

SPECIALIZATION AND THE FIRM

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ABSTRACT

This dissertation investigates the causes of integration in the market, especially as pertains to specialized exchange economies with intensive resource heterogeneity. While the transaction cost theories of the firm are both influential and vast, they are predominantly static and only implicitly address resource heterogeneity. Here, the argument that entrepreneurial specialization (the purposeful development of extra-intensive division of labor and capital), and thereby the exploitation of resource heterogeneity, can explain the emergence of firms is examined in three essays. The first essay utilizes the specialization perspective to compare and contrast the transaction cost theories of Ronald Coase and Oliver Williamson, and finds that there is no basis for assuming a coherent transaction cost approach to explaining the firm. The second essay develops a formal model to, contrasted with the transaction cost view, explain firm emergence from an atomistic market, and finds that there is sufficient reason to consider the entrepreneurial specialization argument on its own merit. The third essay provides “empirical” testing of the model through simulation using agent-based modeling, and illustrates how several implementations of transaction costs are insufficient to explain firm emergence while the entrepreneurial specialization argument is sufficient even in a low-transaction cost environment. The contribution of this dissertation lies in the raising of questions regarding the sufficiency of the transaction cost analysis of organization and the identification of entrepreneurial specialization as a potential contender.