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# STRATEGIC EARNINGS MANAGEMENT IN M&A-DRIVEN ECONOMIES: LINKING FINANCIAL MANIPULATION, INVESTMENT DECISIONS, AND TARGET SELECTION

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**ABSTRACT**
A potent strategy of corporate growth through M&A almost always includes a financial manipulation of quantity or value elements to confuse decision-making. The paper analyses a strategic notion of earnings management (EM) vis-à-vis investment behavior in M&A-based economies with the idea that acquirers and targets will manipulate earnings to communicate performance misperception, target attractiveness, and the optimization of transactional outcomes. The study reviews recent data based on empirical findings internationally (and in GCC nations and the U.K.) about the kind of manipulation with real earnings management (REM) or accrual-based mechanisms that distressed and non distressed firms engage in the pre-acquisition period. It further explores the selective acquisition of target firms with high leverage or earnings opacity and the way acquirers, especially strategic as opposed to financial buyers, recognize manipulated signals within their models for valuation. This paper, providing further conceptualization linking EM, investment timing, and target selection, also discusses governance factors such as gender-diverse boards and the efficiency of capital allocation. Findings from recent studies in the extant literature show that in many ways, EM may be a concern for short-term objectives but may be seriously damaging for value creation post-merger, especially when acquirers do not look beyond the manipulated metrics. Thus, this review aims to enhance the knowledge base of how strategic manipulation governs M&A pathways in emerging markets with useful insights for regulators, investors, and corporate strategists.

**Keywords:**
Strategic earnings management, mergers and acquisitions (M&A), real earnings manipulation, investment decision-making, target selection, financial acquirers, corporate governance, capital allocation, leverage, emerging markets.

## 1. INTRODUCTION

Mergers and acquisitions stand widely accepted as strategic means of fostering separation in corporate growth, market shares, and competition over the long term. In an M&A-driven economy, especially in the emerging and transitioning markets, companies primarily rely on financial statement signals informing acquirer behavior and target selection; earnings are one such signal. However, the credibility of earnings was compromised time and again through earnings manipulation-a glare that diminishes informational clarity, casts shadow over capital allocation, and valuation processes. Thus, the logic goes, in certain deal-making scenarios characterized by disparate information and in the absence of a robust regulatory environment, corporate executives manipulate earnings to present a good financial standing to acquire favorable terms, with earnings manipulation being a strategic instrument to shape market perception (Elrazaz et al., 2021; Aljifri & Elrazaz, 2024).

Earnings management may take the form of accounting accrual adjustments or real earnings manipulation (REM), meaning operational decisions on expenses or investments designed to affect earnings. In an M&A context, both the acquirer and the target might engage in a bit of earnings management steering towards facilitating the deal: Target companies-in particular financially distressed ones-may hype up earnings prior to acquisition to boost valuation and enhance the chances of selection (Elrazaz, 2019). On the acquirer side, target red flags in financials may duly be ignored for the sake of urgency, competitive pressure, or pure strategic overconfidence, and in so doing, capital is misallocated, and hence post-merger underperformance is contributed to (Elmassri, Elrazaz, & Ahmed, 2024).

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In both developed and emerging nations, research confirms that earnings management is not always a small matter but, instead, a fundamental strategic concern driving M&As. For example, Aljifri and Elrazaz (2024) show that earnings management has had a considerable impact on earnings quality in firms of the Gulf Cooperation Council (GCC), especially in distinguishing between distressed and non-distressed firms. Such dynamics are vital in sectors heavily involved in M&A, such as telecommunications, media, and technology (Tshitangano, 2015), where aggressive financial reporting strategies tend to converge with high growth expectancies and speculative investments.

Besides the short-term opportunistic motivation to manage earnings, some firms would rather engage in earnings manipulations as a way of signaling strength, projecting stability, or supporting internal investment narratives, although the act itself might hinder value creation in the long run (Elmassri, Abdelrahman, & Elrazaz, 2020). This signaling function where firms want to send distorted earnings reports is typical in emerging markets, characterized by institutional voids, weak regulatory frameworks, and an absence of investor sophistication. More so, the signal meaning varies according to the acquirers' identity and strategic orientation: Cadima Bustos et al. (n.d.) find financial acquirers to be more prone to overpaying when they are unable to fully discount or adjust for manipulated earnings, whereas strategic acquirers tend to incorporate contextual and non-financial factors into their valuation models, thus mildly reducing the impact of EM.

EM and target selection describe how firms use accounting discretion as a weapon of self-positioning within the acquisition space. Targets are ad by acquisitions, especially by those interested in quick synergy or performance-enhancing acquisitions, are those that can successfully portray earnings to be better than they really are or at least less leveraged (Elmassri, Elrazaz, & Ahmed, 2024). However, such manipulation comes at the price of corrupting due diligence and increasing post-merger erosion of value. This becomes quite a concern in high-leverage environments, with capital being scarce and providing the perfect environment for aggressive EM, particularly when regulatory surveillance is lax.

A wrinkle worth deepening into is how corporate governance, especially board diversity and capital allocation discipline, act as constraints or facilitators in EM. Ravaonorohanta (2020) illustrates that gender-diverse boards are linked to superior M&A performance, perhaps because of a greater plurality of oversight and view risk averse to EM. Likewise, Arenbo (2023) contends that capital allocation arrangements steeped in value creation over the longer term, as opposed to short-term financial engineering, lower the instances of earnings manipulations, and support fair valuation and investments based on sustainability.

Policy-wise, therefore, the presence of EM phenomena in the M&A sphere warrants for stronger audit mechanisms, refined disclosure standards, and vigilant institutional investors. For sustainable growth in emerging economies, Atem et al. (2025) suggest that growth should not be only caused by strategy but also by ethical financial practices founded on trust and accountability. Left without safeguards, the M&A-conceived growth will trade off systemic inefficiencies, overleveraging, and unfathomable performance reversals.

This paper extends the existing slew of empirical and theoretical literature in determining how earnings management operates as a strategic lever in an M&A economy. The linking of the EM to investment decisions and target selection as well as post-acquisition performance aims at providing an overall interpretation of the reasons, mechanisms, and consequences of financial manipulation in the undertaking of deals. Through synthesizing multi-regional evidence, chiefly from the Gulf Cooperation Council (GCC), the United Kingdom, and South Africa, this article conceptualizes a model describing the double-edged role of EM as both a conveyance mechanism and a tool for strategic misrepresentation. At the end of the day, the paper seeks to help corporate strategists, investors, and regulators understand the inter-connections between earnings signals and acquisition behaviors in the realm of modern capital markets.

## 2. LITERATURE REVIEW

Merging the dynamic interaction between earnings management (EM) and mergers and acquisitions (M&A) has become the crucial focal point for researchers focusing on the integrity of financial disclosures in high-stakes value transfers. In particular, those involving REM or bookings distortions-EM is the term used by corporate managers to influence the appearance of their companies externally-and they gain short-term scenic valuation-and decision-making power in acquisitions (Elrazaz et al., 2021; Aljifri & Elrazaz, 2024).

### 2.1 Earnings Management

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Pre-M&A Strategy It is well documented that targets initiate methods of REM to make their financial profile present well and thus appear more attractive to potential acquirers. Elrazaz et al. (2021) listed various REM practices by UK targets of takeovers, such as cutting discretionary expenses and changing the timing of sales. Temporary improvement of earnings through these manipulations serves to increase the deal value and the chance of a takeover. The situation is aggravated when firms are distressed, as Aljifri and Elrazaz (2024) discovered a stronger association between EM and earnings quality differences between distressed and non-distressed GCC firms.

**2.2 Buyer Behavior and Valuation**

Bias From the buyer side, earnings manipulation may introduce distortion into the due diligence process. Elrazaz (2019) points out that many buyers are unable to see through the manipulation of earnings, specifically in cases of information asymmetry and/or in situations of highly competitive pressures. This enforces further willingness among buyers to overpay and suffer on performance after the deal has been concluded. Cadima Bustos et al. (n.d.) further these conclusions by highlighting that strategic acquirers generally tend to factor long-term synergies into their valuations, whereas financial acquirers primarily depend on reported earnings and cash flows, rendering them susceptible to EM-induced overpayment.

**2.3 Leverage and Strategic Target Selection**

Elmassri, Elrazaz, and Ahmed (2024) examined the effect of financial leverage on target choice within the UAE M&A market. Results indicated that targets having the greatest level of leverage are more inclined to the practice of EM and are thus selected when acquirers are searching for undervalued firms with growth potential. Such conduct seems to be in tune with opportunistic acquisitions whereby EM is used to mask the risks to a certain degree.

**2.4 Strategic Investment Framing**

On a theoretical plane, EM is not just opportunistic; it is often embedded in larger strategic investment narratives. Elmassri, Abdelrahman, and Elrazaz (2020) argued managerial decision-making interlaces EM as a rational instrument to bring into alignment reported performance with strategic objectives. This cloaks the line between deceit and strategic signaling as soon the performance measures come into play for either internal capital allocation or external investor confidence.

**2.5 Governance, Oversight, and Ethical Constraints**

Governance and other oversight instruments constrain the ability of EM to settle in M&A cases or shape its modus operandi should it exploit the condition further. Ravaonorohanta (2020) demonstrated that gender-diverse boards enhance M&A results, possibly from ethical scrutiny alongside being risk-averse. Likewise, Arenbo (2023), finds, that in firms where the structure for capital allocation is clearly delineated, manipulation is less likely to be tolerated, for transparency and the creation of long-term value are core principles of guidance.

**2.6 Sector and Regional Perspectives**

From sectoral and regional perspectives, they also demonstrate how EM exhibits by being affected through creature comforts. Tshitangano (2015) came to conclude that EM was a practice followed by telecom companies listed on the Johannesburg Stock Exchange pre-acquisition, which then led to poor post-merger performance. Atem et al. (2025) placed emphasis on the need for financial transparency for sustainable growth in developing economies, especially in terms of strategic investment like M&A.

A summary of key literature insights is presented in Table 1 below, highlighting EM drivers, target firm characteristics, acquirer types, and governance influences.

***Table 1. Summary of Literature on Earnings Management in M&A Contexts***

| **Study** | **Context/Region** | **EM Strategy Observed** | **Firm Role** | **Key Insights** |
|---|---|---|---|---|
| Elrazaz et al. (2021) | UK | Real Earnings Manipulation | Target | Targets manipulate operations pre-M&A to improve attractiveness |
| Elrazaz (2019) | UK | Accrual & Real EM | Acquirer | Acquirers often fail to detect EM, leading to overpayment |
| Aljifri & Elrazaz (2024) | GCC | Earnings Quality | Target | Distressed firms exhibit more aggressive EM |

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|---|---|---|---|---|
| Elmassri et al. (2024) | UAE | Leverage-Driven EM | Target | High-leverage targets engage in EM and attract opportunistic acquirers |
| Elmassri et al. (2020) | Theoretical | Strategic EM Integration | Internal Mgmt | EM used to justify internal investment decisions |
| Cadima Bustos et al. (n.d.) | General/Global | Valuation Sensitivity | Acquirer | Financial acquirers more vulnerable to EM than strategic ones |
| Ravaonorohanta (2020) | Global Sample | Governance Constraints | Board Level | Gender-diverse boards mitigate EM and improve M&A outcomes |
| Arenbo (2023) | Theoretical | Capital Allocation Ethics | Executive | Ethical capital allocation frameworks reduce EM tolerance |
| Atem et al. (2025) | Emerging Economies | Growth-Sustainability Link | All firms | Transparency essential for sustainable growth via M&A |
| Tshitangano (2015) | South Africa (TMT) | Sectoral EM Practices | Target | EM in telecom firms led to post-merger underperformance |

**2.7 Synthesis and Gaps**
A reading through the literature reveals, and indeed it suggests, a clear pattern: EM finds great use in setting the dynamics of an M&A at either end of the transaction. Yet it depends on the context: If the market is regulated and a strong governance system sets its rules, EM loses its efficacy; else, it will go ahead undeterred. There is little in the literature about how acquirers should systematically detect and adjust the valuation models for EM, especially when dealing with high-leverage or distressed setups.

## 3. METHODOLOGY

The studies adopt and follow conceptual and qualitative methodology, integrating systematic literature synthesis with theoretical model development. The goal is to develop a single overarching design that relates EM practices to target selection strategies and acquirer decision-making behavior in M&A, particularly in M&A-intensive or emerging economies.
Unlike empirical studies collecting primary financial data, this paper synthesizes patterns from the well-validated secondary sources to build a strategic logic model. The verification process in these secondary sources has been carried out based on cross-regional evidence, which was examined in the United Kingdom (Elrazaz, 2019), the Gulf Cooperation Council (GCC) economies (Aljifri & Elrazaz, 2024), the United Arab Emirates (Elmassri, Elrazaz, & Ahmed, 2024), as well as sector-specific evidence in South Africa (Tshitangano, 2015). It is worth noting that this theoretical stance favors emerging research areas still lacking quantitative consensus but are in need of a theoretical base.
**3.1 Research Strategy and Dimensions**
Such an integrative approach provides four main analytical dimensions by which to examine EM and M&A strategy linkages:
Type of Earnings Management: Real earnings manipulation (REM) versus accrual-based earnings management, with accommodation of possible instances such as discretionary spending cuts or delayed R&D and other proposals for earnings manipulations with different implications for acquirer perception (Elrazaz et al., 2021).
Target firm characteristics: Does the expression of EM differ on the basis of either high financial leverage, distress signals, or sector-specific volatility on the targets and acquirers (Aljifri & Elrazaz, 2024; Elmassri et al., 2024)?
Acquirer profile and decision making: Does a strategic acquirer (a long-term integration or synergy view) versus a financial acquirer (short-term return view) interpret and respond to manipulated earnings in a different way (Cadima Bustos et al., n.d.)?
Moderating role of governance: To assess the extent to which internal governance mechanisms-including on the one hand board diversity (Ravaonorohanta, 2020) and, on the other, capital allocation frameworks (Arenbo, 2023) influence-the translation of financial manipulation into strategic decision.
The dimensions are shown in Table 2 below:

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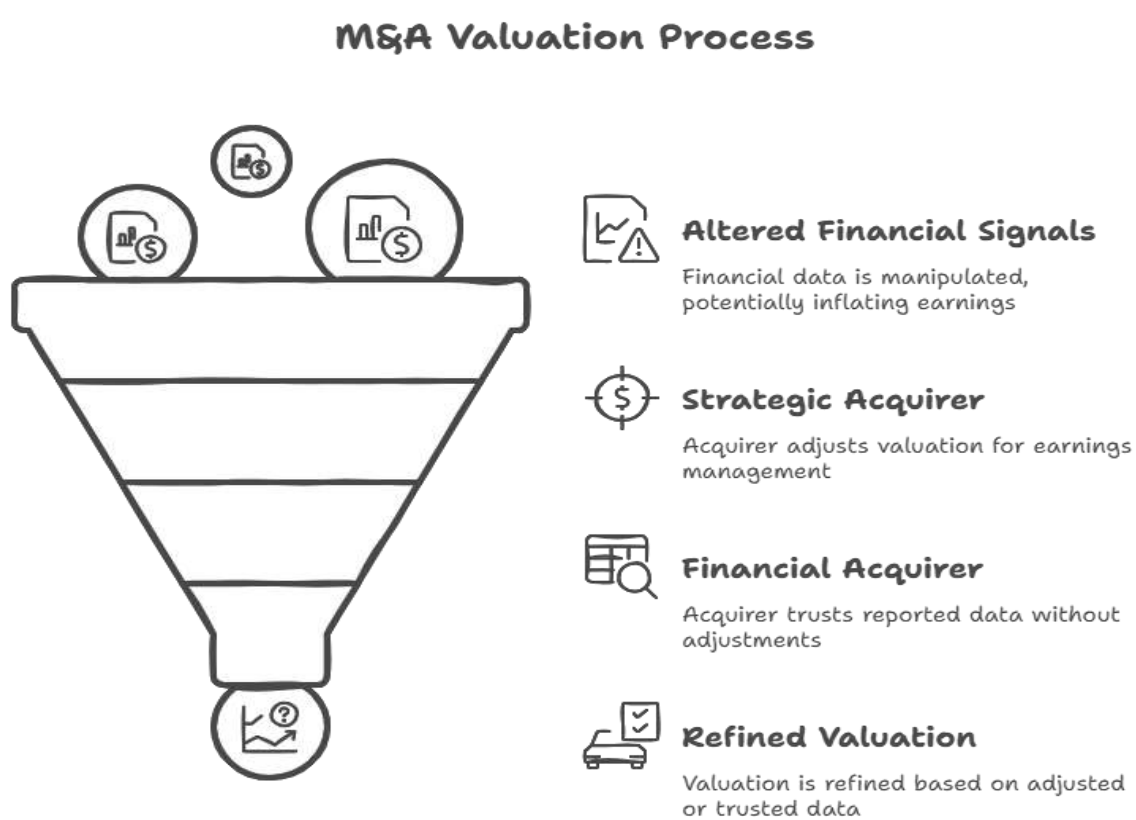
*Table 2. Methodological Dimensions of the Study*

| Analytical Theme | Description | Representative Sources |
|---|---|---|
| Type of EM | Real vs. accrual-based EM strategies used to alter reported performance | Elrazaz et al. (2021), Elrazaz (2019) |
| Target Characteristics | Financial distress, leverage, sector exposure, firm visibility | Aljifri & Elrazaz (2024), Elmassri et al. (2024), Tshitangano (2015) |
| Acquirer Sensitivity | Behavioral contrast between strategic and financial acquirers | Cadima Bustos et al. (n.d.), Elmassri et al. (2020) |
| Governance/Capital Moderators | Influence of board diversity, ethical capital allocation on M&A decision-making | Ravaonorohanta (2020), Arenbo (2023), Atem et al. (2025) |

**3.2 Conceptual Model Development**

According to these dimensions, a conceptual model (see Figure 1) specifies logically how earnings manipulation leads to target selection for a particular valuation and post-merger performance. The model argues that EM has a direct effect on financial signals perceived by acquirers. An acquirer may come in different forms and depending upon moderating governance factors, signals can be either adjusted for by the acquirer; or taken at face value thus guiding acquisition behavior.

***Figure 1. Conceptual Model-Earnings Management in M&A Dynamics plaintext Copy Edit***



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### 3.3 Justification for Conceptual Synthesis

The conceptual methodology was chosen for two main reasons:

Cross-Contextual Relevance: Because the paper draws from findings set in various geographic and regulatory setups (including the UAE, GCC, UK, and South Africa), it needs to look for generalized patterns and not context-bound metrics.

Strategic Nature of EM in M&A: EM in an M&A setting tends to be more interwoven with strategic behavior than being merely a matter of routine accounting discretion. The literature regards EM as a conscious decision that fits into larger goals such as price inflation or risk masking (Elmassri et al., 2020; Arenbo, 2023). Accordingly, conceptual synthesis is better suited to capture managerial intent and behavioral interdependencies than statistics per se.

### 3.4 Limitations and Future Extensions

While this qual approach allows much conceptual clarity, there is an absence of empirical testing. Future research could validate this framework with a large dataset of M&A transactions, comparing firms that engaged in pre-acquisition EM with their post-merger financial performance across industries and regions. Such quantitative tools as regression models, the analysis of abnormal returns, or event studies could provide operationalization to the hypotheses that stem from this model.

## 4. RESULTS

This section is the core findings derived from a structured synthesis of the literature. Cross-regional and sector-based studies on mergers and acquisitions (M&A) and earnings management (EM) raise consistent themes and decision patterns. These patterns determine the acquisition dynamics shaped by EM according to the target's financial profile, acquirer orientation, and governance context.

### 4.1 Thematic Findings

A consolidated comparison of the literature results in three dominant clusters:

- Distressed and highly leveraged target firms are significantly more likely to engage in real earnings manipulation (REM) in an attempt to appear attractive in the short-term.
- Financial acquirers, in their focus on quick returns or arbitrage, are more likely than strategic acquirers with synergy-based motives to overpay for the manipulated firms.
- Governance mechanisms, including board diversity and capital discipline, can curb the damaging effects of EM, ensuring better choice and outcomes after the deal.

These are summarized in Table 3:

***Table 3. Thematic Results from Synthesized M&A-EM Literature***

| Theme | Observed Pattern | Key Sources |
|---|---|---|
| Target EM Behavior | Distressed and leveraged firms use REM to mask risks and boost valuations | Elrazaz et al. (2021), Aljifri & Elrazaz (2024) |
| Acquirer Susceptibility | Financial acquirers more exposed to earnings-based misvaluation | Cadima Bustos et al. (n.d.), Elrazaz (2019) |
| Strategic Acquirer Adjustment | Strategic acquirers better integrate qualitative risk analysis | Elmassri et al. (2024), Elmassri et al. (2020) |
| Role of Governance | Board diversity and ethical capital policies reduce overreliance on reported data | Ravaonorohanta (2020), Arenbo (2023) |
| Sectoral Differences | TMT sectors show higher EM during M&A; outcomes often disappointing | Tshitangano (2015), Atem et al. (2025) |

4.2 Figure 1: Earnings Manipulation Pathways Based on Target Profile This diagram illustrates how characteristics of the target firm affect the degree and kind of earnings manipulation practiced prior to M&A.

**Figure 1.** Earnings Manipulation Pathways by Target Profile

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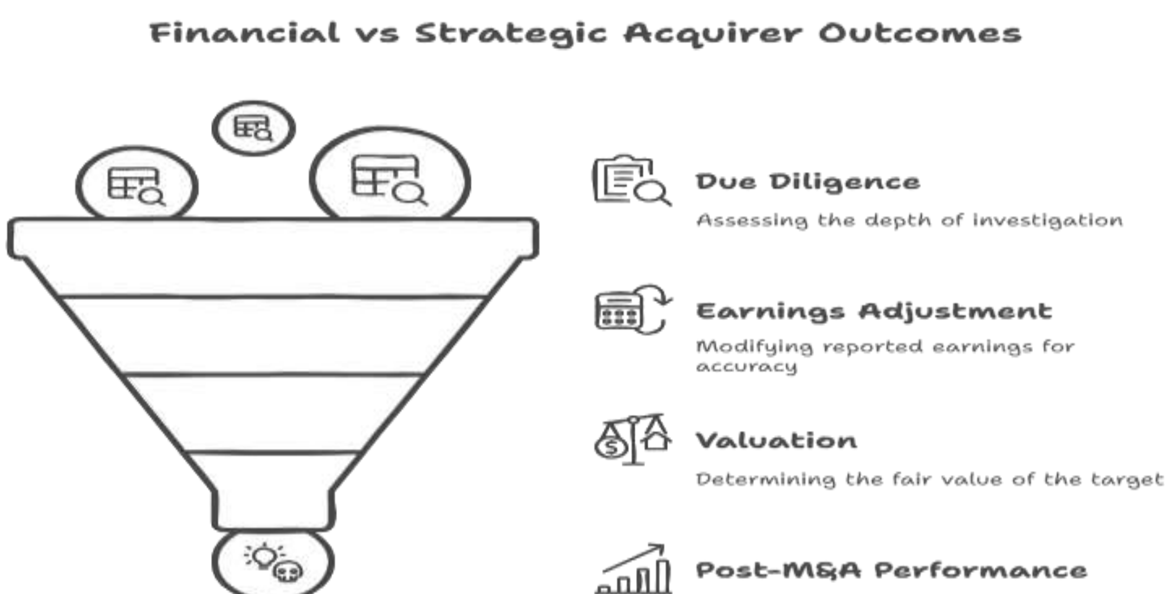
***4.3 Figure 2: Acquirer Type and M&A Outcome Interaction This figure describes an acquirer-type-based effect on deal quality in the presence of manipulated financials and with dependence on governance context and robustness of due diligence.***

***Figure 3. Interaction Between Acquirer Type and Post-M&A Outcomes***



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### 4.4 Conceptual Results: A Stitch in Time?

The above pair views demonstrate that EM is not always effective. Even if it confers some short-term appeal to the target, really, the acquirer type and his ability to interpret and discount manipulative earnings are largely responsible for the success of the manipulation.

Financial acquirers, being metrics driven, are more susceptible to mispricing.

Strategic acquirers, however, have operational insights and governance-aware filters to discount EM.

Governance then acts as a brake on manipulation and a signal to sophisticated acquirers.

These results validate the conceptual model developed in the Methodology and motivate the construction of proactive valuation frameworks incorporating EM detection mechanisms and governance quality screening.

## 5. DISCUSSION

This conceptual synthesis, therefore, highlights the enormous importance of earnings management (EM) as a strategic tool in M&A, traditionally seen in M&A-driven or capital-fluid economies. The literature generally state that the target is reluctant to engage in real earnings manipulation to provide a momentary allure of finance; thus, targets under distress or highly leveraged are more likely to undertake real earnings manipulation. Although such behavior seems perfectly rational from the perspective of a financially weak target preparing for acquisition, it would be the greatest challenge for acquirers to assign fair valuations and forecast the post-merger performance.

The critical perspective revealed through this framework demonstrates one side: in that earnings manipulation does not take place in isolation; it is set in a relational dynamic formed by the interpretative behavior of acquirers. Great financial acquirers giving weight to earnings multiples, return-on-investment measures, and short-term financial signals are frequently victims of manipulation-influenced mispricing. Their reliance on shallow measures of advertised financial ratios may set them up for systematic overvaluation-the counterpart being well-timed subtle EM efforts aimed at manipulating deal negotiations. Systematic consequences of such misalignments tend to be poor post-merger integration, value erosion, and unanticipated liabilities.

Strategic acquirers, however, take a deeper perspective of M&A focusing on synergy realization, long-term positioning, and operational integration. These entities better reject earnings distortions by complementing their shallow analyses with qualitative information, sector dynamics, and due diligence. The presence of specialized M&A teams and sector knowledge usually arms strategic acquirers with the abilities to identify warning flags and appropriately discount their valuations. While they are not completely immune to EM, their approach diminishes its impact and allows them to structure deals in a way that is more in line with realistic and sustainable goals.

One of the more subtle insights arising from the synthesis relates to the moderating role of corporate governance and capital discipline. Corporations with gender-diverse boards and transparent capital budgeting processes and those that reward performance with long-term incentives are less likely to empower or encourage EM. Internal governance mechanisms act in two ways: they hinder the able exercise of target-side managerial opportunism and signal quality to acquirers. Indeed, governance works as a filtering mechanism: strategic acquirers tend to seek out firms that exhibit it's strong governance as a means of proxy to earnings quality and operational resilience.

The institutional and regional context here is very relevant as well. Emerging economies like the GCC should watch for lax regulatory oversight while accounting standards may permit discretion. Emerging markets, in this sense, provide fertile land for EM in conjunction with distressed firms looking for a strategic exit. The acquirer's level of sophistication is thus a double-edged sword in these kinds of markets. Therefore, multinational acquirers entering these markets must implement enhanced due diligence protocols, similar to one that surpasses traditional financial statement analysis, which would incorporate forensic accounting exercises, stakeholder interviews, and much deeper assessment of working capital and accruals.

Being strategically applied raises EM issues in the areas of ethics and policies. Arguably, EM can be seen as a rational response to market signaling pressures; the longer-term consequences of EM are in capital misallocation and post-merger underperformance, engendered distrust among investors. Policymakers and bodies regulating the market must definitely focus on furthering disclosure norms, enhancing audit norms, and encouraging transparency in governance, all meant to reduce the incentives or opportunities for earnings manipulation.

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From a strategic management perspective, the findings imply that EM should not be treated narrowly as an accounting issue, but as a concern central to corporate decision making. Acquisition teams should be trained to spot the signs of earnings manipulation, especially when examining targets in sectors with a history of volatility or in regions where enforcement tends to be lax. Detection of EM should also be formally integrated into valuation, scenario evaluation, and integration implementation.

In short, EM in M&A is not just a financial distortion; it exposes managerial intent, risk posture, and governance culture. Analyzing the behavioral and strategic rationale behind it can offer higher knowledge and foundations to acquisition decisions. This conceptual framework proposed in the present study serves as a launching pad, thus equipping future empirical research with an instrument to quantify these dynamics and to guide both practitioners and policymakers into a better decision-making environment.

## 6. IMPLICATIONS AND RECOMMENDATIONS

In the light of these conceptual insights, the implications are, thus, far-reaching for the corporate strategist, financial analysts, regulators, and institutional investors. The crux of these implications points to the concept that when earnings management (EM) is executed by the target firms on a strategic basis, acquisition decisions are distorted, thus bearing enormous risks after the merger. This distortion is highly dangerous in a scenario where acquirers either do not factor in the possibility of earnings having been manipulated or do not have the analytical ability to evaluate the existence of EM.

For corporate acquirers, the findings strikingly suggest the need for a major rethink of valuation practice, especially for financial buyers, who depend heavily on standardized financial metrics. The acquirers must incorporate this EM adjustment into their Predeal evaluation techniques. Forensic accounting, working capital consistency checks, and comparative benchmarking of earnings quality are some of the tools they could use. By putting such checks into their M&A processes, firms will reduce the chances of paying an exaggerated price for targets that have inflated short-term earnings to cover up underlying weaknesses.

Strategic acquirers can better deal with EM, but they, too, must institutionalize these types of practices so that qualitative and governance-related signals are weighted in evaluations. The existence of a diverse board, a credible history regarding transparent capital allocation criteria, and an ethical risk culture should be factored into the assessment of an acquirer—not just as ESG considerations, but as proxies for signal reliability and future performance post-deal.

Even for target firms, this is a matter to be considered. While EM might artificially increase acquisition window attractiveness, the long-term consequences of misleading acquirers are that they will probably also suffer reputational damage, legal exposure, and adoptions that do not work. Managers trying to surface an exit opportunity through acquisition would rather have genuine performance improvements, disclosures that are clear, and credible governance than tactical financial engineering.

Urgency must now be accorded to developing enhanced regulatory tools that inhibit opportunistic EM, especially in the emerging markets where accounting discretion is greater and enforcement is weaker. Regulatory agencies should mandate standardized earnings quality disclosures, require reporting on governance by the boards, and enact strong enforcement powers for audit committees. This will restore parity in information and erode the asymmetric informational advantage currently employed by earnings manipulators.

Institutional investors and private equity firms have a role here too. They need to be demanding EM-adjusted financial due diligence reports in the course of M&A evaluations and favor acquirers that employ transparent valuation practices. Their market-stimulating influence and signaling on risk will help raise the bar across industries.

The researchers thus have an invitation for the future: testing the conceptual framework posited in this research empirically on a transaction-level dataset from distinct geographies and acquirer types. This will bring new light into the efficacy of the proposed framework and yield a deeper explanation of how EM dynamics affect M&As across various institutional contexts

## 7. CONCLUSION

This paper examines the strategic role of EM in M&A, particularly focusing on the manipulation of financial signals by target firms to affect valuation, selection, and transaction results. Offering a multi-regional synthesis of the

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literature, the study developed a conceptual framework describing the relationship between EM behavior and acquirer decision-making and post-merger performance, with the context of governance and institutions serving as moderating variables.

The evidence indicates that EM, be it real or accrual earnings management, is essentially employed by either distressed or leveraged firms to increase their short-term attractiveness; hence, the success of these manipulations is essentially tied to the acquirer's sophistication and implementation of oriented procedures. In short, financial acquirers orient toward financial ratios and short-term returns, and hence are more prone to be misled, whereas strategic acquirers normally conduct rigorous due diligence and adjust for earnings distortions. Governance mechanisms, such as board diversity and ethical capital allocation, should act as important layers against the harmful impact of EM by enhancing transparency and minimizing valuation errors.

While EM can provide benefits to the targets from a short-term perspective, the negative effect paints the longer perspective of deal integrity, post-merger integration, and stakeholder trust. It stresses that mergers should consider valuation that accounts for EM, together with providing more robust oversight mechanisms, specifically at an emerging-economy context level, where disclosure norms for financial reporting may be weakest.

By conceptualizing EM as a strategic act within the framework of acquisition dynamics, this study attempts to delve deeper into informational and behavioral asymmetries that constitute modern-day M&As. Future research may attempt to extend this framework by conducting empirical testing, by sector, and by region to apply and enrich the theory and practice in this emerging field further.

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