Overview

Organizations incur costs as a result of planning, implementing, and enforcing transactions with other organizations. Organizations strive for greater efficiency by implementing governance structures that will minimize transaction costs.

Example Application to Implementation Science

Leeman, J., & Mark, B. (2006). The chronic care model versus disease management programs: a transaction cost analysis approach. *Health care management review, 31*(1), 18-25.

Stiles, R. A., Mick, S. S., & Wise, C. G. (2001). The logic of transaction cost economics in health care organization theory. *Health care management review, 26*(2), 85-92.

Zinn, J. S., Mor, V., Intrator, O., Feng, Z., Angelelli, J., & Davis, J. A. (2003). The impact of the prospective payment system for skilled nursing facilities on therapy service provision: a transaction cost approach. *Health Services Research, 38*(6p1), 1467-1486.

Construct	**Definition**
Asset specificity (of transactions)	The degree to which transacting parties have invested transaction-specific human, physical, or other forms of capital specific to the transaction (e.g., additional training, equipment, and staff)
Uncertainty	The extent to which changes to the wider environment may influence transactions and the future actions of transacting parties are unknown
Frequency (of transactions)	How often a transaction occurs
Transaction Costs	The outlay required for contract negotiations, monitoring adherence to contractual terms, providing financial incentives or penalties, and losses resulting from supplier noncompliance
Governance Structure	• A continuum of approaches to generating a desired product or service ranging from buying it from another party to making it yourself: Spot market is when organization buys with no contract (i.e., open market) • "Hybrid" contracting modes are when organization buys with a contract, and may include long-term commercial contracts, informal agreements, and franchise contracting, exclusive dealing contract • Fully integrated firm is when the organization makes the product itself, by unifying ownership and control

Propositions

1. Increased environmental uncertainty requiring adaptation between exchange parties increases market or externally driven transaction costs.
2. Greater transaction frequency leads to economies of scale.
3. Organizations strive for greater efficiency by implementing governance structures that will minimize transaction costs.
4. For significant levels of asset specificity, an organization is more likely to make a product or service themselves rather than buy it based on features of transactions, specifically:
   4.1 Higher degree of uncertainty of the transaction;
   2.2 Higher complexity of the transaction;
   2.3 Lower frequency of the transaction.

Relevance to Implementation Science

Cancer Prevention and Control Research Network

Implementing an intervention often involves transactions between an organization that promotes and supports the implementation of the intervention (intermediary organizations) and to organization or other entities that implements the intervention into routine practice (delivery systems). Transaction Cost Economics (TCE) may be helpful to both of these types of organizations. TCE might be used to guide intermediary organizations in deciding whether it is more efficient for them to contract with a delivery system to implement an intervention or to implement some or all of the intervention themselves. The Leeman & Mark (2006) paper (above) provides an example of how TCE might guide a health plan's decision about whether to hire their own staff to deliver diabetes management services or contract with clinics to provide the service. Similarly, TCE might guide delivery system decisions about whether to provide an intervention themselves or contract with other organizations to provide all or pieces of the intervention. Applying TCE involves the following steps.

Do an initial assessment to understand the organizations that might interact to implement an intervention.

Then assess the characteristics of transactions between organizations. What is or would be the frequency of transactions, level of uncertainty, and asset specificity?

Then assess the level of uncertainty in the wider environment that may influence future transactions. For example, is there a possibility that the level of reimbursement for an intervention may change?

Based on the above assessments, determine the most efficient way to structure the transaction. Should one organization produce the service (e.g., hire its own staff to provide diabetes case management) or should the organization contract with other organizations to produce the service (e.g., incentivize primary care clinics to provide diabetes case management).

Implementation and sustainment may be improved by decreasing uncertainty and increasing the frequency of transactions associated with an EBP.

Criticisms and/or Bounds on the Theory

Ghoshal, S., & Moran, P. (1996). Bad for practice: A critique of the transaction cost theory. *Academy of management Review, 21*(1), 13-47.

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PREVENTION RESEARCH CENTERS

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