

# **A Transaction Cost Approach to Sport Sponsorship**

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Sport sponsorship is an evolving area of interest to both academics and business practitioners. Despite recent advances, scholarly reviews of sponsorship attest to a lack of underlying theories and conceptual foundations on which to base empirical enquiries. This paper draws from the economics literature to provide an overview of Transaction Cost Theory – an approach that draws attention to the costs involved in negotiating, retaining and monitoring sponsorship exchanges. The term “costs” refers to those characteristics or dimensions of a sponsorship transaction that make exchange problematic. From the perspective of sport organisations, three sources of sponsorship costs are outlined relating to the need for: (1) planning and safeguarding, (2) adapting and servicing, and (3) monitoring and evaluating. Transaction cost theory introduces implications for sponsorship relations, particularly with respect to the possibility for costs to expand over time, the consequences of sponsor-specific investments and the choices of governing mechanisms used to manage costs. Critiques of the approach are discussed, followed by recommendations for empirical research and methodological considerations using transaction cost theory.

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Sport sponsorship is an evolving area of interest to both academics and business practitioners. This reflects sponsorship's central importance to the organisation of sport in general but more particularly its significance as a conceptual link with aspects of marketing (Farrelly & Quester, 2003a), strategic planning (Amis, Pant, & Slack, 1997) and ethics (McDaniel, Kinney, & Chalip, 2001).

As with any burgeoning field of interest, research into sport sponsorship demonstrates a range of perspectives. The emerging models have enabled analyses of elements as diverse as sponsors' motivations for decisions (Thwaites & Carruthers, 1998), their strategies to leverage sponsorship returns (Amis, Slack, & Berrett, 1999), the effectiveness of sponsors in developing brand awareness (Irwin, Lachowetz, Cornwell, & Clark, 2003) and the nature of environmental pressures helping or hindering sponsoring relationships (Berrett & Slack, 1999). Despite these advances, scholarly reviews of the sponsorship literature attest to a lack of underlying theories and conceptual foundations on which to base empirical enquiries (Cornwell & Maignan, 1998; Olkkonen, 1999). Indeed, while certain areas of sponsorship gain much attention (e.g., sponsorship effects), some notable conceptual gaps exist, particularly with respect to the trade-offs and cost considerations that inherently arise from sponsorship activity. Indeed, there have been few approaches available to address the intricacies of securing, maintaining and evaluating sport sponsorship relations. This paper draws from the economics literature to discuss a theoretical framework for the study of sport sponsorship. Transaction Cost Theory (TCT) represents an approach that draws attention to the costs involved in negotiating, developing and monitoring sponsorship exchanges. Here the term "costs" refers broadly to those characteristics or dimensions of a sponsorship transaction that make exchange problematic (Jones, 1987).

The purpose of this paper is twofold. The primary aim is to provide an overview of this approach as it relates to sport sponsorship and to identify sources of related costs. Secondly, a discussion of TCT's applications for future empirical enquiry is presented, taking note of methodological considerations and limitations.

The primary focus is on sponsorship from the perspective of the "sponsored" (i.e., the sport organisation or event) for two related reasons. First, while the presence of costs to both parties in sponsorship relations is acknowledged, there is already a significant body of research examining corporate activities aimed at leveraging sponsorship that, while not described as costs per se, could easily be adapted into a transaction cost framework (Thwaites, 1995). By contrast, there is a paucity of sponsorship literature that takes into account the perspective of sport organisations and the activities they engage in as part of the sponsorship relationship. Indeed, scholars observe that the bulk of existing sponsorship research tends to emphasise the sponsoring company's viewpoint (Olkkonen, Tikkanen, & Aladjoutsijärvi, 2000a).

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