6-7-2008

CORPORATE VENTURING AND THE DECISION TO EXERCISE FOOTHOLD INVESTMENTS: A REAL OPTIONS PERSPECTIVE (SUMMARY)

Tim R. Holcomb
Florida State University, USA, tholcomb@cob.fsu.edu

John W. Upson
Florida State University, USA

Justin W. Webb
Texas A&M University, USA

Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss19/9

This Summary is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
SUMMARY

CORPORATE VENTURING AND THE DECISION TO EXERCISE FOOTHOLD INVESTMENTS: A REAL OPTIONS PERSPECTIVE

Tim R. Holcomb, Florida State University, USA
John W. Upson, Florida State University, USA
Justin W. Webb, Texas A&M University, USA

Principal Topic

A widely held belief is that corporate venturing represents the means through which firms promote growth and sustain strategic competitiveness. Previous research has generally approached corporate venturing as a dichotomous decision of entry or no entry. Hence, such models overlook the plausible observation that rather than entering into new markets through large-scale investments, firms may establish a minor presence, or foothold, through incremental investments. Footholds allow firms to increase market awareness and reduce uncertainty attributed to larger investments. Further, with few exceptions, prior studies assume away the differing industry contexts in which firms pursue venturing actions. Building on real options theory and research examining corporate venturing, we propose a real options model of sequential market entry and expansion in which entrepreneurial firms establish footholds in new markets to learn more about those markets and to reduce uncertainty associated with larger-scale market entry.

Conceptual Framework

Drawing on resource-based theory and contingency theory logic, we develop propositions that predict the decision to exercise foothold investments under differing contexts—conditions that increase the value of footholds in some contexts and not others (Kogut, 1983). Firms not only apply a real options logic to initial entry decisions (O’Brien et al., 2003), but also follow a repeated choice structure whereby previous choice dictates future options and the likelihood of action (Adner & Levinthal, 2004). In doing so, we draw attention to the decision to exercise foothold investments in an entrepreneurial setting and offer new theory to explain the sequential market entry and expansion behavior attributed to corporate venturing and the pursuit of competitive advantage.

Implications

The significance of this research is three-fold. First, we develop and advance an underlying theoretical framework to explain corporate venturing actions involving sequential market entry and expansion. Overlaying real options theory with contingency theory, we also extend theory explaining the influence of exogenous environmental conditions on the value of foothold investments and the ability of firms to fully leverage corporate venturing for strategic purposes. Finally, this work draws on real options theory to explain the repeated choice structure that enables firms to sequentially enter a new market through incremental investments.

CONTACT: Tim R. Holcomb; tholcomb@cob.fsu.edu; (T): 1-850-644-7851; Florida State University, Tallahassee, FL 32306.