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MERGERS AND ACQUISITIONS IN THE U.S. CAPITAL MARKET: THEORETICAL FOUNDATIONS, MARKET DYNAMICS, AND STRATEGIC IMPLICATIONS

Ephraim Narteh-Kofi [1], Eric Asamoah[2], Tobias Kwame Adukpo[3], Nicholas Mensah[4]

[1]Department of Business Administration-Business Analytics, East Tennessee State University.
[2]Department of Applied Financial Economics, St Louis University, MO, USA
[3]Department of Accounting, University for Development Studies, Ghana
[4]Department of Accounting, University of Ghana

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ABSTRACT

This study explores the theoretical foundations, market dynamics, and strategic implications of mergers and acquisitions (M&A) within the U.S. capital market, aiming to identify key theories, assess previous research, and provide insights into corporate consolidation trends. The objectives include examining fundamental M&A theories, analyzing financial and regulatory market dynamics, reviewing valuation methods and post-merger integration challenges, and understanding the strategic implications for corporate growth and shareholder value. Using a literature review methodology, the study synthesizes academic research, industry reports, and empirical studies to evaluate theories such as agency theory, synergy theory, and resource-based perspectives alongside empirical evidence on deal structures, financing mechanisms, and post-merger performance. The findings indicate that financial synergies, market expansion, regulatory influences, and competitive pressures drive M&A transactions. Moreover, the study posits that for a successful M&A deal, due diligence, valuation accuracy, and integration strategies are key. The study also highlights the impact of evolving market conditions, technological advancements, and policy changes on M&A trends. In conclusion, M&A remains a vital strategy for corporate growth and market positioning in the U.S. capital market, though no single theory fully explains all M&A activities.

KEYWORDS: *Mergers, Acquisitions, U.S. Capital Market, Market Dynamics, Strategic Implications, Corporate Growth, Valuation, Regulation.*

1.0 INTRODUCTION

Mergers and Acquisitions (M&A) are significant mechanisms for corporate growth, allowing companies to expand faster than organic business growth and strengthen their market position within the capital market. M&A activities are relevant in enhancing competitiveness, driving industry consolidation, and fostering financial synergies (Sui et al., 2016). The U.S. capital market has witnessed significant M&A activity across various sectors, including energy, technology, industrial metals, and financial services. In 2018 alone, the total value of M&A transactions in the U.S. energy and industrial metals sectors reached over $200 billion, with deal volume driven by market expansion, regulatory changes, and technological advancements (Ernst & Young, 2019).

1.2 Theories and Motivations Behind M&A

Several financial and strategic benefits are associated with M&A in the U.S. capital market, including rapid access to cash flow, enhanced funding opportunities, acquisition of skilled talent, and market expansion (Hariyani et al. 2011). M&A transactions can be structured as either domestic or cross-border deals, with U.S.-based acquirers generally having higher success rates in domestic transactions due to better familiarity with market conditions, regulatory frameworks, and competitive landscapes (Malone & Zicheng, 2008).

The theoretical underpinnings of M&A transactions in the U.S. capital market are based on corporate finance principles such as the synergy hypothesis, agency theory, and market efficiency theory. The synergy hypothesis suggests that mergers create value by improving operational efficiency and reducing costs. Agency theory explores conflicts of interest between shareholders and management, which can influence acquisition decisions

(Savolainen, 2016). Meanwhile, the market efficiency theory examines whether M&A transactions are accurately priced based on available market information, reflecting investor expectations and broader economic conditions (Savolainen, 2016).

1.3 Due Diligence, Valuation, and Market Dynamics

Given the complexity and scale of M&A transactions, due diligence is a fundamental process. Buyers conduct financial, operational, and regulatory assessments before finalizing deals to mitigate risks associated with valuation discrepancies and ensure legal compliance, and post-merger integration (Smit & Lovallo, 2014). Differences in valuation methodologies, such as Discounted Cash Flow (DCF), Comparable Company Analysis (CCA), and Precedent Transaction Analysis (PTA), can lead to significant variations in the value of businesses, sometimes causing deal failures due to price disagreements between buyers and sellers (Smit & Lovallo, 2014).
The U.S. capital market is highly influenced by macroeconomic factors, including Federal Reserve policies, interest rates, stock market volatility, and corporate tax regulations. The 2008 financial crisis and the subsequent Dodd-Frank Act reshaped M&A activity and led to stricter regulatory scrutiny and financial stability measures (Gupta, 2012; Amoako et al., 2025). Additionally, private equity firms play a significant role in M&A transactions, often engaging in leveraged buyouts (LBOs) to restructure underperforming firms and enhance shareholder value.

1.4 Strategic and Financial M&A in the U.S.

M&A transactions in the U.S. can be categorized based on their strategic intent:

1. Strategic M&A – These deals are long-term investments where acquiring firms seek to expand market share, integrate vertically, or acquire new technologies. Examples include Amazon's acquisition of Whole Foods (2017) to strengthen its retail and logistics network.
2. Financial M&A – These deals are motivated by short-term profit generation, where acquirers (often private equity firms) aim to improve financial performance and exit through resale. A notable example is KKR's acquisition of Toys "R" Us (2005), which ultimately faced challenges due to high leverage and market shifts.

M&A activities in the U.S. have evolved beyond traditional motives of market control and cost efficiency. Post-2009, acquisitions increasingly focus on technology-driven innovation, digital transformation, and global competitiveness (Lee & Lieberman, 2010; Umoren et al., 2025; Agbadamasi et al., 2025). For example, Microsoft's $69 billion acquisition of Activision Blizzard (2022) exemplifies how tech companies use M&A to strengthen their position in emerging markets such as the metaverse and gaming.

2.0 LITERATURE REVIEW

2.1 Definition of M&A

Mergers and acquisitions (M&A) are fundamental corporate strategies in the U.S. capital market, facilitating business expansion, market consolidation, and competitive advantage. Various scholars define M&A in different ways, reflecting its complexity and evolving nature.

A merger occurs when one or more companies integrate into another entity, resulting in the dissolution of the merging firms and the continuation of a single, unified company (Reed et al., 2007). In contrast, an acquisition refers to the transfer of ownership, where one company acquires a controlling stake in another by purchasing its shares or assets (Reed et al., 2007). Scott (2012) describes a merger as the consolidation of two or more companies, whether of similar size or different scales into a single legal entity. In such cases, the acquiring company typically retains its brand identity, while the acquired firm ceases to operate independently (Depamphilis, 2018).

From another perspective, Snow (2011) defines a merger as a combination of two or more firms in which each contributes equally in terms of share distribution and strategic role within the newly formed entity. Meanwhile, an acquisition is characterized by one company purchasing another company, a business division, or specific assets. Snow (2011) further categorizes M&A targets based on their revenue profiles, offering insights into how companies approach acquisitions to optimize financial and strategic synergies.

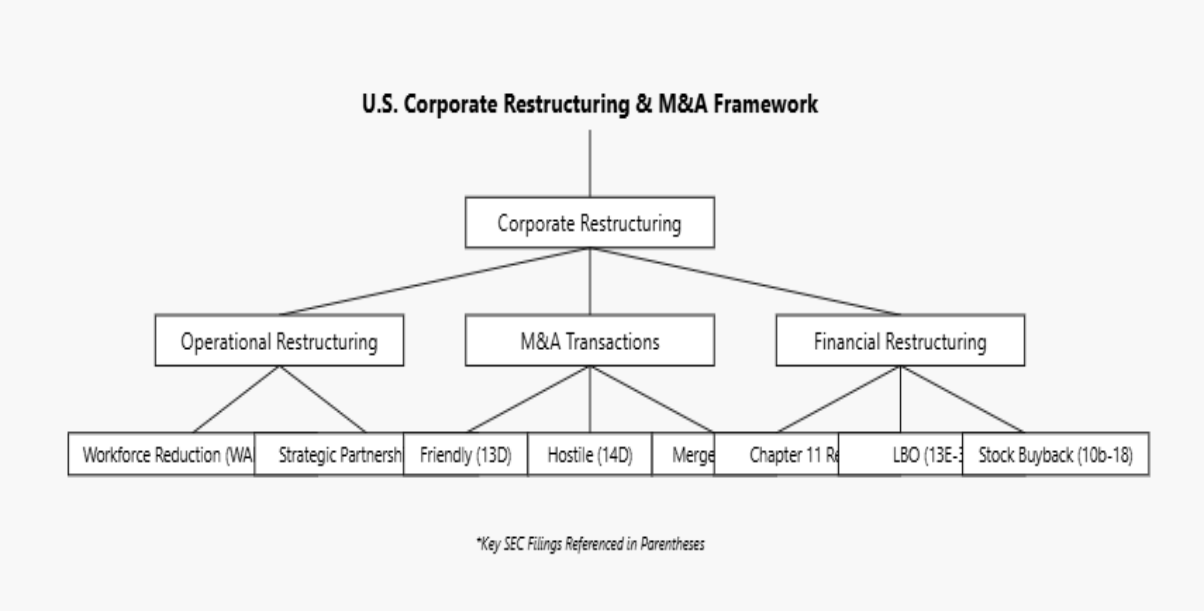
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Table 1: Classification of M&A Transactions in the U.S. Capital Market by Target Revenue

M&A Target Category	Annual Revenue (USD million)	Typical M&A Advisor
Micro Enterprises & Sole Proprietorships	< 1	Business Brokers, Small-Scale M&A Advisors
Small Businesses	1 – 10	Business Brokers, Regional M&A Consultants
Lower Middle Market	10 – 250	Boutique Investment Banks, Specialized M&A Firms
Middle Market	250 – 500	Mid-Tier Investment Banks, Advisory Firms
Large Corporations & Public Companies	> 500	Global Investment Banks, Large Advisory Firms

The classification shown in the table above aligns with the structure of M&A activity in the U.S., where business size and revenue influence the type of advisory services required. Smaller transactions often involve business brokers or boutique firms, while larger deals typically engage top-tier investment banks specializing in complex mergers, leveraged buyouts, and strategic acquisitions.

Figure 1: Corporate Restructuring and Mergers and Acquisition Framework



(Mittal & Jain, 2012)

The U.S. M&A and corporate restructuring framework illustrates the complex interplay between market dynamics, regulatory requirements, and strategic decision-making in American capital markets. At its core, the framework depicts three fundamental approaches: operational restructuring (governed by regulations like the WARN Act for workforce reductions), M&A transactions (differentiated by friendly 13D and hostile 14D filings), and financial restructuring (including Chapter 11 reorganizations and Rule 10b-18 stock buybacks). This structure reflects the theoretical foundations of the efficient market hypothesis and agency theory, where market mechanisms and regulatory oversight create a balanced system for corporate control transactions. The framework emphasizes the unique characteristics of U.S. markets through its integration of SEC filing requirements, stockholder protection mechanisms, and bankruptcy provisions, while also acknowledging modern trends through the inclusion of strategic partnerships, LBOs, and stock buybacks as key tools in corporate restructuring. This comprehensive approach demonstrates how American corporations can navigate value creation and preservation through various strategic options while operating within a well-defined regulatory environment that protects stakeholder interests.

2.2 Motives for Mergers and Acquisitions in the U.S. Capital Market

Mergers and acquisitions (M&A) in the U.S. capital market are driven by various strategic, financial, and operational motives. According to Tamosiuniene and Duksaitelet (2009), several key factors influence a company's decision to pursue M&A:

Limited Growth Resources: Companies operating in highly regulated or saturated markets may lack the internal resources to expand, making acquisitions a viable path for growth. This thus, can trigger M&As.

Business Maturity and Expansion Needs: Organizations that have reached a pivotal stage in their business cycle may turn to M&A as a strategic move to sustain growth.

Leadership and Management Gaps: A company may seek to acquire another firm that possesses superior leadership and operational expertise.

Capital Constraints: Firms struggling with limited access to financing may use M&A to strengthen their financial position.

Competitive Pressures: The emergence of new market entrants or disruptive innovations can prompt companies to acquire rivals to maintain market dominance.

Investor or Shareholder Expectations: Companies may engage in M&A to enhance shareholder value, meet financial targets, or unlock liquidity.

2.2.1 Rationale for Selling Assets, Divisions, or Entire Companies
According to Snow (2011), companies may sell assets or business units for several reasons:

Capital Generation: Selling unproductive or non-core assets can provide capital for business expansion.

Portfolio Optimization: Divesting underperforming units allows firms to focus on core competencies and reinvest in high-growth sectors.

Strategic Partnerships: Forming alliances through partial sales can strengthen a company's access to expertise, funding, and networks.

Debt Reduction: Companies facing financial distress may sell assets to improve balance sheets and secure liquidity.

Regulatory or Tax Considerations: Transferring ownership can help companies mitigate legal risks or take advantage of more favorable tax structures.

2.2.2 Motives for Buyers in M&A Transactions
Buyers in M&A transactions typically pursue acquisitions for strategic and financial benefits (Snow, 2011):

Revenue Growth: Acquiring businesses can accelerate top-line growth by expanding operations.

Market and Product Expansion: Gaining access to new markets or diversifying product portfolios drives many acquisition strategies.

Vertical Integration: Companies may acquire suppliers or distributors to control supply chains and improve efficiency.

Economies of Scale: Larger businesses benefit from cost efficiencies, improved bargaining power, and operational synergies.

Market Dominance: Acquiring competitors enables firms to consolidate market share and enhance competitive positioning.

2.2.3 Broad Strategic and Financial Considerations in U.S. M&A Transactions
Gaughan (2007) outlines the overarching objectives of M&A in the U.S. market, which include:

- Driving business growth and achieving higher returns on investment.
- Expanding operations through industry consolidation or cross-border M&A.
- Capturing synergies in operations, finance, or market positioning.
- Realizing cost savings and benefits from economies of scale.

Gupta (2012) further categorizes M&A motives into three primary groups:

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Strategic Synergy: This includes business expansion, market share gains, competitive positioning, and operational integration.

Financial Optimization: Companies may pursue acquisitions for tax benefits, cost reduction, value creation, and increased market capitalization.
Organizational Efficiency: M&A can serve as a restructuring tool to streamline operations and enhance governance structures.

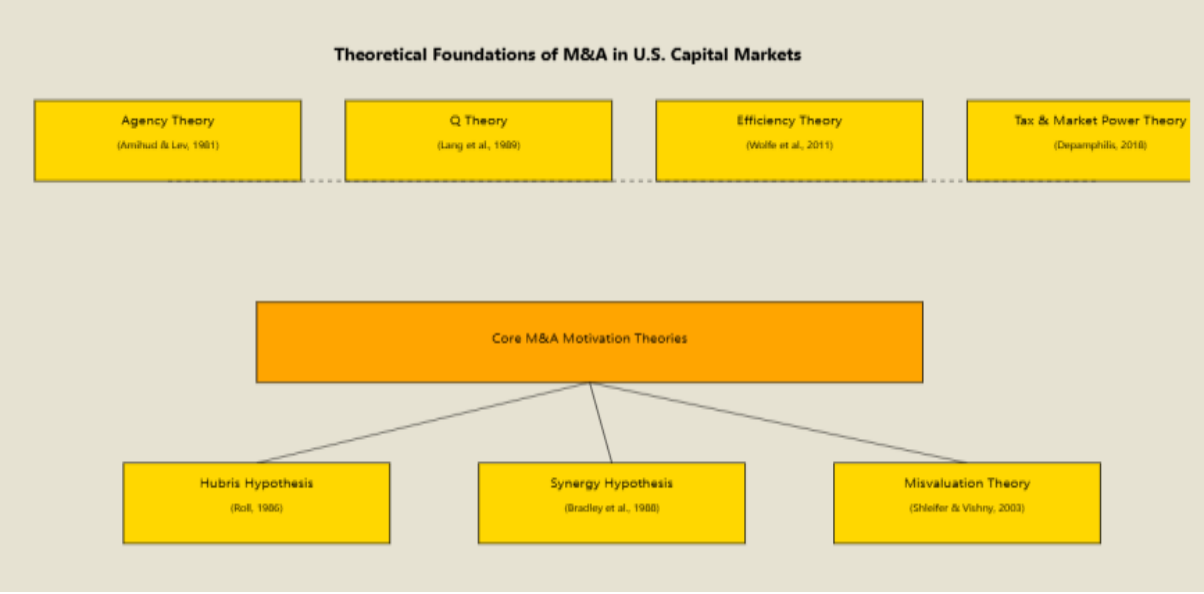
2.3 Types of Buyers in U.S. M&A Transactions
Holloway (2016) identifies two main categories of M&A buyers in the U.S. market:

Strategic Buyers: These are corporations acquiring businesses to achieve operational synergies, improve competitive positioning, and enhance market leadership.

Private Equity Firms: Investment firms engage in M&A primarily for financial returns, seeking undervalued businesses with growth potential for future resale or public offering.
Understanding these motives helps stakeholders navigate the complexities of M&A in the U.S. capital market, where strategic alignment, financial considerations, and regulatory factors play considerable roles in shaping deal outcomes.

3.1 Theories of Mergers and Acquisitions
Mergers and acquisitions (M&A) are fundamental corporate strategies in the U.S. capital market, facilitating business expansion, market consolidation, and competitive advantage. Various scholars define M&A in different ways, reflecting its complexity and evolving nature.
Through understanding these foundational definitions, market participants can better navigate the U.S. M&A landscape, where regulatory frameworks, shareholder interests, and market dynamics shape deal structures and outcomes.

Figure 2: Theoretical foundations of M&As in the US Capital market



The landscape of mergers and acquisitions in the U.S. capital market is deeply rooted in a complex theoretical framework that transcends simple financial transactions. At its core, the evolution begins with Portfolio Theory, introduced by Markowitz in 1952, which fundamentally transformed investment thinking by emphasizing the relevant balance between risk and return (Markowitz, 1952). “This theory laid the groundwork for understanding strategic investment decisions, introducing a systematic approach that would influence generations of financial strategists and corporate leaders”.

Agency Theory, developed by Ross, Jensen, and Meckling in the 1970s, further illuminated the intricate dynamics between shareholders and management. This theoretical perspective exposed the potential misalignments in corporate governance, highlighting how management’s interests might diverge from those of shareholders. The

concept of agency costs emerged as a sophisticated mechanism to align these potentially conflicting objectives, creating a more nuanced understanding of corporate decision-making processes (Shapiro, 2005).

Management motivations for mergers and acquisitions are multifaceted and extend far beyond simple financial calculations (Miller Jr. & Segall, 2017). Executives are driven by a complex interplay of professional aspirations, including diversifying business expertise, optimizing personal incentive structures, building a professional reputation, expanding shareholder influence, and strategically managing organizational cash flows. These motivations demonstrate that M&A activities are not merely financial transactions but strategic narratives of corporate evolution and personal and professional development.

Fidrmuc et al. (2013), provide compelling evidence of how ownership structures influence strategic decisions. When corporate leaders have significant equity stakes, they become more aligned with shareholder interests, increasing the likelihood of value-maximizing transactions. This ownership alignment creates a unique ecosystem where personal and organizational objectives can converge, driving innovative approaches to corporate restructuring.

U.S. capital markets are unique as they facilitate numerous complex transactions. The theoretical foundations underlying mergers and acquisitions reveal an environment that celebrates entrepreneurial management, values strategic flexibility, and maintains sophisticated mechanisms for corporate governance (Calipha et al. 2010; Atisu et al., 2024; Mensah et al., 2024). This transforms M&A from a mere financial tool into a dynamic strategic instrument for organizational growth, reputation building, and value creation.
The theoretical framework of mergers and acquisitions (M&A) in U.S. capital markets embodies a complex interplay of financial strategy, corporate governance, market dynamics, and executive ambition. Successful corporate transformation extends beyond financial metrics which require a thorough understanding of leadership, innovation, and strategic vision. As markets evolve, these foundational theories offer a comprehensive perspective on the multifaceted drivers of corporate change.

3.1.1 The Hubris Hypothesis

First introduced by Roll (1986), the hubris hypothesis suggests that psychological biases significantly influence managerial decision-making in M&A transactions. Specifically, corporate executives may overestimate the value of an acquisition target, leading them to offer a purchase price well above its intrinsic market value. This excessive confidence, termed hubris, results from an overestimation of the synergies and financial returns that the acquisition will generate (Malmendier & Tate, 2005; Heaton, 2002). Several factors contribute to this phenomenon:

1. The drive to secure a deal at any cost, particularly in competitive bidding scenarios.
2. High financial leverage, including substantial cash reserves and borrowing capacity, which reduces caution in capital deployment.
3. Overconfidence from the M&A advisory team, leading to risk miscalculations.

As a result, acquirers may pay excessive premiums without realizing tangible synergies, even when their intentions are well-meaning (Weston et al., 2010).

3.1.2 Winner's Curse Theory

The winner's curse posits that acquirers, particularly those engaged in aggressive bidding wars, often overpay for target firms (Anandalingam & Lucas Jr, 2004). This phenomenon arises when companies compete fiercely in auctions, leading them to bid beyond the target's fair value. Uncertainty surrounding the true worth of an acquired company, combined with incomplete information and insufficient due diligence, exacerbates this risk (Anandalingam & Lucas Jr, 2004). Firms with robust financial resources may be more susceptible to overbidding, ultimately struggling to generate expected post-acquisition value.

3.1.3 Synergy Hypothesis

Bradley et al. (1988), later expanded upon by Seth (1990) and Hubbard & Palia (1990), argue that M&A transactions can create significant economic value by fostering synergies. The key sources of synergy include:

1. Operational Synergy – Combining complementary strengths, such as a firm with expertise in safety protocols merging with another excelling in resource extraction, enhancing overall operational efficiency.
2. Economies of Scale – Pooling resources reduces fixed costs across a larger revenue base, improving cost efficiencies.
3. Economies of Scope – Integrating diverse capabilities can lead to innovative product development and market expansion, maximizing the competitive advantage of the merged entity.

3.1.4 Q-Theory of Mergers

Developed by Lang et al. (1989), the Q-theory suggests that M&A can create value by optimizing resource allocation. Firms with strong financial standing and higher Q-ratios (indicative of better investment opportunities) may find it more advantageous to acquire underutilized assets rather than invest in costly internal capital expenditures. For example, acquiring a company with specialized equipment at a lower valuation can be more financially prudent than purchasing the same equipment outright.

3.1.5 Misvaluation Hypothesis

Shleifer and Vishny (2003) proposed that M&A decisions are often influenced by market inefficiencies. Acquirers strategically target undervalued assets or companies operating in inefficient markets to capitalize on potential gains. By acquiring a firm at a depressed valuation and implementing operational enhancements, the buyer can unlock substantial financial and strategic value. An example would be purchasing an underperforming manufacturing plant and optimizing its capacity utilization, thereby reducing costs and improving profitability.

3.1.6 Efficiency Theory

Rooted in Fama's (1970) Efficient Market Hypothesis (EMH), this theory asserts that stock prices reflect all publicly available information. As new information enters the market, stock valuations adjust accordingly. This framework has been extended to M&A transactions, where companies seek to acquire firms with valuable intangible assets such as skilled labor, superior management, advanced technology, or market access (Wolfe et al., 2011). For instance, a coal mining firm looking to diversify into gold mining may acquire an established gold mining company to gain expertise and industry presence rapidly.

3.1.7 Tax Benefits and Market Power Theory

Depamphilis (2018) highlights the tax advantages and competitive benefits of M&A. In jurisdictions with favorable tax regulations, corporate consolidation can facilitate tax efficiency. For instance, in certain U.S. tax structures, a loss-making subsidiary can offset taxable profits from another division, reducing overall tax liabilities. Additionally, market power theory suggests that mergers between firms in the same industry can enhance operational efficiency and cost management, leading to more competitive pricing and increased profitability.

3.2 Mergers and Acquisitions Processes

The Mergers and Acquisitions (M&A) process in the U.S. capital market can be understood through the following 12 steps, as outlined by Snow (2011), adapted to reflect the theoretical foundations, market dynamics, and strategic implications of M&A activities:

1. Initial Target Identification and Analysis: At the outset, potential M&A targets are identified and evaluated using available data. This phase involves gathering and analyzing information to determine the feasibility of the acquisition in alignment with the buyer's strategic goals.
2. Communication with Shareholders and Target Management: The buyer initiates contact with the shareholders or management of the target company to establish dialogue and discuss potential interest in the merger or acquisition.
3. Teaser or Executive Summary: The buyer receives a concise overview of the target company, often referred to as a "teaser" or executive summary, outlining key details and highlights to gauge interest.
4. Confidentiality Agreement and Detailed Data Review: If the target appears promising from the teaser, the buyer signs a Non-Disclosure Agreement (NDA) to access more detailed, sensitive information necessary for a deeper analysis.
5. In-Depth Data Analysis: Following the NDA, the buyer conducts a more thorough review of the target company's data, including financials, operations, and other critical factors, to assess the viability of the deal.
6. Letter of Intent (LOI): The buyer sends a non-binding letter of interest to the seller, indicating the preliminary terms and conditions under which the acquisition could take place, based on initial assessments.
7. Management and Shareholder Meetings: Meetings are arranged with the target company's management and shareholders to discuss the proposed acquisition, address concerns, and clarify any necessary details.
8. Non-Binding Proposal: A formal, non-binding proposal is submitted to the seller, detailing the estimated value of the target company and outlining the terms and conditions for the acquisition, subject to further negotiation.
9. Due Diligence: A critical phase where the buyer thoroughly investigates the target company's legal, financial, operational, and strategic aspects to uncover any potential risks, liabilities, or synergies.

10. Negotiation and Agreement: After completing due diligence, both parties enter into negotiations to finalize the terms of the acquisition. A Sale and Purchase Agreement (SPA) is crafted and signed, legally committing both sides to the deal.
11. Transaction Closure: The transaction is officially closed, meaning the asset is transferred to the buyer, marking the completion of the acquisition.
12. Post-Closing Integration and Adjustments: Following the transaction's closure, integration efforts begin, which may include operational, cultural, and financial adjustments and final post-closing amendments are made to align the acquired business with the buyer's strategy.

3.3 Due Diligence as a Risk Analysis in Mergers and Acquisitions within the U.S. Capital Market

In the context of mergers and acquisitions (M&A) within the U.S. capital market, due diligence serves as a significant process for identifying and mitigating potential risks associated with the transaction. According to Uyemura and Deventer (1993), risk is defined as the volatility or deviation in the net cash flow of a business unit. Mun (2006) further defines risk as the uncertainty impacting a system, leading to fluctuations in the value and yield of an asset, while Jorion (2007) emphasizes that risk is the volatility of the uncertainty surrounding outcomes, typically represented by asset values, equity, or income. Manurung (2017) also defines risk as potential losses resulting from future uncertainties, with the ability to measure and minimize these risks through careful analysis. To mitigate these risks, the buyer is entitled to conduct a due diligence process before signing the share purchase agreement. This process typically involves analyzing various aspects of the target company; its past performance, current operations, and future prospects (Reed et al., 2007; Wangerin, 2011; Mensah et al., 2025). Due diligence is seen as an essential tool for understanding and managing the risks involved in an M&A transaction.

The due diligence process in M&A is not solely handled by the buyer's internal team but also involves external consultants, service providers, accountants, and other experts who are tasked with validating data, assessing the company's value, and identifying potential synergies. As Wangerin (2009) points out, the involvement of third-party consultants ensures an independent and often more objective assessment of the target company, which can significantly impact the overall transaction strategy.

However, conducting thorough due diligence can incur substantial costs, especially when high-caliber international consultants are engaged (Clarke, 2001). "These pre-acquisition costs, which may run into millions of dollars, are a necessary investment to ensure a comprehensive understanding of the risks involved". For example, in industries like coal commodities, well-established international consultants, particularly from regions like Australia, are often involved to ensure a reliable evaluation of the target's assets.

The value of the information obtained during the due diligence process cannot be overstated. More detailed and accurate information enhances the buyer's ability to assess risks and make informed decisions. As demonstrated by Easley and O'Hara (2004), investors with access to better-quality financial information during the due diligence process can achieve higher investment returns and lower capital costs, compared to those relying on less accurate or incomplete data. This is because having comprehensive, non-public information significantly improves risk assessment and decision-making.

Wangerin (2011) categorizes due diligence into three phases: preliminary due diligence, due diligence review, and pre-closing due diligence, each playing a pivotal role in identifying risks, validating financial data, and negotiating the final terms of the M&A transaction. Ultimately, due diligence is an essential process in the M&A landscape of the U.S. capital market, enabling buyers to understand potential risks, negotiate more effectively, and make more strategic investment decisions.

4.0 CONCLUSION

The findings from this paper indicate that mergers and acquisitions (M&A) in the U.S. capital market are influenced by a complex interplay of financial, strategic, and regulatory factors, with no single theory fully explaining all M&A activities. Financial synergies, market expansion, and competitive pressures are key drivers, but the success of M&A transactions largely depends on thorough due diligence, accurate valuation, and effective post-merger integration strategies. The evolving market landscape, shaped by technological advancements and regulatory changes, continues to impact M&A trends, requiring firms to adopt adaptive and informed approaches.

4.1 Future Research Agenda in Mergers and Acquisitions within the U.S. Capital Market

At present, existing theories do not provide a comprehensive explanation M&A. Each M&A transaction can be understood through multiple theoretical perspectives, rather than through a single, universally accepted theory.

Therefore, future research could focus on developing a cohesive and universally applicable theory that can offer both academic and commercial insights into M&A activities, capturing the complexities and dynamics of the U.S. capital market in a more integrated manner.

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