al., 2003: 248) and few specific frameworks for evaluating them (Brinkerhoff, 2002; OAGC, 1999).
2. Partnerships are not exempt from challenges, and it is legitimate to address these. Among the challenges worth noting are lack of clarity in defining common goals; complexity of accountability structures (accountability between constituents and partners, between partners themselves, and between partners and constituencies); capacity to provide an appropriate level of resources; capacity to measure performance (and manage horizontally); and the importance of strong leadership and trust (Gray and Jenkins, 2003; NAO, 2001; OAGC, 1999; OECD, 2001; Stern, 2004).
3. Recent international attention on performance measurement and accountability for taxpayers’ money, and the demand for evidence-based policy-making, create the need to evaluate partnerships. Also, their assessment is desirable because of the potential for learning, since partnerships are relatively new (Gray and Jenkins, 2003).
4. Because of the hybrid nature of partnerships themselves, which mix formal and informal elements within governance, the traditional methodological tools of evaluators and auditors need adjustment (Gray and Jenkins, 2003).
To date, very few evaluation methodologies have been proposed that address partnership performance assessment (Brinkerhoff, 2002; Liebenthal et al., 2004). To my knowledge, only Brinkerhoff has suggested, in a how-to format, a comprehensive framework for assessing partnership relationships. Her framework addresses the challenge to partnership outcomes posed by the partnership process. In addition, a few experts and practitioners have recently suggested ways of evaluating partnerships that focus on the development aid sector. For instance, Stern (2004) promotes a theory-based approach to evaluating partnerships, using insights from organization theory and highlighting the importance of trust. According to him, evaluation can tackle partnerships from four angles: (a) Evaluation as Design, viewed as an ex-ante appraisal; (b) Evaluation as Development, focusing on better implementation and capacity building; (c) Evaluation as Management, focusing on accountability and results; and (d) Evaluation as Explanation, focusing on learning.

On the other hand, Klitgaard (2004) proposes three levels of partnership-evaluation questions:

- Benefits and costs of partnerships have to be assessed from a partner’s perspective.
- Partnerships should be evaluated as a whole; that is, benefit–cost analysis should drive the evaluation process in which partnerships as a whole are compared with alternatives.
- Evaluating the enabling environment: why and how partnerships emerge.

In opposition to previous levels, at this level, partnerships could be seen as ends, not means.

Although benefit–cost analysis is often useful, this method is rooted in neoclassical economics, where organization of economic activities is taken as given – in a zero transaction-cost world. De Alessi (1996: 130) describes the issue with benefit–cost analysis as follows:

Individuals making a choice compare the benefits and costs of the alternatives that they have selected for consideration, minding their own circumstances of time and place (Hayek, 1945). Thus, the issue is not benefit–cost analysis: the issue is who does it and what does it mean under alternative ownership and transaction cost conditions.

In other words, benefit–cost analyses have paid little, if any, attention to TCs (Thompson, 1999), even though TCs are significant and have been estimated as ranging from 30 to 60 percent of GNP (Dagnino-Pastore and Farina, 1999; Dollery and Leong, 1998; Wallis and North, 1986). This difficulty of benefit–cost analysis in dealing with TCs, and therefore in opening the black box of partnerships, supports the need for an approach that deals with transaction costs. Perhaps a benefit/transaction + production costs methodology is needed, but to my knowledge it is non-existent.

**Partnerships: A Proposed Definition**

What is a partnership? There are few definitions available (Mayne et al., 2003; OECD, 2001: 20; Picciotto, 2004). In more general terms, North (2004) sees the potential of partnerships as a ‘collaborative effort by which we can create the conditions to improve economic performance’. Picciotto defines partnerships as...
‘a means to an end – a collaborative relationship toward mutually agreed objectives involving shared responsibility for outcomes, distinct accountabilities, and reciprocal obligations’ (2004: 59). While these definitions provide some insights into the nature of partnerships, they do not reflect micro-analytic institutional elements (such as bounded rationality) that impact on partnerships’ performance. The following key elements (adapted from OAGC, 1999) capture my definition of the term partnership in a development and public-policy context.

Common objectives tied to a public-policy purpose Governments or organizations look for one or more partner(s) who share their objectives. These objectives are associated with a public-policy purpose, such as poverty reduction, environment, security, or employment. Trust between partners is the glue of the partnership.

Shared governance Once the partners agree on the partnership objectives, they must examine what type of governance is most suitable to their partnership. The governance structure provides a framework within which they make strategic decisions (in relation to the partnership objectives), organizational decisions (regarding the use of financial and non-financial resources), and operational decisions (regarding the delivery of the partnership’s outputs).

A written, but incomplete, agreement Once they decide to partner, the partners should recognize the importance of agreeing on how they will manage the partnership, such as which actions they will prohibit and how they will resolve conflicts. Because it is not possible to write agreements that predict all possible actions and events, written agreements between partners are considered incomplete. Because of this incompleteness, two assumptions – bounded rationality and opportunism – directly impact TCs.

A partnership is thus ‘a joint effort toward common public policy objective(s), by means of shared governance based on incomplete written agreement’. The above definition might apply to a wide range of partnerships, such as (but not limited to) public–private partnerships, NGO–NGO partnerships, government–NGO partnerships, government–government partnerships, and federal–provincial–municipal partnerships. Indeed, scholars and practitioners observed recently that this alternative delivery mechanism is often, rightly or wrongly, considered more cost effective than traditional government departments (Gray and Jenkins, 2003) and also more suitable in addressing complex issues. However, few partnership performance evaluations have yet been done; this phenomenon remains to be understood.

A Theory-Driven Approach to Evaluation: Injecting Transaction Cost Theory into Evaluation

The recent emphasis on and attention to complex systems, realistic evaluation that requires a careful blend of theory and method, the need for evidence-based evaluation, and evidence-based policy-making have all paved the way for using theories of change in evaluation (Chen, 1990; Chen and Rossi, 1983; Pawson and Tilley, 1997; Rossi et al., 1999; Stame, 2004; Weiss, 1998).
Program evaluators have used economics before. For instance, evaluators often use cost–benefit analysis (Cannon et al., 1985; Clyne and Edwards, 2002; Kee, 1994) or other related methods (Nagel, 1985). There are a few advantages of using economics within program evaluation. One is that the two share a similar concern: determining optimal use of scarce resources in a world with unlimited needs. Furthermore, both seek to influence policy decisions, and both rely on observation to explain social phenomena (Picciotto, 1999).

But more important, to my knowledge few evaluations have used economic theories, especially from the New Institutional Economics (NIE) branch. However, a very interesting effort in bringing together new institutional economists and evaluators was attempted by Picciotto (1998). For instance, Stiglitz (1998: 287) sees evaluation as an institution and highlights the importance of evaluation quality: ‘Because evaluation, including ex post evaluation, provides an important contribution to accountability, it affects our incentives and influences behavior.’

Transaction Cost Theory can provide the theoretical input that is typically missing in most program evaluations, which Chen (1990) calls ‘black box’ or ‘atheoretical’ evaluations. Indeed, theories of change can enable evaluators to assess multi-sector activities, address the relationship between process and outcomes, and deal with change at individual, organizational, and system levels (Kapoor, 2002; Connell and Kubisch, 1998; Pawson and Tilley, 1997; Stame, 2004; Sullivan et al., 2002). Thus, using an appropriate theory of change, such as transaction cost economics (TCE), can open a partnership’s ‘black box’ – by facilitating understanding of the micro-institutional elements affecting partnership performance (Stame, 2004) – and dealing with attribution in evaluation (Kapoor, 2002; Weiss, 1998). TCE is the theory of change that is generally regarded as best able to provide an understanding of alternative forms of economic organization and contractual arrangements.

The new institutional economics:

(1) holds that institutions matter and are susceptible to analysis . . .
(2) is different from but not hostile to orthodoxy, and
(3) is an interdisciplinary combination of law, economics, and organization in which economics is the first among equals. (Williamson, 1996b: 3)

TCE’s principal message is that the existence of change within institutions can be explained through transaction-cost-economizing behaviors of individuals (Williamson, 1985). North (1990), as well, maintains that a country’s successful economic performance can be attributed to an institutional structure that keeps its TCs low. One crucial element of TCE is the cost of transactions in one governance structure compared with another. It is assumed that the governance structure that best fits a particular transaction (one with low transaction costs) performs better than one that does not (one with higher transaction costs). Therefore, the higher the TCs in a specific governance structure, the lower its performance. Since TCs are not directly measured but, rather, estimated (using the critical dimensions of a given transaction as proxies), it is sufficient to find a significant relationship and variation between estimated TCs and a productivity index for a given partnership. The central question for those who wish to examine partnership performance is: how does variation in the TCs of a partnership affect its performance?
Transaction Cost Economics: Application to the Public Sector

In 1937, Roald Coase said in a letter to his friend R. Fowler that he had ‘succeeded in linking up organization with cost’ (Picciotto and Wiesner, 1998: 108). Since then, while the TC concept has been most often applied to studies of the private sector, TC logic can also be applied to the public sector (Williamson, 1997, 1999). Transaction cost economics have been used in several areas, such as public administration (Ferris and Graddy, 1998; Williamson, 1999) and public policy (Dixit, 1996). However, Moe (1990) questions the applicability of TCE to the public sector as well as, for instance, the relevance of asset specificity for the organization of economic activities in public-sector contexts.

In reaction to Moe and others, Williamson (1999) extended the applicability of TCE to public administration. His approach is that a public-sector agency can be studied from a contracting perspective in which organizations are considered a ‘nexus of contracts’, while the relevance of behavioral assumptions remains. For example, multiple principal–agent relations within government (Lane, 2005), and the information asymmetry that results from them, along with the inherent incompleteness of contracts, lead to various types of transaction costs (rent-seeking, moral hazard, and adverse selection within bureaucracies). Into this mixture, Williamson (1999) introduced a new critical dimension of public transaction, ‘probity’, by which Williamson refers to the loyalty and rectitude with which certain public transactions are to be discharged. Hence, probity ‘determines the vertical relations of a public agency with the political leadership, horizontal relations with counterpart agencies, and internal relations within the agency’ (Ruiter, 2005: 293). Governance of a large number of public transactions is subject to one or more of three hazards: cost excesses, bilateral dependency, and probity. Governance structures differ mainly in autonomous and cooperative adaptation respects (Williamson, 1999: 339).

For Williamson (1998a), the central problems of economic organization are change and adaptation, and the public sector does not escape them. TCs are the ‘comparative costs of planning, adapting, and monitoring task completion under alternative governing structures’ (Williamson, 1981: 1552–3). Consequently, the public agency is instrumental ‘as an alternative mode of governance that is well-suited for some purposes, poorly suited for others’ (Williamson, 1998b). Hence, although Williamson acknowledges fundamental differences between the public and private sectors, TCE views the different types of economic organization and institutional arrangement in both sectors as alternative means of governing the same types of transaction. To use Denis Robertson’s metaphors (cited in Williamson, 1994), firms (organizations) are ‘islands of conscious power in this ocean of unconscious cooperation like lumps of butter coagulating in a pail of buttermilk’.

Dixit (1996) describes three main transaction costs relevant to the public sector: information impactedness, opportunism, and asset specificity. According to Dixit, policy outcomes ‘can be better understood and related to each other by thinking of them as the results of various transactions costs and of the strategies of participants to cope with these costs’ (pp. xiv–xv). On the other hand, Ferris and Graddy (1998) support the idea that transaction-cost theory can illuminate solutions to problems in public-performance budgeting, fiscal decentralization, and local-government contracting. Although Ruiter (2005) agrees that TCE is applicable to the public
sector and has indeed gained influence in it, he proposes ways to enhance its applicability to the public sector.

It is important at this point to highlight the fact that TCE does not address the rationale of partnerships: why do partners decide to form a partnership? But rather why, after deciding to partner, do they choose one particular governance structure over another?

**Why is Transaction Cost Economics Suited to the Assessment of Partnership Performance?**

Good practice in evaluation suggests that every evaluation should take into account all the factors affecting outcomes. Indeed, one advantage of injecting TCE into a theory-based evaluation approach is that it allows evaluators and auditors to address both formal and informal elements affecting a partnership’s performance. TCE came from the New Institutional Economics branch of economics, which differs from other branches because it puts institutions, as units of analysis, at its center. The reason is simple: institutions affect the cost of running the economic system and its performance. What, then, is an ‘institution’?

Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. … Are Institutions formal or informal? They can be either, and I am interested in both formal constraints – such as rules that human beings devise – and informal constraints – such as convention and code of behavior. (North, 1990: 3–4)

TCE explains why certain types of transaction are carried out within particular governance structures, while others are carried out within different governance structures. It also explains how governance structures affect the partnership performance. By using TCE, we allow evaluators and auditors to address the governance dimension of partnerships – considering not only the formal elements that belong to a partnership (financial and non-financial resources, results management, compliance with rules and regulations), but also the informal ones (social capital: reputation, trust, personal values, culture, etc.). Moreover, because of its normative nature and predictive power, TCE has excellent potential for recommendations designed to reduce TCs. It also allows consideration of institutional arrangements other than those generally considered by government analysts, such as markets or government hierarchies (Ostrom et al., 1993).

**Challenges Associated with Transaction Cost Economics**

TCE is not exempt from challenges. For example, Granovetter (1985) mentions that TCE offers an under-socialized account of organizational design issues, and Roberts and Greenwood (1997) note the difficulty that TCE has with explaining why efficient governance structures may not be chosen and inefficient governance structures maintained. Milgrom and Roberts (1992) also criticize TCE for the inherent difficulties associated with measuring TCs. Goshal and Moran (1996) criticize the preference of TCE for the market as a governance mechanism over the organization and state, and argue that TCE contains false assumptions about
human nature (opportunism and bounded rationality). Similarly, Nooteboom et al. (1997) maintain that trust due to social norms or personal relations is underrepresented in TCE and that trust often substitutes for formal contracts and controls.

Nevertheless, I believe that TCE is very suitable for partnership performance evaluation, and the following sections will demonstrate how the proposed performance assessment framework addresses these challenges.

**Transaction Cost Economics: A Normative Perspective**

TCE investigates the way transactions between partners are organized and the effect of the transactions on the partners. It focuses on explaining institutions using a common concept – transaction costs (TCs) – and it analyzes transactions with tools employed in conventional economics.

The transaction is the basic unit of analysis that ‘contains in itself the three principles of conflict, mutuality, and order’ (Commons, 1932: 4). Williamson added:

Not only do proponents of transaction cost economics concur that the transaction is the basic unit of analysis, but to them, governance is the means by which order is accomplished in a relation where potential conflict threatens to undo or upset opportunities to realize mutual gains. Transaction cost economics attempts to operationalize that prescient message. (Williamson, 1996a: 50)

What is a transaction? It ‘may be said to occur when a good or service is transferred across a technologically separable interface’ (Williamson, 1993: 16). Coase (1937) was one of the first economists to explore the boundaries of the firm and to understand that they not only depend on technology, but also on TCs (the costs of doing business). As Coase explained years later,

In order to carry out a market transaction it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on. (1961: 15)

Coase’s explanation (also referred to as ‘the Coase theorem’) provided the arguments that motivated a paradigm shift in economics. Indeed, for neo-classical economists, the costs of running the economic system are mainly for production (in a zero-TC world). The organization of economic activities is taken as a given: neo-classical economists characterize firms as profit-maximizing producers (Williamson, 1985). But in a world of positive TCs, exchange agreements must be governed, and transactions must be organized. In contrast to production costs, TCs are the ‘costs of running the economic system’, the economic equivalent of friction in physics. From this viewpoint, one can conclude that some forms of governance are more suitable than others for a given transaction. Therefore, TCE sees the variety of economic organizations primarily in the service of TC minimizing (Williamson, 1985: 1). Consequently, organizations with higher TCs tend to be poorer performers than those with lower TCs. In order to understand a partnership’s performance, one must first estimate the TCs associated with that particular partnership.
The Composition of Transaction Costs

TCs have been defined in various ways. Coase (1937) defined TCs as the costs of using the price mechanism, which include the cost of discovering relevant prices and of negotiating and concluding contracts. Arrow (1969) defined TCs as the costs of running the economic system. According to Williamson (1985), there are two kinds of TC:

1. Ex ante costs of drafting, negotiating, and safeguarding an agreement: in the case of partnerships, these costs arise at the beginning;
2. Ex post costs of haggling, governance, and bonding to secure commitments: in the case of partnerships, these costs occur during the partnership’s lifespan.

Ex ante costs can be further divided into search costs and contracting costs. For partnerships, search costs include the costs of identifying and evaluating potential partners. Contracting costs are associated with negotiating and writing an agreement between partners. These costs occur mostly before the partnership formally begins (North, 1990; Williamson, 1985).

Ex post costs can be divided as well into monitoring and enforcement costs. Monitoring costs are associated with monitoring the agreement to ensure that each partner fulfills the predetermined obligations. Enforcement costs are associated with ex post bargaining (renegotiation) and sanctioning a partner that does not perform according to the agreement (North, 1990; Williamson, 1985) (see Figure 1).

The Transaction Cost Framework

In order to measure transaction costs, one must know how transactions differ in their critical dimensions. Two assumptions affect the critical dimensions of a given transaction.

Individuals may behave opportunistically During a conflict over the goals of a partnership, for example, information may be passed on incompletely or not at all. Resources may be spent for different purposes than were agreed. If so, mistrust occurs and TCs increase, leading to inefficiency. In evaluating partnership performance, the level of trust as well as social capital are important to know, as well as their effect on TCs.

Individuals are characterized by bounded rationality Due to incompetence, and to lack of knowledge and information-processing capabilities, individuals are not always able to act rationally, even if they plan to. Due to bounded rationality, it is impossible to write contracts that account for every possible environmental state or action of partners. Again, mixed with opportunism, TCs tend to increase, since partners have to monitor each other’s performance and create a mechanism to enforce their agreement.

Critical Dimensions of Transactions

Transactions differ in their critical dimensions and their relationship with the behavioral assumptions already described affects TCs. The critical dimensions of transactions relevant to partnerships will be discussed here.
Asset specificity A valuable asset may be attached to a particular transaction. While some assets are common, others are dedicated to a particular use. The degree of specificity can be measured by the difference between the cost of the asset and the value of its second-best use (Williamson, 1981). For example, money is not specific. One hundred thousand dollars might be needed for a given transaction in a given country but, should the transaction not be completed, the money could be used for another transaction in another country with no loss in value. On the other hand, education and training are often specific assets; in acquiring knowledge, one makes an irreversible investment – unless the knowledge becomes obsolete, resulting in a loss. Similarly, if the knowledge was unique to one partnership, once the partnership ends the investment is lost. Hence, within a partnership that requires highly specialized skills, one partner may be in a weaker position. The threat of one party acting opportunistically leads to the so-called ‘hold-up problem’, which is likely to raise both the ex ante and ex post TCs of that particular partnership.

Williamson (1996b) identifies six types of asset specificity: (a) site, (b) physical, (c) human, (d) dedicated, (e) brand-name capital, and (f) temporal or spatial. Site specificity refers to the co-location of activities so as to minimize production costs. It has been measured in terms of the physical proximity of contracting parties (Joskow, 1985). Physical asset specificity refers to the use of co-specialized assets (i.e. assets that are more productive when used simultaneously and lose
their value when used separately), which are customized for a particular purpose. *Human asset specificity* refers to an employee’s development of organization-specific skills or knowledge. *Dedicated asset specificity* refers to additional investments made in a project in order to increase the number of outputs to a particular customer. *Brand-name capital specificity* refers to investments in reputation. Last, *temporal or spatial specificity* refers to investments made to facilitate timely response or coordination of human assets.

For example, a partnership between a multilateral organization and a developing-country partner for which the transaction is highly specific in assets, such as buildings or infrastructure (site and physical asset specificity), may lead the country partner to behave opportunistically when the contract is renegotiated (projects funded through a grant or contribution). The multilateral organization (the investing party) may not be able to recover the full costs of its investment (i.e. the costs are sunk), except through continuation or renewal of the agreement. The assets may be tangible (e.g. buildings or machinery) or intangible (e.g. workforce training). This may result in more intense coordination of activities among partners, raising the TCs. When a partner decides not to invest in assets because of the risk of post-contract exploitation of them (i.e. high ex post TCs), this situation can lead to suboptimal resource allocation and inferior partnership performance.

In order to protect their investments, partners will likely try to write extensive, comprehensive contracts that predict as much as possible each partner’s behaviour. The consequence is an increase in ex ante TCs. Again, because it is impossible to predict each partner’s behavior in advance, the specificity of the assets will also affect the ex post TC, since the partners may want to renegotiate the contract’s clauses as the partnership goes forward. When partners have to intensify their coordination activities and invest a portion of partnership resources (financial and non-financial, such as time) in purposes other than those associated with productive activities (outputs), the partnership’s performance drops. Therefore, the specificity of assets increases coordination activities between partners, as well as their intensity, and thus increases TCs (Artz et al., 2000; Erickson, 2001; Zaheer and Venkatraman, 1995). It is therefore important to examine the specificity of assets in any evaluation of partnership performance, as well as the coordination mechanism.

**Uncertainty**

Uncertainty exacerbates problems that arise because of bounded rationality and opportunism. Indeed, with uncertainty, TCs increase. Both partners seek to reduce uncertainty by negotiating complex contracts (increasing ex ante TCs) or by extensively renegotiating to adjust for context and reality (increasing ex post TCs). They try to predict all the possibilities associated with the governance of their particular transaction. The more complex the environment, the more partners want to negotiate comprehensive agreements. Again, if a change in politics or regime for one of the partners occurs, renegotiation is required, in turn intensifying coordination. The partnership then does not focus on producing the outputs and outcomes it is designed to produce. Uncertainty affects the performance of partnerships.
by increasing both contracting and monitoring (coordination) costs (Artz et al., 2000). Also, political uncertainty and corruption affect the costs of ‘doing business’ in a given country (North, 1990). For example, Collier and Gunning (1999) identify a set of explanatory variables for Africa’s economic performance that increase TCs, including (but not limited to) corruption and bureaucracy. Philips-Patrick (1991) also identifies a significant relationship between TCs, political uncertainty, and organizational form.

**Frequency of transactions**  As frequency increases, the comparative advantage of using a less formal governance structure decreases, because the costs of hierarchical governance structures can be amortized over more instances of the transaction; hence they are an incentive for vertical integration. In the case of partnerships, this dimension is very important, since it directly affects the choice of governance structure – whether the partnership should be formal and highly structured, or informal and at arm’s length. In the case of a partnership between a multilateral organization and a government, frequent transactions are a direct incentive to open (or keep open) a country office, for example. In other words, the more frequent the transactions, the more formal or vertically integrated a partnership should be (Williamson, 1985).

**Measurability of partner contributions**  According to Brousseau (1993), capacity to assess the contributions of partners is very important, especially where there is a low level of trust. As trust declines, partners are likely to spend more resources monitoring each other’s contributions, ensuring that the each partner brings into the partnership whatever it committed to bring. Again, in the case of multilateral organizations, whenever there is a change in government or a new team is appointed the relationship has to be re-established on a new basis – involving more frequent coordination and development of mechanisms to ensure that the new partner contributes according to the agreement. Since fewer resources are thus devoted to the productive activities of the partnership, productivity will decline.

**Application of Transaction Costs: A Positive Perspective**

In reviewing the existing literature concerning partnerships, I identified a few relevant factors that affect TCs in partnerships, and thus their performance. Other factors might be considered, depending on the partnership. Because I do not believe that probity (Williamson, 1999) is a significant dimension, I did not include it here. However, I believe that the following factors should be considered in most partnership performance evaluations.

**Coordination among Partners**

It is now widely acknowledged that transaction costs in the development aid sector are important, as is finding ways to reduce such costs (UNDP, 2000b). Coordination among partners is essential in a partnership and necessarily affects one or more costs for contracting, monitoring, or/enforcement. A World Bank report reviewing CDF performance highlights the importance of effective
co-ordination in reducing TCs and reports on selected countries’ coordination efforts (World Bank, 2003). Both donor- and recipient-country partners reported that the number and frequency of in-country donor–recipient meetings and co-ordination activities had risen over the five years before the study, and that the effectiveness and efficiency of this increased activity had been mixed. Overall, governments are playing a more active role and local donor coordination has intensified. For example, the first survey undertaken in a case study of a CDF evaluation in Vietnam found that 97 percent of respondents felt that relationships between development partners had improved because of the recent CDF (World Bank, 2003: 30).

Examination of coordination among partners is essential, since most partnership challenges directly increase the intensity of coordination. For example, in Vietnam different procedures associated with using consultants, inconsistency in terms and conditions between partners, and level of centralization in decision-making for both donors and government partners are challenges that all partners have to deal with. These challenges, therefore, directly affect the intensity of coordination (UNDP, 2000a). In Tanzania, transaction coordination costs often respond to a need for donor–donor coordination. Lack of effective prioritization and challenges in horizontal coordination (between donors) were identified as the main factors in increased TCs at the country level (OECD, 2003a). One way to reduce TCs associated with coordination among donors is to adopt a delegated cooperation model, where one donor plays a central role and others are silent partners (OECD, 2003b).

In the technology sector, a French economist using TCE to assess technological alliances advanced the idea that partners cooperate for three main reasons: strategic, organizational, and operational (Brousseau, 1993). Erickson (2001: 66) states that partners in the development-aid sector collaborate for comparable reasons. I believe that Brousseau’s reasons apply to partnerships in development aid. For strategic reasons, partners align their decision-making with the objectives and overall purpose of the partnership. For organizational reasons, partners align their decision-making with the use of human, material, and financial resources. Finally, for operational reasons, partners align decision-making with the use of outputs. This explanation of coordination provides an opportunity for evaluators and auditors to operationalize and measure the ex post TCs of partnerships by developing an index to gauge the intensity of coordination. In other words, as the intensity of the coordination increases, ex post TCs also increase.

A similar index has been effectively used by researchers to measure TCs and explain the choice of governance structures by scientists when they collaborate on research projects (Landry and Amara, 1998) and also to explain the researchers’ performance when they decide to collaborate (Jobin, 2000). Others have examined the relationship between coordination costs and TCs. Artz et al. (2000) found that asset specificity and environmental uncertainty inspire intense coordination, thus increasing coordination costs. Furthermore, Anderson and Buvik (2001) demonstrated a positive relationship between coordination costs and asset specificity, reinforcing the importance of taking into account these critical dimensions.
Social capital: trust and reputation

The presence of social capital will generally affect the four types of TC (searching, contracting, monitoring, and enforcement). Social capital is understood as a combination of social networks, trust, and collective action (Putnam et al., 1993). Indeed, Putnam believes that ‘features of social organization, such as trust, norms and network can improve the efficiency of a society facilitating coordinated actions’. One can derive from Putnam’s work that partnerships with a high level of trust among partners tend to perform better than those with a lower level of trust. Mayne et al. (2003) suggest that successful partnerships should be understood through explanatory variables such as social capital:

First, people better equipped with social resources – in the sense of their social network and the resources of others they can call upon – will succeed better in attaining their goals. Second, people will invest in relations with others in view of the perceived value of the social resources made available by these relations. Thirdly, organizations with more social capital than others will probably be better off. (Mayne et al., 2003: 42)

Interestingly, Coleman (1988, 1990, 2000) suggests that social capital has two key aspects. First, it can increase economic performance by improving information sharing. Decisions made by partners are potentially suboptimal if partners lack adequate or accurate information. Also, in some situations, one partner may benefit from relaying incorrect information to the other(s). In other situations, optimal decisions are difficult because of uncertainty surrounding a transaction. Second, even though social capital does not remove uncertainty and does not convert incorrect information into perfect information, it creates mutual knowledge and the trust necessary to glue the partnership.

In TCE terms, social capital reduces TCs by reducing the need for coordination and thus increasing the partnership’s effectiveness. There are many ways to measure social capital (World Bank, 1999). However, in partnerships, I believe that two dimensions of social capital are particularly interesting and worth measuring: (a) partners’ reputations and (b) trust among partners. While trust is associated with future actions, partners’ reputations can be understood as an assessment of their past actions, so these dimensions may be seen as two sides of the same coin.

Partners’ reputations  Adapting Fombrun’s (2001) definition, reputation is a collective representation of a partner’s past actions that describes and assesses the partner’s ability to deliver outputs and outcomes. There is no doubt that a reputation is an economic asset (Fombrun, 2001) and a significant factor in reducing TCs (Dollinger et al., 1997; Dowling, 2001). Indeed, partners with good reputations are more visible and will likely receive more attention, reducing search costs. Enforcement costs will also tend to be lower, given that partners do not want to lose their worthy reputations. Some researchers have also shown that partners’ reputations positively affect outcomes in joint ventures (Dollinger et al., 1997; Saxton, 1997) and thus have relevance to TCs (Parker and Hartley, 2003).

Trust among partners  Trust was identified long ago as perhaps the most efficient mechanism for governing a transaction (Arrow, 1974). Trust is generally based on
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non-contractual arrangements. The reason is simple: trust eliminates the need for formal contracts, which would otherwise be expensive to design, monitor, and enforce (Dyers and Wujin, 2003). Again, adapting Fombrun’s definition, trust can be considered an individual representation of a partner’s future actions that describes and assesses the partner’s ability to deliver outputs and outcomes.

Research has shown that trust among partners plays a critical role in partnership performance (Gulati, 1995; NAO, 2001: 9; OAGC, 1999: 5–11; OECD, 2001: 44; Stern, 2004; Zaheer and Venkatraman, 1995; Zaheer et al., 1998). Trust has also been positively associated with performance within strategic alliances (Luo, 2002; Zaheer et al., 1998). Other studies have established that trust can reduce TCs (Dyers, 1997; Dyers and Wujin, 2003) and facilitate the exchange of resources and information (Uzzi, 1999). Trust thus reduces contracting, monitoring, and enforcement costs.

In the development-aid context, cases have been reported where donors and recipient countries experienced difficulties in setting up aid projects (Ministry for Foreign Affairs, Sweden, 1999). For example, the lack of national governance frameworks in recipient countries has led some donors to take leadership in selecting development projects, undermining country ownership. This problem was seen as reflecting a lack of capacity in the government partners, added to a poor-quality civil service, resulting in a lack of confidence and trust in the public management ability of the recipient country.

Proposed Evaluation Methodology

TCE can fit into an evaluation as either an additional line of enquiry or as the key evaluation question. The evaluation questions in the approach I propose address the following criteria: relevance, effectiveness, economy, and efficiency. To address relevance, evaluators need to compare the TCs associated with two or more governance structures that coordinate the same type of transaction. By examining the relationship between transaction costs and outcomes, auditors and evaluators can establish the effectiveness of the partnership from a transaction-cost perspective. By reducing TCs, resources dedicated to unproductive activities are reduced, affecting positively the economy criterion. An increase in economy due to reduced TCs will likely improve the efficient use of partnership inputs, since fewer resources will go to TCs and more to productive outputs, hence improving efficiency.

By examining a partnership from the TCE perspective, evaluators and auditors are able to understand and examine its performance from a micro-analytic perspective – to open the partnership’s black box. The proposed evaluation methodology involves four steps:

1. overview of the partnership;
2. dimensionalizing the transaction according to the critical dimensions and assumptions;
3. devising a measurement strategy;
4. devising an analysis strategy and a reporting strategy.
Table 2 provides a sample of TC evaluation questions that can be answered using the TCE framework, while Box 2 provides an overview of the measurement strategy that deals with the critical dimensions and factors relevant to partnership performance, including a productivity index. It also provides a sample of indicators and methods used in a variety of studies. Of course, the contents of Table 2

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance</td>
<td>Is the partnership, as a delivery mechanism, the most suitable governance structure for the transaction?</td>
</tr>
<tr>
<td></td>
<td>What alternative governance structure if any could carry out this transaction?</td>
</tr>
<tr>
<td></td>
<td><strong>Subquestions:</strong></td>
</tr>
<tr>
<td></td>
<td>What transaction costs (TCs) are associated with this partnership?</td>
</tr>
<tr>
<td></td>
<td>What other potential governance structures would fit the partnership transaction, considering the partnership’s critical dimensions?</td>
</tr>
<tr>
<td>Effectiveness</td>
<td>Is this partnership an alternative way to deliver programs provided by governments and organizations more cost effectively?</td>
</tr>
<tr>
<td></td>
<td><strong>Subquestions:</strong></td>
</tr>
<tr>
<td></td>
<td>How do the transaction costs associated with this partnership affect the outcomes?</td>
</tr>
<tr>
<td></td>
<td>Is there a linear relationship between the transaction costs and the progress (or lack of it) on outcome?</td>
</tr>
<tr>
<td>Economy</td>
<td>What are the transaction costs (TCs) associated with this partnership?</td>
</tr>
<tr>
<td></td>
<td>Is the governance structure the most suitable for achieving outcomes at least cost?</td>
</tr>
<tr>
<td></td>
<td><strong>Subquestions:</strong></td>
</tr>
<tr>
<td></td>
<td>How do the TCs differ along the critical dimensions?</td>
</tr>
<tr>
<td></td>
<td>How can the transaction costs (TCs) be minimized?</td>
</tr>
<tr>
<td></td>
<td>How can trust between partners be maximized?</td>
</tr>
<tr>
<td></td>
<td>How intense is the coordination among partners?</td>
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<tr>
<td></td>
<td>How can coordination among partners be more cost-effective?</td>
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<tr>
<td></td>
<td>Does the partnership model make optimal use of transactions to achieve program benefits and to reduce costs and risks?</td>
</tr>
<tr>
<td>Efficiency</td>
<td>To what extent do the TCs affect the partnership’s efficiency?</td>
</tr>
<tr>
<td></td>
<td><strong>Subquestions:</strong></td>
</tr>
<tr>
<td></td>
<td>What transaction costs are associated with this partnership?</td>
</tr>
<tr>
<td></td>
<td>How do the TCs differ along the partnership’s critical dimensions?</td>
</tr>
<tr>
<td></td>
<td>What relationship exists between the partnership’s TCs and its productivity, in terms of outputs and outcomes?</td>
</tr>
<tr>
<td></td>
<td>How would a reduction of TCs affect the production costs (PC)?</td>
</tr>
</tbody>
</table>
and Box 2 are only suggestions. Evaluators and auditors will need to adapt them, as each partnership performance evaluation is unique.

**Overview of the Partnership**

The first step is to get an overview of the partnership. This will likely involve (but not be limited to) key informant interviews; a review of research findings in related areas (economics, political science, sociology, etc.); and a review of relevant documents, including the written agreement between partners. The objective of this step is to develop a thorough understanding of the partnership. This includes the internal and external environments as well as formal and informal partnership’s components. A decision matrix showing how decisions are made at all levels is worth considering, as well as an outline based on a theory of change that shows what the partnership tried to accomplish. During this step, the evaluator will also review past research and evaluations, searching for significant factors associated with partnership performance from a positive perspective. A key result of this overview is the identification of constructs that will later be incorporated into the measurement strategy. One of these constructs has already been suggested: social capital (trust and reputation). Evaluators must also deal with construct validity: how transaction cost theory is accurately operationalized in measurement units and scales.

Special attention should be given to the partnership’s outputs and outcomes. Evaluators need to develop a productivity index from indicators associated with the partnership’s outputs and outcomes, such as number of projects funded, value of loans, quantity of technical assistance provided, results achieved (change in behavior), percentage of poverty reduced, etc.

**Dimensionalizing the Partnership’s Transactions**

In the second step, evaluators and auditors dimensionalize the transactions according to critical dimensions and assumptions relevant to the partnership. This is the normative part of the methodology. According to Williamson, dimensionalizing the transactions (or the governance structure) means

> What key attributes (critical dimensions) differ with respect to which governance structures?

The discriminating alignment hypothesis to which transaction cost economics owes much of its predictive content holds that transactions, which differ in their attributes, are aligned with governance structures, which differ in their costs and competencies, in a discriminating (mainly, transaction cost economizing) way. (Williamson, 1991: 277)

Such an exercise answers questions such as the following. To what extent are the assets specific to this partnership? How frequently do the transactions occur in this partnership? As I have mentioned, it is not possible to directly measure a TC, but it can be estimated by measuring its critical dimensions. The objectives of this step are to determine the relevant critical dimensions, identify their relationships with the TCs, and develop hypotheses to be tested empirically.

**Measurement Strategy**

In the third step, once the overview of the partnership and the dimensionalization of its transactions are done, evaluators and auditors develop a measurement strategy
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Box 2. Transaction-Cost Measurement Framework

**Asset Specificity**
The more specific the assets for a specific transaction, the higher the transaction costs (contracting, enforcement) tend to be, therefore the lower the performance. The six types of asset specificity are: (1) site, (2) physical asset, (3) human asset, (4) dedicated asset, (5) brand name capital, and (6) temporal (Williamson, 1996). A panel of experts can classify the partnership’s activities for asset specificity. Survey respondents or interviewees can be asked to evaluate, on a Likert scale, the level of specificity of each activity (key transaction):

- We have made significant investments in this location (country/province/municipality) dedicated to this partnership.
- We have made significant investments in tools, equipment, and installation dedicated to this partnership.
- The partnership’s output(s) require(s) technical skills that are unique to this/our partner.
- The partnership’s output(s) require(s) additional investments that are unique to this partnership or to our partner.
- The reputation of our partner represents a significant asset.
- The various investments made in this partnership have reduced the difficulties associated with geographical distance between partners (Artz et al., 2000; Chen and Chen, 2003).

**Frequency**
The more frequently a transaction occurs, the higher the transaction costs. Survey or interview respondents can be asked to evaluate, on a Likert scale, the following proposition: ‘How would you qualify the frequency of the outputs delivered by the partnership?’ (Heide and Miner, 1992).

**Transactional Uncertainty**
This generally refers to unanticipated changes in circumstances surrounding an exchange. The higher the uncertainty surrounding a transaction, the higher the transaction costs (contracting, monitoring, and enforcement) associated with this transaction. Political uncertainty also affects the TC (Collier and Gunning, 1999).

Where few data are available, relevant indicators that can be considered range from Corruption Perceptions Index (Transparency International), to Political Freedoms and Civil Liberties (Freedom House), to Corruption in Government, Law and Order, Tradition, Bureaucratic Quality (International Country Risk Guide).

Survey or interview respondents can be asked to evaluate, on a Likert scale, the following proposition: ‘Please identify key external factors, their potential impact, and likelihood relevant to this partnership’ (Artz et al., 2000; Chen and Chen, 2003; Collier and Gunning, 1999; Philips-Patrick, 1991).

**Social Capital**
This is considered as a mixture of trust, social networks, and participation in collective action. People who are better connected will work better together. I intentionally focus on trust and reputation as a significant proxy for social capital in partnerships, acknowledging on the other hand that SC is more complex. Moreover, I emphasize time horizons and support the idea that reputation and trust may be seen as different sides of the same coin. Both should be positively associated with search costs.

(Continued)
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Box 2. Continued

**Reputation:** a collective representation of a partner’s past actions that describes and assesses the partner’s ability to deliver project outputs and outcomes. Survey respondents or interviewees can be asked with a Likert-like scale:

- How would you qualify, based on your own assessment of the previous performance of your partner, his ability to deliver the partnership’s outputs?
- How would you qualify, based on your own assessment of the previous performance of your partner, his ability to make a difference in term of the partnership’s outcomes?

**Trust:** a collective representation of a partner’s future actions that describes and assesses ability to deliver outputs and outcomes.

- How would you qualify, based on your own confidence in the future partner’s performance, his ability to deliver the partnership’s outputs?
- How would you qualify, based on your own confidence in the future partner’s performance, his ability to make a difference in term of the partnership’s outcomes?

(Adapted from Fombrun, 2001: 293)

**Coordination Costs**
The more frequent and intense the coordination among partners, the higher the transaction costs. Survey respondents or interviewees can be asked with a Likert-like scale:

- How would you qualify the frequency of the meetings between partners for decision-making associated with the partnership’s strategic objectives?
- How would you qualify the frequency of the meetings between partners for decision-making associated with the use of the partnership’s financial and non-financial resources?
- How would you qualify the frequency of the meetings between partners for decision-making associated with the delivery of the partnership’s outputs? (Jobin, 2000; Landry and Amara, 1998)

**Search Costs**
These include the costs of gathering information to identify and evaluate potential partners. (See also ‘Social capital’ above.) Survey respondents or interviewees can be asked to evaluate, on a scale from 1 (strongly disagree) to 5 (strongly agree):

- On average, information-gathering to find this partner required much time, effort and money.
- On average, determining the fit of this partner to the desired partnership required much time, effort, and money.

**Contracting Costs**
These refer to costs associated with negotiating and writing an agreement between partners. Survey respondents or interviewees can be asked to evaluate on a scale from 1 (strongly disagree) to 5 (strongly agree):

- On average, negotiations with this partner require extensive preparation time.
- It does not usually require very much negotiation time to reach agreement with this partner on contract terms.
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On average, negotiations with this partner require numerous, separate bargaining sessions. It is difficult to reach agreement with this partner on negotiation items. The parties involved in the negotiation between our organization and the partner become agitated with each other (Artz et al., 2000).

Monitoring Costs
These are the costs associated with monitoring the agreement to ensure that each partner fulfills the predetermined obligations. In a partnership, these costs are known as measurement costs. The more measurable each partner’s productivity and contribution is in terms of quantity and quality, the higher the partnership performance will be. Survey respondents or interviewees can be asked to evaluate, on a Likert scale, the following propositions:

- My partner’s contribution can easily be measured in terms of quantity of inputs.
- My partner’s contribution can easily be measured in terms of quality of inputs.
- My partner’s contribution can easily be measured in terms of quantity of outputs.
- My partner’s contribution can easily be measured in terms of quality of outputs.
- My partner’s contribution can easily be measured in terms of level of effort in decision making associated with the use of resources.

Importance of quality in inputs and outputs: Dummy variable is equal to 1 if the quality of the most important input can vary in nonobvious ways. Dummy variable is equal to 1 if the quality of the most important output can vary in nonobvious ways.

Non verifiability of quality in inputs and outputs: Dummy variable is equal to 1 if it is difficult for partners to verify the quality of the most important output(s) produced by the partnership. Dummy variable is equal to 1 if it is difficult for partners to verify the quality of the most important input(s) brought into the partnership (Brousseau, 1993; Murrell, 2003).

Enforcement Costs
These are the costs associated with ex post bargaining (renegotiation) and sanctioning a partner who does not perform according to the agreement. Survey respondents or interviewees can be asked to evaluate, on a scale from 1 (strongly disagree) to 5 (strongly agree), the following proposition: ‘What is the percentage of face-to-face communication time involved in renegotiation (ex-post bargaining)?’ (Jeffrey, 2003)

Productivity Index
This is expressed in terms of outputs and outcomes, and is not a critical dimension. It will depend on the nature of the partnership. Generally outputs are easier to measure than outcomes.

Outputs: Number of projects funded; number of technical reports produced; number of financial assistances provided; value of financial assistance provided; number of technical assistance provided.

Outcome indicators (e.g. poverty): Probability at birth of not surviving to age 60; people lacking functional literacy skills (%); long-term unemployment (%); population below 50% of median income (%); etc. (Jobin, 2000).
comprising the measurement targets, their relationship with the partnership’s TCs, and relevant constructs and indicators. The measurement strategy can mix both qualitative and quantitative data collection tools (such as surveys and key-informant interviews). Quantitative methods allow for a rich assessment of constructs and facilitate statistical testing of relationships between the critical dimensions and TCs. On the other hand, qualitative methods facilitate data interpretation and allow early exploration of recommendations. The objective of a measurement strategy is to estimate TCs in order to examine their statistical significance as predictors of the partnership’s productivity. Box 2 offers a variety of approaches that have been used to estimate transaction costs in various contexts.

**Data Analysis Strategy**

The fourth step, devising a data analysis strategy, is very important in program evaluation. It defines the difference between an evaluation (or research) question and a survey or interview question. Also in this step, evaluators and auditors deal with attribution. The analysis strategy evolves out of the evaluation’s research design. The objective of this step is to perform data analysis in conformity with the research design. In TCE, a quasi-experimental research design incorporating the least squares method (LSM) of multiple regression analysis is often chosen. Generally speaking, LSM allows the use of dummy variables, which limit the need to write additional regression equations and perform statistical tests. The LSM equation, given \( n \) observations, is as follows:

\[
Y_i = \alpha + \beta x_i + e_i
\]

A regression model for predicting partnership performance could be built from some, if not all, of the variables in Table 3. A regression equation that shows the relationship between transaction costs and partnership performance could be as follows:

\[
Y_i = \alpha + b_1 * AS + b_2 * U + b_3 * F + b_4 * CI + b_5 * M + b_6 * SCT + b_7 * SCR + e_i
\]

where \( Y_i \) is the productivity index, the \( b_i \) are coefficients for the corresponding independent variables or contribution of each independent variable to prediction of the dependent variable, and \( e_i \) is the residuals (errors). For explanation of the other acronyms in the equation, see Table 3.

Essentially, the steps in performing a regression analysis area follow:

1. State the research hypothesis.
2. State the null and alternative hypotheses.
3. Conduct a univariate analysis of each independent variable (to determine whether the variable is normally distributed).
4. Assess the relationship of each independent variable to the productivity index. (Are the two variables linearly related?)
5. Assess the interrelationships between all of the independent variables. (Are the independent variables too highly correlated with one another? Does this suggest the problem of multi-collinearity?)
Table 3. Suggested Variables and Related Hypothesis in Assessing a Partnership Performance

<table>
<thead>
<tr>
<th>Label</th>
<th>Causal relation</th>
<th>Partnership's performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>( Y_i )</td>
<td>Partnership performance</td>
<td>A combined Outputs + Outcomes Productivity index</td>
</tr>
<tr>
<td>AS</td>
<td>Asset specificity</td>
<td>The more specific the asset, the higher are TCs, hence lower the performance.</td>
</tr>
<tr>
<td>F</td>
<td>Frequency</td>
<td>The more frequent a transaction is, the higher the transaction costs, the lower the partnership's performance.</td>
</tr>
<tr>
<td>M</td>
<td>Measurability</td>
<td>The more measurable the partner's contribution is at all levels, less resources must be diverted from the productive activities to the monitoring activities, thus maintaining performance.</td>
</tr>
<tr>
<td>U</td>
<td>Uncertainty</td>
<td>The higher the uncertainty, the higher the transaction costs as more coordination is needed and thus the lower the partnership's performance.</td>
</tr>
<tr>
<td>CI</td>
<td>Coordination intensity</td>
<td>The more intense the coordination, the higher the transaction costs, thus the lower the partnership's performance.</td>
</tr>
<tr>
<td>SCT</td>
<td>Social capital: trust</td>
<td>The higher the levels of trust among partners, less resources are necessary with regards of monitoring and enforcement costs, hence the higher the performance.</td>
</tr>
<tr>
<td>SCR</td>
<td>Social capital: reputation</td>
<td>The higher the reputation of each partners is, less resources are necessary with regards of search and monitoring costs, hence the higher the performance.</td>
</tr>
</tbody>
</table>

(6) Calculate the regression equation – the one that best minimizes the sum of the squared residual values (distance between the regression line and each observation) for a given set of observations.

(7) Examine appropriate measures of association and perform tests of statistical significance on each coefficient (T-test) and on the equation as a whole (F-test).

(8) Accept or reject the null hypothesis.

(9) Reject or accept the research hypothesis.

(10) Explain findings in terms of the evaluation questions and objectives.

It is not the purpose of this article to describe in detail the use of multiple regression or other statistical analyses, nor is LSM always the most suitable research design. Evaluators and auditors should hire a professional statistician.
Conclusion

Partnerships are growing in importance as they become more common in the development aid sector. With this increasing importance, partnerships will be scrutinized by evaluators and auditors. Very few frameworks have, however, been proposed to evaluate partnership performance in a ‘how-to’ format; one objective of this article was to propose one.

Evaluators and auditors need to adjust their tools in order to carry out this task. By using transaction cost economics to evaluate partnership performance, evaluator and auditors will be able to deal with complexity within partnerships. As has been discussed, the advantages of the framework proposed in this article are multiple. First, it enables evaluators to undertake counterfactual analysis and deal with attribution by empirically testing hypotheses and assumptions emerging from TCE. Second, it allows evaluators to deal with informal elements that affect partnership performance and, therefore, to open the ‘black box’ of partnerships. Third, TCE allows evaluators and auditors to take into account governance structure when evaluating partnership performance. Finally, adopting TCE allows evaluators and auditors to formulate useful recommendations based on a strong normative framework influenced by economics, law, and organization studies.

Notes

1. Sector-Wide Approaches (SWAs) are a particular programmatic aid modality, which, together with General Budget Support, contrast with more narrowly based ways of funding aid — usually through projects and bypassing national budgetary processes within developing countries.
2. A corporate reputation is a collective representation of a company’s past actions and future prospects that describes how key resource providers interpret a company’s initiatives and assess its ability to deliver valued outcomes (Fombrun, 2001: 293).

References

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