Cross-border M&As and Growth Option Value: The Role of Technological diversity and Foreign Country Uncertainty

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ABSTRACT

We argue that, compared with domestic M&As, cross-border M&As have positive performance implications for the acquirers in terms of an increase in growth option value when the acquisitions increase the diversity of the acquirers' technology portfolio. This positive influence is strengthened if the target firms' foreign country exhibits greater economic uncertainty. Exercise of embedded real options in diverse technology portfolios makes cross-border acquirers likely to experience higher profitability in the long term, while cross border M&As can be detrimental to short term profit. We find support for this real options logic of cross-border acquisitions in an analysis of M&As by the population of U.S. listed firms during 1991-2014.

JEL classification: G34, G11, G12.

Keywords: acquisitions, technology, diversity, internationalization, real options, growth option value.

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