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

Rene Belderbos¹, Luca Del Viva², Lenos Trigeorgis³

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.

¹ Department of Management, Strategy and Innovation, Faculty of Economics and Business, KU Leuven, Naamsestraat 69, 3000, Leuven, Belgium. Email: rene.belderbos@kuleuven.be
² Department of Economics, Finance and Accounting, ESADE Business School, Ramon Llull University. Avenida de Torreblanca, 59 08172 Sant Cugat, Spain. Phone: +34 932 806 162. Email: luca.delviva@esade.edu
³ Department of Accounting and Finance, School of Economics and Management, University of Cyprus, Kallipoleos 75, Nicosia, Cyprus, Email: lenos@ucy.ac.cy; lenos@mit.edu