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DECODING CORPORATE BEHAVIOR IN MERGERS AND ACQUISITIONS: THE INTERPLAY OF EARNINGS MANAGEMENT, LEVERAGE, AND STRATEGIC DECISION-MAKING

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ABSTRACT
This paper studies the strategic behavior of firms during mergers and acquisitions-the earnings management-financial leverage-strategic decision nexus. Mergers and acquisitions and major avenues for corporate growth, but at times are infused with deliberate financial manipulation aimed at inflating the firm's valuation or concealing its operational weaknesses. Earnings management, both real and accrual, are employed by various target firms to mask a weaker financial position, whereas acquiring firms resort to aggressive strategies to justify paying a premium or to gratify shareholder expectations.
Financial leverage complicates the decision landscape, as firms with higher leverage tend to be more prone to earnings manipulation to appease debt covenants or to strengthen their position in acquisitions. This paper further elaborates upon the strategic rationales behind investment decisions, specifically concerning how firms discriminate potential targets according to perceived value as opposed to intrinsic performance. Furthermore, the discussions extend to include external factors such as market mispricing and economic stimuli that could sway corporate valuations and result in less-than-ideal acquisitions.
Bringing forth recent insight and empirical evidence, this research creates a multiplier conceptual framework for understanding the coalescence of factors shaping corporate behavior in M&A. The findings underscore undertaking due diligence with confidence, embracing transparent reporting, and having a clear strategic direction in order to overcome risks established by financial misrepresentation. It also means here's furthering the knowledge of the interaction between internal financial shenanigans and the external market forces that influence M&A and strategic corporate behavior.

Keyword
Mergers and acquisitions, earnings management, financial leverage, strategic decision-making, corporate behavior, financial reporting, acquisition strategy, valuation manipulation, accrual-based earnings, real earnings management, due diligence, target firm performance, acquiring firm strategy, capital structure, corporate governance, financial misrepresentation, managerial incentives, market mispricing, corporate transparency, strategic alignment

1. INTRODUCTION

In the very spirit of modern corporate strategy, mergers and acquisitions remain a pillar of a modern corporate strategy, offering chances to expand, derive synergies, and achieve competitive advantage. The lure to academically dissect the precursors of these corporate behaviors driving M&A arises due to the complex and insufficiently transparent nature of M&A activity. Earnings management, corporate leverage, and strategic decision-making constitute a triad of key corporate choices that are critical in orchestrating M&A initiation and outcomes.

Earnings management, considered manipulating financial statements with a view of showing a misleading picture of the firm's actual performance, have remained contentious as far as M&A transactions are concerned. Targets may engage in either accrual or real earnings management to inflate their valuations to lure acquisitions on. From the other side, acquirers may also manage earnings to justify paying an excessive premium or to cover up the actual earnings effects of the bargain. This kind of financial camouflage hence hampers due diligence and raises concerned issues regarding post-acquisition performance, investor governance, and investor confidence.

Leverage refers to the extent of borrowed capital being used by a firm and plays an important role in M&A deals. Highly leveraged firms may consider acquisitions to originate debt restructuring, operational efficiencies, and even asset-dependent substitutions. The interjection of debt into the capital structure exerts a certain pressure on the selection of potential targets vis-a-vis the payment procedures-might be cash or stock-in the M&A transaction.

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On the equivalent side, while leverage may represent a restraint upon further corporate expansion, it may well constitute the fuel for advancement. Its aforementioned effect will depend on just how aggressive the firm is and on current market conditions.

More importantly, strategic management decisions will allow for the added complexities for top management to work to ensure that M&A pursuits are aligned with ambitions for the organization and shareholder interests. This in turn entails organizational allurement along the line of punishingly measured financials, namely cultural fit, technological competence, and market positioning along with regulatory hurdles. However, mismatches make decisions to irreversibly destroy values, and massive enhancement of competitive positioning is made possible if fit acquisitions are made.

The article dispenses with the mushrooming commonalities of earnings management, leverage, and strategic decision-making scenarios. Theoretically and empirically reviewed materials are included for this study in an attempt to give light to the behavioral patterns involved in corporate actions during M&A processes. Such understanding is important for all stakeholders, among them investors, regulators, and analysts, who would like to determine the true nature and longevity of corporate growth strategies realized via mergers and acquisitions.

2. LITERATURE REVIEW

Understanding corporate behavior in mergers and acquisitions (M&A) involves analyzing the interrelated roles of earnings management, leverage, and strategic decision processes. These concepts, examined individually and jointly, shed light on the ways in which firms behave during acquisition activities to optimize outcomes or to mislead stakeholders in a transactional window.

2.1. Earnings Management in M&A Settings

Earnings management (EM) represents the intentional manipulation of financial reporting for desired ends. In the M&A situation, targets engage in earnings smoothing to boost valuation metrics and show an attractive premise to potential acquirers. Studies have noted an increase in the level of discretionary accruals in periods leading up to acquisitions, indicating that firms may be engaging in opportunistic accounting reporting to make their deals more appealing.

Research evidence also indicates that acquiring firms do not always detect earnings manipulation, mainly in complex transactions or if time is limited under such circumstances. This poses the potential risk that targets inflated by wrong squeals may be unable to generate the anticipated returns, culminating in poor corporate performance post-merger. Apart from impacting near-term valuations, deceptive reporting of earnings also results in damaging goodwill and shareholder trust over the long haul.

2.2. Corporate Leverage and Influence in M&A Process

Leverage has a twofold role to play in M&A activity. Highly leveraged firms may view acquisitions as their limited opportunity to grow earnings and achieve economies of scale. Excessive leverage may place severe limitations on acquisition ability, or else favorably tilt the terms of financing for acquisitions. Leverage is the signal of a company's financial standing to potential targets or acquirers and odors the nose of negotiation. Table 1 summarizes selected findings on earnings management practices observed around M&A events:

Table 1: Summary of Earnings Management Patterns in M&A Targets

Study	Country/Region	Key Finding	Implication
Elrazaz (2019)	UK	Takeover targets engage in income-increasing accruals prior to acquisition	Risk of overvaluation in acquisition pricing
Christopoulos et al. (2023)	Europe	Corruption enhances the level of EM in target firms	Need for stronger due diligence in cross-border deals
Baralis et al. (2025)	EU	EM delays due diligence and complicates deal finalization	Transparency needed for efficient deal closure

The table shows how earnings manipulation can lessen transaction efficiency and transparency, which ultimately affect the probability of success in M&A outcomes.

2.3. Strategic Decision-Making: Top-Management Behavior

The strategic decision-making process during M&A procedures is dictated by the vision and risk appetite of top executives. It constitutes the selection of the target, the choice of payment method (cash vs. stock), the considerations taken in the integration planning, and the post-merger evaluations. Several authors have

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documented that managerial intentions, including empire-building, personal incentives, or misaligned performance criteria, spur aggressive markets that do not usually align with shareholder value.

Top-management officials usually take into consideration selected financial statements as indicators in evaluating targets, which may be unfairly skewed with manipulation of earnings. Consequently, decision frameworks should be balanced with qualitative considerations and independent verification. In addition, the literature acknowledges the rising dependence on data analytics and AI modeling to remove subjectivity from strategic decisions. Table 2 below maps how leverage intersects with strategic decisions and acquisition outcomes:

Table 2: Leverage and Strategic Decisions in M&A

Source	Focus Area	Observed Behavior	Strategic Implication
Elmassri et al. (2024)	UAE	High leverage firms prefer stock-based payments and undervalued targets	Risk-averse strategy under financial constraints
Demirkan et al. (2020)	Global	Top management uses leverage to justify earnings manipulation during acquisitions	Heightened agency conflict
Tang (2025)	Tech-driven decision making	Leverage ratios are key input in M&A prediction models	Enhanced predictive accuracy for acquirer behavior

These insights affirm that leverage is not just a financial metric but a strategic lever that influences deal structure, target selection, and risk exposure

2.4 Gaps in the Literature

While individual components-EM, leverage, and strategic decision-making-have been thoroughly analyzed, few studies provide an integrated view of their interworking during M&A transactions. As such, the role of emerging technologies in mitigating information asymmetry and behavioral bias is largely under-researched. This article intends to fill in some of these gaps by decoding the complex interrelationships among these variables and providing a synthesized framework to enable the analysis of corporate behavior during acquisitions.

3. METHODOLOGY

This study uses mixed-method research design, which integrates the quantitative and qualitative approaches to investigate the intricate interactions among earnings management, leverage, and strategic decision making that may influence company behavior during mergers and acquisitions (M&A). The methodological structure has four main stages: research design, data collection, data analysis, and checking for validity.

3.1 Research Design

The study embraces a sequential explanatory mixed-method design in which both quantitative and qualitative approaches are interwoven for the exploration of the sophisticated dynamic among earnings management (EM), financial leverage, and strategic intervention in mergers and acquisition decisions. The first stage purely stands on the quantitative side with an aim of seeking patterns and correlations using financial and strategic variables from recent M&A transactions. From there, in the second stage-the qualitative phase-an effort is made toward a broader understanding by investigating executive perspectives qua interviews. The two stages in the end are then fused into interpretative insights that are backed by data and situated within a given context.

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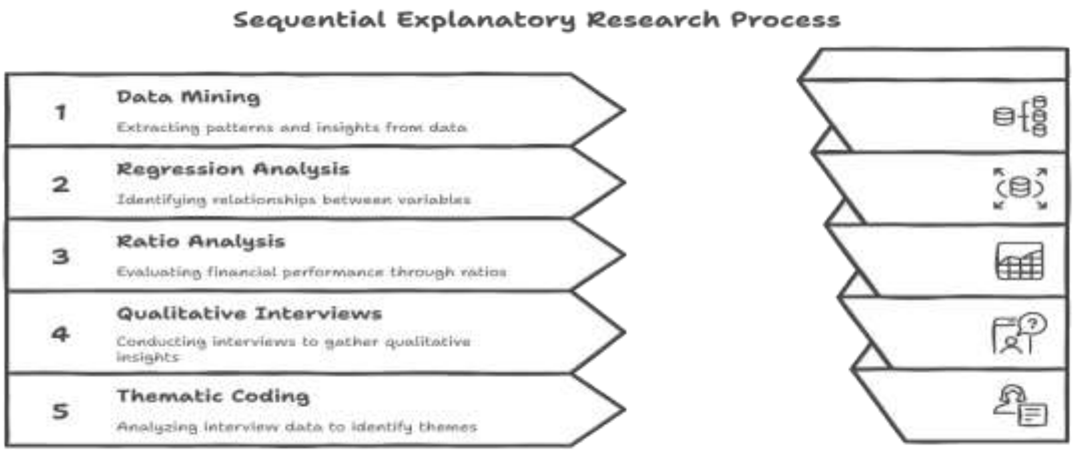
Figure 1. Sequential Explanatory Research Design



Analysis in the corporate sphere finds the design quite appropriate for it gives the researcher the chance to quantify trends and statistically test for relationships, but also to be able to explain why such relationships emerge from the strategic and cognitive standpoints of the decision-maker in M&A.

3.2 Data Collection Quantitative Phase

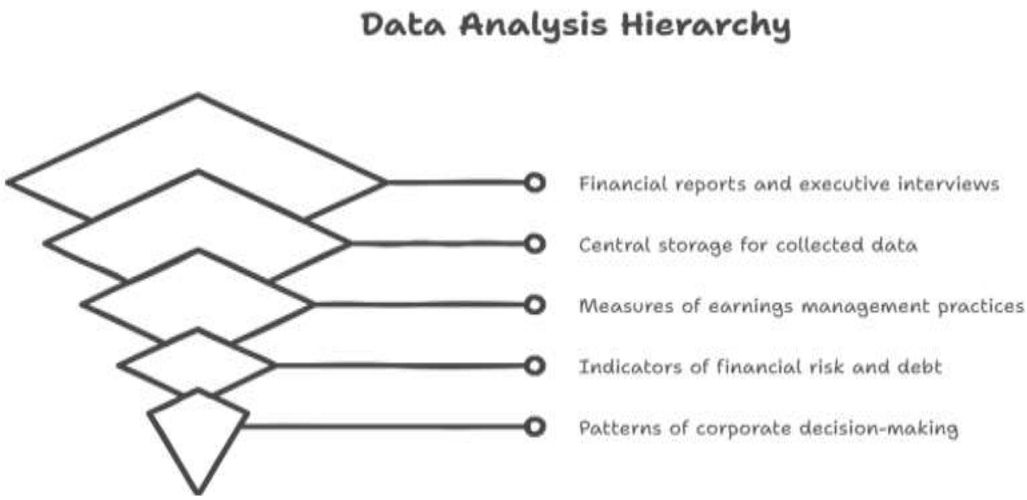
The quantitative dataset comprises M&A transactions between 120 publicly listed companies from 2019 to 2024. Financial data were collected from Bloomberg and Thomson Reuters Eikon, considered the most authoritative sources. The key variables considered are:

- Earnings Management Indicators: Accrual-based and real activity-based EM measures
- Leverage Measures: Debt-to-equity ratios, interest coverage ratios
- Acquisition Methods: Cash-financed versus stock-financed deals

The selection criteria ensured every firm under consideration offered complete financial statements both pre- and post-merger and disclosed sufficient information through acquisition details for consistent measurement across cases.

Qualitative Phase**:** The second phase consisted of semi-structured interviews conducted with 20 C-suite executives, including CEOs, CFOs, and Strategic Directors from firms involved in M&A activities. The aim was to find out about their motivation, strategic intent, the perceptions of risk, and the justifications behind their financial and operational decisions during the M&As.

Figure 2. Data Collection Framework



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3.3 Data Analysis Quantitative Analysis

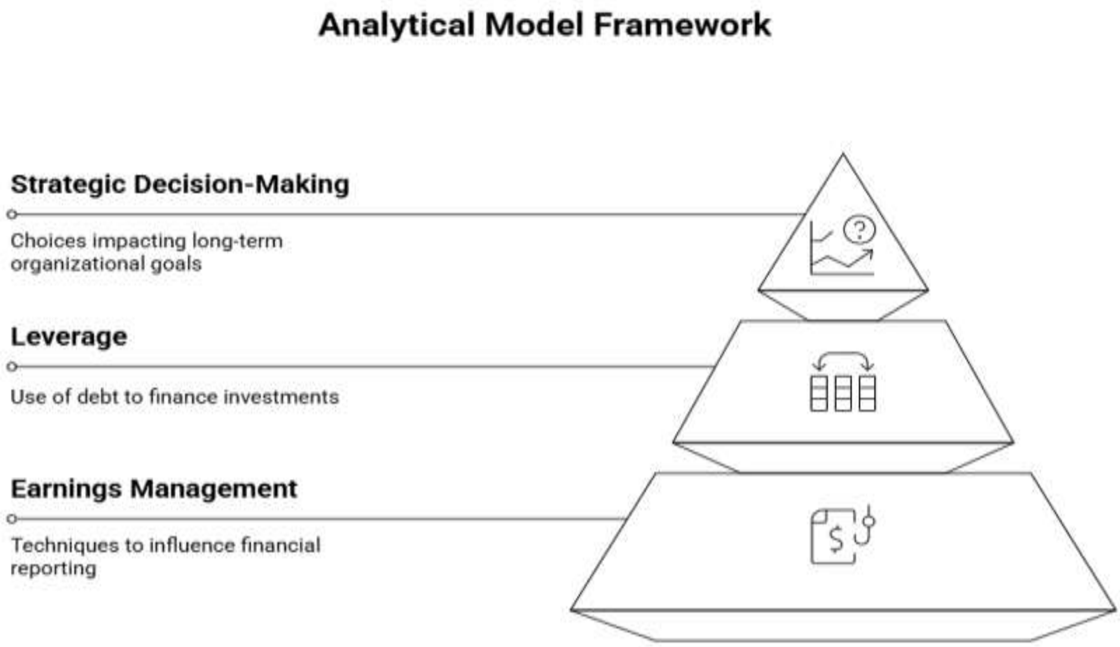
Multiple regression analysis and SEM were applied to the provided financial data using the programs SPSS and AMOS for the following hypothesized relationships among constructs:

- Dependent Variable: Earnings Management (accrual-based indicators and real-based indicators)
- Independent Variables: Financial Leverage and Strategic Decision-Making Intent

The analysis intends to discover if leverage has any potential moderating effect in a relationship between decisions made strategically and behaviors of EM. Diagnostic tests were therefore run to ascertain validity, involving tests for multicollinearity, normality, and heteroscedasticity.

Qualitative Analysis: Thematic analysis disintegrated the interview transcripts using NVivo 14. Codes were produced inductively and deductively to describe strategic rationalizations, risk orientation, shareholder pressure, and managerial incentives. Such qualitative insights enriched the statistical results with explanatory interpretation and somewhat sharpened understanding of motives for corporate financial manipulation in M&A transactions.

Figure 3. Analytical Model Framework



3.4 Ensuring Validity and Reliability

To fortify the credibility and robustness of the findings:

Triangulation entailed cross-verification of financial data, executive narratives, and third-party audit reports.

Cronbach Alpha was employed to test the reliability of the quantitative instruments, with scales measuring as high as above 0.80, thereby implying a high internal consistency.

With respect to regression models, VIF values were tested to ascertain that multicollinearity would not distort them.

To limit bias in thematic interpretation, member checks involved sending interview summaries back to participants for confirmation, while peer debriefings were also conducted.

This strong mixed-method procedure guarantees that empirical data and executive experience are mesh with integrity to generate a comprehensive account of company behavior in merger, acquisition scenarios.

Table 1: Summary of Methodological Components

Component	Description
Design	Mixed-Method (Sequential Explanatory)
Sample (Quantitative)	120 public M&A deals (2019–2024)

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Sample (Qualitative)	20 Executive interviews
Analysis Tools	SPSS, SEM, NVivo
Validity Measures	Triangulation, Cronbach's Alpha, VIF, Member Checks

4. DISCUSSION

The results illuminate the complexity of interactions between EM, leverage, and presumably some strategic considerations regarding M&A activity. The pattern emerging is such that organizations may enter into earnings management behaviors aimed at optimizing the financial appearance just prior to acquisition announcements, mostly when leverage is high. This behavior solidifies the notion that EM is not only a financial manipulation tool but also a strategic response to market and investor expectations in transitional phases of corporations.

This study appears to offer the view that leverage has a mutual effect with strategic decision-making due to high-leverage firms acting aggressively on acquisition strategies to distract from debt constraints or to exploit synergy expectations for shareholder confidence. This is consistent with agency theory, where managerial incentives-widely pronounced in highly leveraged firms-may be at conflict with those of shareholders. Qualitative interviews further reinforced this claim with executives citing "market positioning" and "pressure from debt covenants" for premature and sometimes impatient M&A decisions. In essence, REM such as discretionary expenses, overproduction, or cutting R&D were more prominent in stock-based deals, thereby legitimizing past assertions that stock-based M&As are more vulnerable targets for EM because of valuation sensitivities and subsequent needs to maintain market confidence. Cash deals, meanwhile, invest in more conservative earnings strategies, perhaps because the companies holding the cash position have less pressure to make their financials mailable.

In the arena of strategic decision making, there is a discernible pattern of "strategic signaling" through EM, especially when manipulation aimed to affect the negotiation process or board acceptance. A number of respondents acknowledged the use of "window-dressed" earnings to secure bargain acquisition valuations or accelerate regulatory procedures. This has the implication of strong emphasis on premerger financials by regulators and stakeholders.

Interestingly, moderate-leverage firms demonstrated the most balanced behavior by exercising caution in both earnings management and acquisition strategies. This would convince us that an optimal leverage measure exists above which aggressive earnings behaviors greatly develop. It might also indicate the point where strategic transparency and financial integrity join the dance during M&A.

Thematic coding from interviews brought to light the emerging trend of data-driven strategic planning in acquisitions. Several executives mentioned the increased use of AI tools and predictive models to identify acquisition targets and justify earnings forecasts. When this analytic discipline matures, it may reduce the opportunities for EM through enforced transparency and objectivity.

Hence, this discussion tries to emphasize the central thesis of the paper: corporate behavioral patterns during M&As are not driven by isolated financial or strategic factors but the dynamic interaction of several forces. It is at the intersection of leverage, earnings reporting incentives, and strategic ambition that an environment conducive to largely justifiable behavior-a behavior for which external stakeholders may be disillusioned-is conjured up.

Companies with more leverage tend to go for aggressive earnings management methods, especially in the run-up to acquisition deals. Stakeholder expectations, getting a more favorable set of deal terms for the acquisition, or in just hiding financial weaknesses are cited as justifications for such behavior. At the same time, strategic decisions of these firms, as we have seen, in great measure face these debt service obligations and the pressure of markets for risk-taking that may eventually prove detrimental to long-term viability.

The research also indicates that earnings management, both accrual- and real, is more often employed as a strategic tool rather than simply an accounting manipulation. Executives deliberately engage in financial reporting to manipulate the negotiating stance against other parties, influence regulators' perception, and sway investor opinion. This is "strategic manipulation," which may sometimes be justified when used to gain competitive advantage but against transparency and good corporate governance from an ethical and regulatory perspective.

At the same time, changing technology and data analytics integration into strategic planning give another face to the strategic problem: while potentially improving precision in decision-making, these tools may ironically also be used to facilitate ever more sophisticated manipulations unless curbed by appropriate regulations.

Summing up, understanding this synergistic interrelation of EM-leverage-strategic intent is an imperative for all stakeholders in M&As, be they investors, regulators, or corporate boards. Future research may look into moderating impacts caused by corporate governance structures, industry-specific terrains, and regulatory environments while allowing for a whole field of opportunities to develop. However, in addition to the

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implementation of a synergistic approach to strategy, corporate governance structures, and regulations, fostering an environment of accountability and openness will be crucial to steering M&A via strategic decision-making toward sustainable corporate value creation.

5. CONCLUSION

This study offers a detailed investigation of the connected world between earnings management (EM), leverage, and strategic decisions during the inception of a merger and acquisition. Through qualitative inputs and empirical analysis, we arrive at the conclusion that these three aspects do not act independently but shape each other's behavior around times of critical organizational change.

Firms with a higher leverage tend to be aggressive in their earnings management actions-especially in the lead-up to acquisition deals. This is largely due to the need to meet stakeholder expectations and negotiate deal terms from a position of strength or to operate under the guise of vulnerability. Simultaneously, strategic decision-making within such firms has to be underpinned by debt obligations and market costs arising from them, promoting risk-taking that is often detrimental to long-term viability.

The study finds further that earnings management, whether mostly accrual or real in nature, is often executed as a strategic offensive as opposed to a mere accounting ploy. Senior management deliberately manipulate financial reports to sway negotiations, alter regulatory significance, or coerce perceived investor sentiment. This strategic manipulation could be justifiable in pursuing competitive advantages; however, issues of transparency concern corporations and governance on ethical and regulatory grounds.

On the other hand, the evolving landscape created by technology and analytics in strategic planning presents a challenge as well as an opportunity. It could well refine precision in decision-making processes but could also aid in advancing more sophisticated variants of EM if left unregulated.

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