5. SMEs, international new ventures and international entrepreneurship (poster)

EXPLAINING SMES' EXPORT CHANNEL CHOICE – PREDICTIONS FROM REAL OPTIONS AND ENTREPRENEURIAL ORIENTATION PERSPECTIVES

The real option creation process

Real options theory (ROT), which is considered superior to other investment theories when substantial uncertainty forms part of the investment decision (McGrath, 1997), has found fruitful ground in the management, strategy, and international business literature. Similar to a financial option, which confers the right, but not the obligation to buy or sell a financial object at a predetermined price in the future (Black & Scholes, 1973), a real option can be created by investing in physical or human assets. This real option enables the investor to react flexibly to uncertain events in the future (Kogut & Kulatilaka, 2001), for example by postponing, increasing or decreasing the investment (Chevalier-Roignant, et al., 2011). As options only become valuable under uncertainty, ROT suggests that in uncertain situations, profit maximizing actors should choose investment forms that provide them with valuable options and, at the same time, reduce downside risk (Miller & Reuer, 1996). This simultaneity of upside potential and reduced downside risk is the ultimate aim to be reached according to real options theory. Besides uncertainty, also other core variables can be found in the real options literature, most importantly irreversibility and flexibility.

Since its inception around twenty-five years ago, ROT has been applied to a number of different decision making situations. However, with an increasing body of literature in the field of ROT, also critical papers on the theory's application emerged (Adner & Levinthal, 2004; Barnett, 2008). One of the criticisms of ROT's application is the negligence of the human component in the real option value creation process. More precisely, researchers have argued that real options are only valuable when properly recognized, managed and executed (Barnett, 2008). Bowman and Hurry (1993), for example, noticed that real options remain only shadow options unless they are detected. Burger-Helmchen (2007) finally describes the creation of real options as an entrepreneurial process which starts with the "entrepreneurial identification of an opportunity" (p. 392) and herewith criticizes existing real options literature, which is often focused on the estimation of the value and less on how a real option actually comes into existence.

The inclusion of the concept of entrepreneurial orientation (EO) to real option models potentially enhances our understanding of the real option creation process. EO has been heavily researched especially in the context of SMEs (Chaston & Sadler-Smith, 2012; Moreno & Casillas, 2008; Wiklund, 1999). The theory suggests that there are companies that show a higher ability and eagerness to detect new opportunities as well as more willingness to take risks than others (Covin & Slevin, 1988). Therefore, we suggest that a combination of real options and entrepreneurial orientation considerations can contribute to a broader picture of the real options decision process. More precisely, we propose that a firm's entrepreneurial orientation impacts the company's ability to recognize and exploit real options. In the following, we describe how real options theory and entrepreneurial orientation can be combined in the context of SMEs' export channel choice.

SMEs' export channel choice – An ROT/EO model

While bigger companies often rely on foreign direct investment (FDI) in order to enter a foreign market, small- and medium-sized enterprises (SMEs) use exporting (EIM, 2010). Exporting arrangements can take different forms depending on the degree of commitment by the firm or, put differently, the extent of involvement in exporting tasks by other parties (Klein, et al., 1990). The more external parties are entrusted with exporting activities, the less

resource commitment is needed by the firm, which nevertheless also implies less control over its operations (Aulakh & Kotabe, 1997). Consequently, based on the degree of control over exporting activities, hierarchical, hybrid and market channels can be distinguished (Klein, et al., 1990). As these channel choices significantly impact performance (Aulakh & Kotabe, 1997; He, et al., 2012), they constitute important strategic decisions for a firm.

For explaining companies' choices of export channels, different theoretical perspectives have been applied, most importantly transaction cost economics (Bello & Lohtia, 1995; Klein, et al., 1990; McNaughton & Bell, 2000; Shervani, et al., 2007). Although ROT has been promoted as being applicable to any investment decision involving uncertainty (McGrath, 1997), it has never been applied to export channel selection decisions.

Most of the studies examining export channel choice only test the direct effect of selected variables without considering potential moderators. To our best knowledge, there are only two studies that incorporated moderators in their models – one by Shervani et al. (2007) and the other one by He et al. (2012), the first one including "firm power" as a moderator in a transaction cost model and the second one testing the moderating effect of "institutional distance" in a resource based view model. This lack of moderators potentially explains the incongruence in results in the various empirical articles with regard to the significance and direction of the relationship between explanatory variables and export channel choice.

Although there is a large number of empirical studies examining export channel choice, none of these has ever considered how differences in firms influence channel selection. According to Miller (1983), there are some firms that are more risk-seeking, proactive and innovative than others, i.e. they are more entrepreneurially oriented. Hence, in this paper, we use a real options model and suggest that entrepreneurial orientation will moderate the relationship between real option variables and export channel choice in that real option variables will be more strongly related to hybrid forms when firms possess high entrepreneurial orientation. Our model looks as follows:

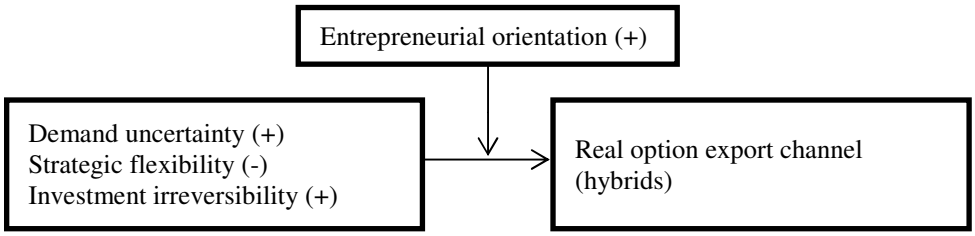

Figure 1: Own figure

Methodology

The model will be tested on a sample of Austrian small- and medium-sized exporters. Austrian SMEs are a good place to test our ideas since the existing empirical literature on export channel choice is mostly focused on US and Canadian samples (Aulakh & Kotabe, 1997; Klein, et al., 1990; McNaughton & Bell, 2000) and we can thus increase the variety of export channel choice studies by adding new geographic and cultural settings.

Contribution

This paper is intended to contribute to existing literature in the following ways: First, it introduces a new moderating variable, i.e. entrepreneurial orientation, to export channel choice decisions of SMEs. Second, it adds to the EO literature by applying the concept to novel decision situations, i.e. export channel choices and third, by adding EO to a real options model, it enriches real options literature by portraying the real option creation process more completely.