

# THE ROLE OF REAL OPTIONS KNOWLEDGE IN MNE PERFORMANCE

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## ABSTRACT

*In recent years, the use of real options theory in international strategy has exploded. However, because it is still a new and ill-defined topic, there are a number of limitations to practical uses of this strong theory. To advance this topic, the study first presents a comprehensive review of real options theory's theoretically and empirically contributions to three fundamental challenges in internationalization process: valuing multinational networks, appraising market entry methodologies, and determining market entry timing. Future research could focus on a more sophisticated analysis of unpredictability and the establishment of a dynamical theory in international strategy, according to the article. In these directions, five verifiable propositions are created. The emphasis is on the real options logic's decision-making and performance features in relation to strategic investments, governance modes, and international operations management. These characteristics are studied from a strategic and operational perspective of organisational decision-making, as well as an overview of empirical research on option pricing decision-making and performance.*

**Keywords:** International strategy, Business, Empirical contributions.

## INTRODUCTION

Many of the first uses of option pricing theory to strategy were prompted by events in international business. Intellectual curiosity in the convergence of real choices theory and global strategy has grown in recent years. Despite this, the application of real choices theory to internationalization process is still a developing and ill-defined topic. Furthermore, there are genuine limits that have hampered this powerful theory's theoretical and practical uses. Real options theory is complicated because it incorporates concepts from economics, business, and management (Adner & Levinthal, 2004).

Furthermore, the quick improvements in modelling and solution methodologies are just too different to be easily considered in the context of an international strategy researcher. Real options theory, on the other hand, has a lot of promise for answering some of the field's most difficult concerns. This shows that a critical examination of this topic is both necessary and timely. This study gives a critical overview of the option pricing approach in international strategy, evaluates theoretical and empirical contributions, and offers some general research objectives (Benito & Gripsrud, 1992).

Uncertainty, which frequently exposes multinational companies (MNEs) to unfavourable conditions or prospective possibilities, has long been recognised as a significant factor in international commerce. These problems and emerging opportunities environment need a theory that aids in the analysis of MNE initiatives in the face of uncertainty. How can MNEs, for example, use their global networks to uncertainty? How may MNEs benefit from uncertainty by making smart sequential market entry choices (method and timing)? (Campa, 1994).

Internalization theory and the Methodology proposed are two basic theories in international business that do not explicitly examine the role of uncertainty in multinationals' strategic decision-making. Other implementations of transaction cost theory have dealt with uncertainty, but they primarily see it as something related to transaction costs that should be reduced. However, genuine options theory applications to international strategy have realised that uncertainty is linked not only to negative risks but also to prospective possibilities for MNEs. MNEs should establish actual options (like the option to defer as well as the option to grow) to keep flexibility in modifying decisions in response to new possibilities or difficulties to effectively benefit from uncertainty (Etemad, 2004).

Option pricing theory, which properly conceptualises and evaluates the value of the real options, can help MNEs create theories in strategic decision-making under uncertainty. Real options have been studied theoretically using two approaches: option pricing reasoning and decision analysis modelling, and various empirical investigations have examined some of the implications of a real options approach. Finally, I discuss how international strategy scholars might take use of real options theory's potential for a more nuanced handling of uncertainty and the construction of a dynamic theory. Regarding the links between ambiguity and decision making, five testable assertions are provided (Miller & Reuer, 1998).

## CONCLUSION

Dealing with real options theory applications to internationalization process have centred on how enterprises might produce real options and profit from uncertainty by forming transnational networks and selecting market entrance method and timing. Real options theory does have the potential to significantly enrich current theories in international strategy, in addition to its current uses. By highlighting the value of alternatives and flexibility, real options theory can help to the design appropriate governance structures, a research topic that is dominated by transaction cost theory. Decision analysis theory can also help researchers better understand how to make sequential decisions in international strategy, such as internationalisation speed and configuration decisions in IJVs. Five proposals in the paper incorporate these notions. I expect that this study will inspire future theoretical and empirical uses of real options theory in internationalization process.

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