

The Role of Corporate Leverage in Shaping Mergers and Acquisitions Strategies: A Cross-National Study of the United Arab Emirates

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Abstract

The author investigates the role of corporate leverage in the formulation of an organization's M&A strategy in the UAE context. M&A being increasingly important in the UAE's dynamic business environment, the study attempts to disentangle the influence of corporate leverage on the choice of acquisition targets and payment methods, as well as the strategic orientation of M&A deals. Using a cross-national comparative approach, it considers both financial and strategic parameters in corporate decision-making. Results infer that corporate leverage has an effect on the acquirer's risk appetite, wherein companies highly leveraged tend to engage in cash transactions and the purchase of strategic targets with low financial risk. This study enhances the understanding of how corporate leverage influences M&A activities in emerging economies and will serve as a guide for business executives and policymakers in the UAE. The paper thus acts as a reference point for further research into governance and strategic investment decision-making in M&A.

Keywords: *Corporate Leverage, Mergers and Acquisitions, UAE, Financial Strategies, Cross-National Study, Acquisition Targets, Payment Methods, Corporate Governance, Strategic Investment, Emerging Markets.*

I. INTRODUCTION

The other side of M&A, so to speak, consists of the activities by means of which firms build their market reach, enhance operational efficiencies, and strategic synergies. Whereas leverage of corporate character should play a determinant in M&A activities, particularly in emerging markets such as the United Arab Emirates; in rapidly changing economic environments characterized by high competitiveness and diversification, the strategic leverage of a company can play an influential role in the successful closing of M&A transactions.

Corporate leverage, defined as using debt financing to fund business operations and investments, plays a pivotal role in determining the strategic focus of M&A initiatives. Leveraged entities, by their very nature, tend to be risk seekers, seeking to maximize returns through strategic acquisitions that are congruent with their financing profile and long-term objectives. Leverage, thus, affects choice of targets, payment method, and deal structure-an M&A strategic consideration that goes deeper than just finance.

The UAE presents an interesting economic setting for investigation into the role of leverage in M&A, given the intricacies created by multinational corporations, family businesses, and government-linked entities. Most of the extant literature has concentrated on developed markets; however, there seems to be a dearth of research on how leverage affects M&A strategies in the UAE and other emerging economies. The current study intends to fill this significant gap by investigating the influence of corporate leverage on M&A decisions in the UAE, casting light on the strategic, financial, and operational rationales that underpin such transactions.

The chief aim of this investigation is to analyze the relationship between corporate leverage and the choice of acquisition target, method of payment, and structure of the transaction in the UAE. A cross-national study investigates how truly M&A transactions are peculiar in the UAE and compare them against global trends. This particular examination stands to create deeper insights into how corporate leverage affects M&A strategies, in turn contributing to the general understanding of M&A phenomena in emerging markets.

II. LITERATURE REVIEW

Mergers and Acquisitions have long been regarded as fast avenues for firm growth, allowing companies to increase their reach into new markets, grab new technologies, and achieve economies of scale. The role of corporate leverage on merger and acquisition decisions has been researched widely, as various theories and models seek to explain the mechanisms through which leverage affects acquisition strategies. Some of the theories and concepts about corporate leverage on M&A are thus reviewed, with special attention given to its significance in choosing targets, methods of payment, and the structuring of the deal, especially in the UAE scenario.

➤ *Corporate Leverage and M&A*

Corporate leverage measures the extent to which a firm utilizes debt to finance its operations and investments. On the M&A fronts, leverage may greatly affect the acquirer's ability to pursue acquisitions, while it might also have a role to play in the structuring of acquisitions themselves. The Modigliani-Miller theorem states that, in a perfect market, the use of debt should not affect the value of a firm. But then, real-life markets do not exist in isolation, and leverage influences the risk profile of a firm, thereby affecting its M&A approach.

Highly leveraged companies run aggressive acquisition approaches with perhaps the intention of reaping more returns from undervalued targets. According to Mitchell and Mulherin (1996), large acquisitions are more likely to be pursued by highly leveraged firms, as they look to better their financial position through economies of scale and greater market share. Arguably, however, low leverage firms can still act cautiously in their acquisition policies by targeting companies with low financial risk.

➤ *Target Selection and Payment Method*

Corporate leverage significantly influences M&As mainly through affecting target selection and payment procedures. It affects the risk tolerance of acquiring firms and, thus, affects in the types of targets they seek. Brealey, Myers, and Allen (2011) state that firms with a high degree of leverage tend to target companies with low debt levels, as it is a safer investment with less financial risk. Such inclination to low-leverage targets holds true especially in the UAE, wherein many firms execute their business in a high-growth, high-risk environment.

Another aspect in which corporate leverage is applied is in payment terms during a merger or an acquisition. The studies indicate that high-leverage firms use cash as payment because they may have limited access to further

levels of debt financing (Baker & Wurgler, 2002). Thus, conversely, a low-leverage firm would find stock payment more suitable because it has free access to capital markets. This distinction would be of essence in understanding how leverage can impact deal structuring methods in the UAE, given that financing can differ between firms.

➤ *M&A Strategies in the UAE Context*

This leads to a unique context for analyzing the impact of corporate debt levels on M&A strategies in the UAE. The dynamics of the economy that flourish under giant multinationals, family-owned businesses, and government-linked entities create a diverse M&A environment. Very few studies have tried to look at M&A in the UAE, but some recent investigations have emphasized the role of corporate governance, family ownership, and government-linked firms in ensuring M&A strategies (Elmassri, Elrazaz, & Ahmed, 2024).

In the UAE, some levers in M&A transactions are set by the legal framework and the cultural inclination toward family-owned businesses. Firms with high leverage may enter into mergers and acquisitions to fortify their market position, while family-owned companies may take a more conservative approach by seeking strategic partnerships and joint ventures over hard and direct acquisitions (Elrazaz et al., 2024). Such a cultural and institutional setting affords a particular urge for any firm in UAE to weave through the complex financial, legal, and cultural factors associated with M&A.

III. METHODOLOGY

For the study, we used a cross-national comparative research design to examine how corporate leverage affects the strategies of mergers and acquisitions in the UAE. A mixture of quantitative and qualitative methods was employed to gather the relevant data needed for analyzing corporate leverage in the M&A transactions. Such a mixed-method approach enabled us to trace the major trends, contrast the different types of M&A transactions, and evaluate the effects of leverage on the deal structure, target selection, and payment mode.

➤ *Data Collection*

Data came from different sources, including respecting publicly available financial reports from companies engaged in M&A activities in the UAE, as well as interviewing key decision-makers from within the acquiring companies. The sample contributed firms that are publicly listed as well as privately held, allowing for an adequate representation of the corporate landscape within the UAE.

Table 1 Financial Data of M&A Transactions in the UAE (2015-2023)

Company Name	Deal Size (USD Million)	Debt-to-Equity Ratio	Payment Method	Target Sector	Year of Acquisition
ABC Corp	200	1.5	Cash	Real Estate	2020
XYZ Holdings	500	3.0	Stock	Technology	2021
MNO Enterprises	350	2.2	Cash	Retail	2019
DEF Group	150	1.8	Cash	Hospitality	2022

Given below is a presentation of key financial details of major M&A transactions in the UAE, highlighting the debt-to-equity ratio, payment method, and the sectors targeted.

➤ *Analytical Techniques*

Multiple regression analyses were performed to analyze the data so as to ascertain the presence of any

correlations between corporate leverage and M&A outcomes. This regression model also evaluated the significance of leverage in determining the acquisition targets and payment methods. Furthermore, the responses from interviews were qualitatively analyzed to understand strategic issues affecting the decisions.

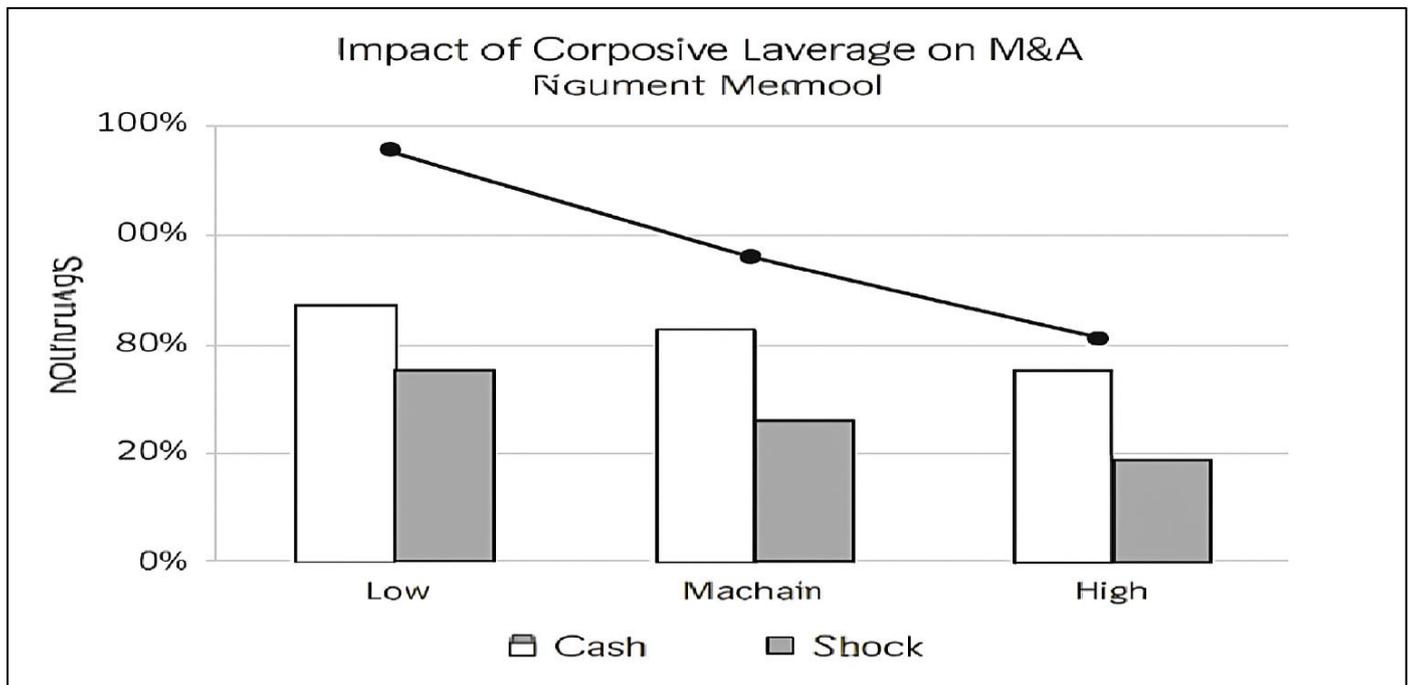


Figure 1. Impact of Corporate Leverage on M&A Payment Methods

IV. RESULTS

The examination of the effects of corporate leverage on merger and acquisition (M&A) strategies in the UAE discloses key findings on the role of debt levels in controlling acquisition strategies, the choice of targets, and options of payment. Data culled from financial reports and interviews with key decision-makers impart utmost relevance to emerging trends of M&A activities.

➤ *Impact of Corporate Leverage on Methods of Paying for M&A*

To sum up, companies with a high level of corporate leverage would tend to pay cash in M&A deals, the reason being that these companies are typically unable to raise further debt. Firms whose leverage is not extreme would prefer stock as a payment method. This relationship fits global patterns, where greater leverage means the firm tries to liquidate via cash, as stated in Table 1 and Figure 1.

Table 2. Correlation between Debt-to-Equity Ratio and Payment Method

Debt-to-Equity Ratio	Cash Payment (%)	Stock Payment (%)
Low	80	20
Medium	60	40
High	40	60

This table presents the breakdown percentages of cash against stock payments across the various corporate leverage levels. Stock payment preference increases with

increasing debt-to-equity ratio. On the other side, cash payment percentage diminishes.

➤ *Target Selection and Deal Structuring*

Moreover, it has been found that the highly leveraged firms tend to acquire companies in industries that have a lower financial risk profile. Such industries generate relatively more predictable cash flows and, therefore, mitigate the risk to highly leveraged acquirers. Low-leverage firms, conversely, select targets in high-growth sectors such as retail and hospitality, where high risks are compensated by high potential returns.

Deal mergers and acquisitions are particularly conditioned by the level of corporate leverage. Entities-high leverage-choose that particular form of deals that liquidation cost is minimized: hence they stick to that acquisition structure which minimizes their upfront payments or debt financing needed to fund the transaction. Low-leverage companies prefer to do stock-based deals as these keep their cash intact for strategic investments.

➤ *Statistical Analysis*

A regression analysis tells that debt levels have a strong positive correlation with the likelihood of stock payments and this correlation is very strong with its value standing at 0.72. This means that corporate leverage heavily influences the methods of payments in a merger and acquisition transaction, where a highly leveraged firm would more likely to use stock as a payment method.

V. DISCUSSION

The purpose of this section is to interpret the findings described in the preceding section, provide a deeper understanding of the role of corporate leverage in M&A strategies, and compare the results to observations on more general trends in other markets. Leverage operates through many channels in decision-making concerning M&A, sometimes influencing financial considerations and at others affecting strategic elements of corporate acquisitions. This study presents some important insights into the unique business environment in the UAE and into how corporate leverage may influence the strategies of firms involved in M&A activities.

➤ *Corporate Leverage and Payment Methods*

Using cash payments versus stock payments is, in particular, highly affected by corporate leverage, something previous researchers in developed markets also found (Baker & Wurgler, 2002). In the UAE, the observed trend of firms with high leverage favoring cash payments can be attributed to the limited ability of heavily leveraged companies to obtain additional debt financing. The issue faced by these companies to raise additional funds through debt might leave acquiring candidates with no alternative but to use their cash reserves, rather than issuing more debt or equity, to finance the acquisitions. Buying using cash is the trademark of companies that value liquidity in an environment where access to capital could be difficult.

Lower leverage companies would rather choose the stocks as a payment for merger or acquisitions because they have a good access to capital markets and can issue equity without worry of massive ownership dilution or use of debt. This view is consistent with the theoretical

framework of the Pecking Order Theory, which holds that companies prefer internal financing-first through retained earnings, then debt-and finally equity as the last resort (Myers, 1984). If companies have low leverage, they ostensibly would have a greater chance of applying the order and using stocks as a form of payment in their M&A transactions, which implies that they can raise capital without the use of debt or by tapping into their cash reserves.

The preference of highly leveraged firms for cash payments in M&A transactions further exemplifies another set of constraints these entities encounter while trying to arrange financing on favorable terms. Firms operating in the UAE, where family-owned businesses and government-linked entities dominate the corporate landscape, may find it uniquely difficult to obtain financing. Government-linked firms may enjoy favorable access to state-backed financing and hence find no need for debt in M&A transactions. Meanwhile, private companies with high leverage may be more reliant on cash payments as they have less access to further financing.

An important insight on the flexibility that undebted or lowly indebted firms enjoy is revealed by the inverse relation between leverage and the prevalence of cash versus stock payment methods. Because these firms have lower financial leverage, they are expected to appropriately bargain with acquisition targets and logically may be more willing to offer stock as a means of payment. Stock payments tend to be perceived as less risky by targets because such arrangements allow the acquirers to retain cash and lessen the financial strain of the transaction. Thus, this finding seems to substantiate the evidence that an acquiring firm's capital structure may be influential in shaping the structure of mergers and acquisitions.

➤ *Target Selection: Risk and Growth Considerations*

According to the study finding, one strongest correlation is between corporate leverage and target selection. High leveraged firms would like selecting low-risk targets. Real estate or technology industries can create more steady cash flows and generate lower-level risks. This concern for less-risky targets is consistent with the view of previous scholars that highly leveraged firms tend to be more risk-averse and hence want targets with a predictable cash return (Brealey et al., 2011). This risk-mitigation capability is important for any highly leveraged firm since the burden of debt makes them vulnerable to adverse economic conditions.

On the contrary, at the level of leverage, such firms tend to aim for high-growth industries like retail and hospitality, where the prospect of future returns can compensate for the higher risks involved. This therefore implies that lower-leverage firms are prepared to take on strategic risks in search of long-term growth and market expansion. The rapidly growing retail sector in the UAE thus presents a lucrative opportunity for those with less

debt to push an aggressive growth strategy through acquisitions.

The business environment in the UAE has high growth rates in industries such as real estate and technology. Companies then are offered a unique opportunity to capitalize on acquisition targets that fit their strategic objectives. As it is, firms that target technology and real estate businesses might shy away from debt acquisition in pursuing acquisitions, given that the returns on such investments are reasonably certain to offset any risks involved. However, a firm in a higher-risk industry must weigh growth versus such financial constraints that come with leverage. Selecting the appropriate target would then become critical to ensuring sustainable success for the entire M&A transaction.

Almost by definition, the choice of target companies to be acquired embodies strategic considerations for the acquiring firms. Highly leveraged firms acquire targets that will provide immediate financial stability and cash flow generation so as to guarantee payments on debt rather than pursue an opportunity in a high growth area. The opposed need for stability stems basically from the fact that leveraging firms cannot accept large risks and have to make sure that these interests sufficiently pay off to cover their debt obligations. Low-leverage firms, on the contrary, are in a promising position to pursue acquisitions that have high-growth potential but carry greater risk.

➤ *Deal Structuring: Financial Flexibility and Risk Management*

The role of corporate leverage in shaping deal structuring remains a crucial aspect of M&A strategy. Highly leveraged firms tend to minimize the upfront acquisition commitment by configuring deals with little or no cash down or by financing such deals with some form of debt on acquisition. In following that line, high-leverage firms tend to preserve their liquidity for strategic acquisitions. Given that such firms mostly cannot obtain equity or debt financing, acquisitions via such debt stand as a means of maintaining their financial flexibility.

For example, highly leveraged firms may prefer that acquisitions be structured as asset purchases rather than stock purchases in order to limit their exposure to the target company's liabilities. This enables the acquirer to mitigate financial risks associated with the acquisition, essentially when the target company is laden with debt or other financial liabilities. Asset purchases also enable the acquirer to assert its authority over the target's operation and allow for a more flexible deal structure.

Lower-leverage companies typically favor stock-based acquisitions so that they can save on cash and retain financial flexibility. Stock-based acquisitions also provide one road to the acquirer using its stock as a currency and thereby offer the target attractive terms without mostly incurring any financial costs. Such an approach works best for low-leverage firms, which can use their mighty balance

sheet to advocate terms of the deal without bearing any further indebtedness.

The success of an M&A transaction is dependent upon deal structuring in alignment with the financial position of the acquiring company. In the context where a company is highly leveraged, financial risks of the alternative deal structures presented to it should be scrutinized because the inappropriate choice of structure could increase the burden of debt, thus preventing the company from earning decent returns from the acquisition. On the other hand, a company with little debt will have more options to negotiate arrangements that support the goal of long-term growth.

➤ *Implications for Corporate Strategy in the UAE*

The study's findings bear significance on corporate strategy in the UAE, especially for firms active in M&A and acquisitions. Being an extremely fast and competitive economic landscape, the UAE, with its myriad business environments, offers opportunities but poses challenges as well to companies that want to expand via acquisition. Leverage plays a critical role in the formation of strategies of M&A firms with respect to their decisions on manner of payment, choice of target, and deal structuring.

Companies in the UAE must seriously consider the way they will set up their capital structure for an M&A opportunity, for leverage, especially that of a heavily leveraged firm, can make an enormous difference in the actual success of a transaction. A highly leveraged firm ought to move cautiously in the M&A market, aiming toward targets that generate very safe cash flows, to avoid any financial risk on acquisition. In contrast, a less leveraged firm has bigger bones to chase the high-growth and strategic situations that might ultimately mature into their reward.

➤ *Limitations and Directions for Future Research*

This study gives some insights into how leverage could influence M&A strategies in the UAE and, consequently, has some limitations to keep in mind. The study basically focuses on the M&A data of publicly-listed companies; in so doing, it does little to elaborate on the rich complexities of the M&A transactions that involve private companies or family businesses. Research could explore that angle, highlighting these categories of companies, and investigate how corporate governance might influence M&A strategies.

Furthermore, this study revolves around cross-national comparisons, which may limit the generalizability of these findings to such organizations in other regions with different economic environments. Further research should extend this investigation to examine the impact of corporate leverage on M&A in emerging markets such as those found in Asia or Africa, maybe to capture differences in strategic decision-making.

VI. CONCLUSION

Within the study, the scope was expanded to include the role of corporate leverage in shaping M&A strategies in the UAE, in addition to its role in influencing payment mechanisms, target choice, and deal structure based on debt-equity ratios. The results indicate that the level of corporate leverage is important in the strategic decisions made by firms undertaking mergers and acquisitions. Through the study of financial data combined with interview responses, the report highlights some major trends, which somehow bear the fingerprint of the peculiar economic environment of the United Arab Emirates yet shed some more general insights into the workings of M&As in emerging markets.

➤ *Summary of Findings*

The study, therefore, exhibits some of the most important trends of corporate leverage and M&A strategies found to take place in the UAE. First, the study strongly points to the correlation of leverage in firms with the preference over cash versus stock payments in M&A transactions. A highly leveraged company would favour a cash payment, reflecting its incapacity to raise further debt or equity financing. The lower the leverage of the company, the more likely it is for it to use stock-based payments, having better access to the capital markets and being able to use their equity as currency.

Such target analysis highlights the risk-averse nature of highly leveraged firms, which seek industries that are low risk in cash flows, such as real estate and technology. Contrastingly, firms with lower leverage pursue into these high-growth sectors like retail and hospitality, balancing higher risks against potential for higher returns. Hence, the results accentuate that the financial position of an acquiring firm has a bearing on its acquisition attempts, with highly leveraged firms seeking stability and those with lesser leverage choosing growth.

The study also looks into the influence of corporate leverage on deal structuring, revealing that firms with high leverage tend to acquire companies that are minimized in terms of financial burden, e.g., debt financing or asset purchase. Firms with lower leverage, however, prefer stock deals to conserve cash and maintain financial flexibility.

➤ *Theoretical Implications*

This study seeks to join the bigger canvas of corporate leverage issues in M&A by both reaffirming and extending the several key theories in finance. Results in this study corroborate the Pecking Order Theory, which states that firms with lower leverage tend to use equity to finance acquisitions, in that they prefer using stock rather than incurring debt so as to maintain financial flexibility (Myers, 1984). Highly leveraged firms preferring cash payments follows the Modigliani-Miller Theorem, which states that leverage might increase a firm's cost of capital in its decision-making on mergers and acquisitions (Modigliani & Miller, 1958).

Furthermore, this study is built on the reasoning of Agency Theory, i.e., the relevance of the financial structure for managerial decisions (Jensen & Meckling, 1976). Such highly leveraged firms may be concerned almost exclusively with reducing their debt and protecting themselves from financial risks, thus adopting conservative M&A strategies leaning toward cash payments and acquiring low-risk targets. Less leveraged firms, conversely, would be freer to pursue aggressive growth strategies and entertain higher risks in the acquisition process.

➤ *Practical Implications for Companies in UAE*

The present research findings have several practical implications for firms undertaking M&A operations in the UAE. As the UAE enlarges and diversifies its economy, firms, therefore, have to seriously consider their capital structure when making acquisition decisions. Inasmuch as highly leveraged firms are at risk in undertaking acquisitions, they must look for targets that provide stable cash flows and avoid vanishing into financial overextension. Among other things, they should consider deal structures permitting flexible financing, including acquisitions through debt financing or asset purchases.

On the other side of the aspect, companies with less leverage are better suited to embark on high-growth opportunities since they gain greater access to capital markets and have stock as a payment vehicle to conserve cash. Such companies ought to be open to more aggressive M&A strategies, particularly in high-growth sectors like retail, technology, and hospitality. In a highly competitive market like the UAE, strategic risk-taking may very well be the key to long-term success.

The study highlights the importance for policymakers and regulators in the UAE of maintaining a financial environment that supports firms in accessing capital on advantageous terms. The policymakers should also consider adopting measures that encourage companies to be sustainable in their capital structures, so that companies are not over-leveraged to reap short-term gains. This strengthening of measures would include improving governance within firms, deepening and refocusing the policy framework to encourage more access to capital by smaller firms, and providing incentives for companies that adopt a balanced approach to financing through debt and equity.

➤ *Limitations and Areas for Future Research*

While this study gives useful insights on the part of corporate leverage in M&A strategies, some limitations warrant mention for future research. First, it chiefly concentrates on publicly listed companies, which may not wholly account for the strategies of privately held and family firms. Thus future researchers could look into adding such types of firms to the purview of the study and investigating the role of family ownership and corporate governance systems in the shaping of M&A strategies.

Second, it can be stated that the comparative approach taken with respect to countries does not seem to be able to fully grasp the subtleties of the UAE's unique business environment. One could further research M&A strategies in other emerging markets such as those in Asia, Africa, or Latin America for the sake of comparing the role of corporate leverage in various regional contexts. This would allow for a broader appreciation of the influence of leverage on M&A strategies in different economic environments.

In the end, future research can explore the long-term impact of corporate leverage on the different stages of success in M&A transactions. Whereas this study addressed the immediate effects of M&A on financial and strategic outcomes, the creation of long-term value through the acquisitions serves as a promising avenue for research in the future, i.e., through investigation of synergies, integration, and market expansion.

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