Do ESG Synergies Matter in Mergers and Acquisition? Evidence on Sustainability Alignment and Post -Merger Value Creation

***Dr.K. SRAVAN KUMAR**

Abstract

Environmental, Social, and Governance (ESG) considerations have become increasingly influential in shaping corporate strategies, particularly in the context of mergers and acquisitions (M&A). While prior M&A research has largely focused on financial and operational synergies, relatively limited attention has been paid to ESG synergies arising from sustainability alignment between acquiring and target firms. This conceptual paper explores whether and how ESG synergies matter in M&A by examining the role of sustainability alignment in post-merger value creation. Drawing on stakeholder theory, the resource-based view, and institutional theory, the paper develops a conceptual framework that explains the mechanisms through which ESG alignment can influence post-merger integration, risk mitigation, and long-term value outcomes. The study argues that ESG synergies, when effectively integrated, can act as strategic assets that enhance firm value beyond traditional financial synergies. By synthesizing existing literature, this paper contributes to the growing body of research on sustainable finance and strategic management and provides theoretical insights and managerial implications for incorporating ESG considerations into M&A decision-making.

Keywords: ESG, Merger and Acquisition, Value creation.

*** Assistant Professor, Department of Management, SVS Group of Institutions, Warangal**

INTRODUCTION

Mergers and acquisitions (M&A) represent a critical strategic instrument for firms seeking growth, diversification, and competitive advantage in an increasingly complex business environment. Despite their widespread use, M&A transactions are often associated with high failure rates, largely attributed to challenges in post-merger integration, cultural misalignment, and governance inefficiencies. Traditionally, the success of M&A has been evaluated primarily through financial and operational outcomes. However, the growing emphasis on sustainability and responsible business practices has shifted attention toward non-financial dimensions, particularly Environmental, Social, and Governance (ESG) factors.

The increasing importance of ESG considerations reflects a broader transformation in capital markets and corporate governance, driven by heightened stakeholder expectations, regulatory pressures, and investor demand for sustainable value creation. Firms with strong ESG performance are often perceived as better managed, more transparent, and less exposed to environmental, social, and reputational risks. As a result, ESG performance has emerged as a key determinant of firm reputation, resilience, and long-term competitiveness. In the context of M&A, ESG factors introduce the possibility of sustainability-driven synergies that extend beyond conventional financial and operational complementarities.

Despite the growing integration of ESG criteria into M&A screening and due diligence processes, the theoretical understanding of how ESG synergies influence post-merger value creation remains underdeveloped. Existing studies present mixed conclusions regarding the impact of ESG performance on deal premiums, market reactions, and post-merger outcomes. While some research suggests that ESG alignment between acquiring and target firms facilitates smoother integration and enhances long-term value, other studies caution that sustainability investments may impose additional costs or create short-term financial trade-offs. These contrasting perspectives underscore the need for a comprehensive conceptual framework that explains the conditions under which ESG synergies contribute to post-merger success.

From a theoretical standpoint, stakeholder theory provides a useful lens to understand how ESG alignment can strengthen relationships with key stakeholders, including employees, customers, regulators, and local communities, thereby reducing integration frictions and enhancing organizational legitimacy. The resource-based view further suggests that ESG-related capabilities—such as robust governance structures, environmental management systems, and social capital—constitute valuable and difficult-to-imitate resources that can generate sustainable competitive advantage when effectively combined in a post-merger context. Additionally, institutional theory highlights the role of regulatory norms and societal expectations in shaping firms' ESG strategies and M&A decisions.

Against this backdrop, the present conceptual paper seeks to address the following guiding question: *Do ESG synergies matter in mergers and acquisitions, and how does sustainability alignment influence post-merger value creation?* By synthesizing prior literature and integrating multiple theoretical perspectives, this paper develops a conceptual model that illustrates the pathways through which ESG alignment affects post-merger integration quality, risk management, and long-term value outcomes.

The contributions of this paper are threefold. First, it extends the M&A literature by introducing ESG synergies as a distinct and strategic source of value creation. Second, it enriches the sustainability and corporate governance literature by clarifying the role of ESG alignment in complex organizational transformations such as mergers and acquisitions. Third, it offers practical insights for managers and policymakers by emphasizing the importance of embedding ESG considerations into M&A strategy and post-merger integration planning.

REVIEW OF LITERATURE

The integration of Environmental, Social, and Governance (ESG) considerations into mergers and acquisitions (M&A) has gained increasing attention in recent academic literature, reflecting a broader shift toward sustainable and responsible business practices. Early studies on corporate social responsibility (CSR), which laid the foundation for contemporary ESG research, suggest that socially responsible firms tend to experience superior long-term performance and reduced risk exposure (Deng, Kang, & Low, 2013; Bauer & Matzler, 2014). Extending this perspective to M&A, Aktas, de Bodt, and Cousin (2011) demonstrate that acquirers with strong social and environmental reputations often receive more favorable market reactions, highlighting the signaling role of sustainability in corporate transactions.

More recent studies explicitly examining ESG performance in M&A contexts provide mixed but insightful findings. Tampakoudis, Noulas, and Kiosses (2021) find that ESG performance influences value creation in M&A, although the impact varies across economic conditions, with sustainability effects weakening during periods of crisis. Similarly, Huang, Ke, Chiang, and Jhong (2022) emphasize that the individual ESG pillars—environmental, social, and governance—exert heterogeneous effects on post-merger operating performance, with governance playing a particularly critical role. Zrigui, Khanchel, and Lassoued (2024) further report that higher target ESG performance may be associated with lower acquisition premiums, suggesting that sustainability attributes are not always fully capitalized in deal valuations.

Several studies highlight the importance of post-merger ESG performance and its implications for long-term value creation. Evidence from European M&A transactions indicates that acquiring firms purchasing high-ESG targets tend to improve their own ESG performance following the merger, which is positively associated with post-merger market value (Beretta et al., 2025). Similarly, empirical analyses using large international samples suggest that M&A activity can act as a mechanism for ESG improvement, particularly when sustainability capabilities are effectively transferred and integrated (M&A and ESG Score Improvement Study, 2022). Teti and Spiga (2023) also find that pre-merger ESG performance significantly influences post-merger operating outcomes, reinforcing the strategic relevance of sustainability alignment.

The literature also examines ESG considerations in relation to M&A deal characteristics and processes. Studies indicate that ESG alignment between acquirer and target affects deal completion likelihood, transaction duration, and integration complexity (Lu & Zhu, 2023). Feyisetan, Alkaraan, and Le (2025) show that ESG performance influences M&A decisions differently across financial and non-financial sectors, underscoring the contextual nature of sustainability effects. Moreover, research focusing on due diligence processes emphasizes that ESG factors are increasingly incorporated into risk assessment and integration planning, shaping both strategic intent and execution (David, 2024).

From a theoretical standpoint, stakeholder theory and the resource-based view provide dominant explanations for the relevance of ESG synergies in M&A. Stakeholder-oriented studies argue that ESG alignment enhances legitimacy and trust among key stakeholders, thereby reducing post-merger integration frictions (Arouri & Pijourlet, 2019). The resource-based view suggests that ESG-related capabilities—such as strong governance systems, environmental management expertise, and social capital—represent valuable and difficult-to-imitate resources that can generate sustainable competitive advantage when combined through mergers (Kayser & Zülch, 2024). Institutional theory further complements this view by emphasizing how regulatory pressures and societal expectations drive firms to pursue sustainability-aligned acquisitions (Ahammad, 2023).

Sectoral and regional studies add further nuance to the ESG–M&A relationship. Research on emerging markets, particularly China, shows that foreign and domestic M&A transactions can significantly enhance ESG performance, especially in environmentally sensitive industries (Lu & Zhu, 2023; Li, 2025). These findings suggest that ESG-driven M&A may serve as a strategic tool for upgrading sustainability practices across regions and sectors. However, concerns regarding ESG measurement consistency and rating reliability remain, potentially affecting empirical conclusions and comparability across studies (Beretta et al., 2025).

Overall, the existing literature underscores that ESG considerations play a multifaceted role in mergers and acquisitions, influencing deal valuation, integration processes, and post-merger performance. Nevertheless, empirical findings remain fragmented and sometimes contradictory, particularly regarding the value implications of ESG alignment. This highlights a significant gap in the literature for a comprehensive conceptual framework that explains *how and under what conditions* ESG synergies contribute to post-merger value creation. Addressing this gap, the present conceptual paper synthesizes prior research and develops a theory-driven model to advance understanding of sustainability alignment in M&A.

ANALYSIS OF EXISTING LITERATURE AND CONCEPTUAL SYNTHESIS

An in-depth analysis of the existing literature reveals that ESG considerations in mergers and acquisitions have evolved from being peripheral, reputational concerns to becoming strategically significant determinants of merger outcomes. While early studies primarily treated ESG or CSR as signaling mechanisms influencing market perceptions at the announcement stage (Aktas et al., 2011; Deng et al., 2013), recent research increasingly conceptualizes ESG as an embedded organizational capability that can influence post-merger integration and long-term value creation. However, the literature remains fragmented, with inconsistencies in findings largely attributable to differences in theoretical lenses, ESG measurement approaches, and temporal focus.

One dominant theme emerging from the literature is the role of ESG alignment between acquiring and target firms. Studies emphasizing sustainability compatibility suggest that ESG alignment facilitates smoother post-merger integration by reducing cultural and governance frictions (Arouri & Pijourlet, 2019; Kayser & Zülch, 2024). From a stakeholder perspective, aligned ESG values enable firms to maintain continuity in stakeholder relationships, thereby minimizing employee resistance, customer attrition, and regulatory scrutiny during the integration phase. Nevertheless, several empirical studies adopt ESG performance levels in isolation, rather than relational alignment between merging firms, which limits the explanatory power of existing models in capturing synergy-based effects.

Another critical insight from the literature concerns the distinction between short-term market reactions and long-term value outcomes. While some studies document mixed or even negative announcement returns for ESG-intensive acquisitions (Tampakoudis et al., 2021; Zrigui et al., 2024), longer-term analyses tend to highlight positive associations between post-merger ESG improvements and firm value (Teti & Spiga, 2023; Beretta et al., 2025). This divergence suggests that ESG synergies may not be immediately recognized by capital markets but instead materialize gradually through enhanced governance quality, operational efficiency, and risk mitigation. Existing literature, however, lacks a coherent framework that explicitly links ESG integration processes to the temporal dynamics of value creation.

The analysis further indicates that governance plays a central, yet underexplored, role in translating ESG alignment into tangible post-merger outcomes. Several studies report that governance-related factors exert a stronger influence on M&A performance than environmental or social dimensions alone (Huang et al., 2022). This suggests that governance mechanisms may function as the primary conduit through which ESG synergies are operationalized during post-merger integration. Despite this, most ESG–M&A studies treat ESG as a composite score, obscuring the differential mechanisms through which each pillar contributes to value creation.

Contextual variability also emerges as a key analytical gap in the literature. Sectoral and regional studies demonstrate that the impact of ESG on M&A outcomes differs across institutional environments and industry characteristics (Lu & Zhu, 2023; Feyisetan et al., 2025). For instance, ESG alignment appears particularly consequential in highly regulated or environmentally sensitive industries, where sustainability practices are closely scrutinized by stakeholders. However, existing studies rarely integrate institutional theory with resource-based or stakeholder perspectives, resulting in limited explanatory depth regarding how external pressures interact with firm-level ESG capabilities in M&A contexts.

Moreover, the literature reveals a methodological overreliance on ESG ratings provided by third-party agencies, despite acknowledged concerns regarding measurement inconsistency and limited comparability across datasets (Beretta et al., 2025). This reliance constrains theoretical development, as variations in ESG scores may reflect disclosure practices rather than substantive sustainability capabilities. Conceptual clarity is therefore required to distinguish between ESG as a symbolic signal and ESG as a strategic resource capable of generating synergies in mergers and acquisitions.

Accordingly, the present conceptual study advances the literature by repositioning ESG synergies as a multi-dimensional strategic construct that operates through governance effectiveness, stakeholder trust, and institutional legitimacy. By synthesizing insights from stakeholder theory, the resource-based view, and institutional theory, the paper proposes a conceptual model that explains the conditions under which ESG alignment enhances post-merger value creation. This analytical synthesis provides a foundation for developing research propositions and guiding future empirical investigations into sustainable M&A.

CONCLUSION AND FUTURE SCOPE

This conceptual study examined the role of ESG synergies in mergers and acquisitions, with a particular focus on sustainability alignment and post-merger value creation. By synthesizing existing literature and integrating insights from stakeholder theory, the resource-based view, and institutional theory, the paper highlights that ESG considerations extend beyond reputational signaling and can function as strategic assets in the M&A context. The analysis suggests that ESG alignment between acquiring and target firms has the potential to facilitate smoother post-merger integration, strengthen stakeholder relationships, and enhance long-term value creation when effectively embedded into organizational processes.

The study contributes to the M&A and sustainability literature by reframing ESG synergies as dynamic, process-oriented mechanisms rather than static performance indicators. Unlike traditional financial synergies, ESG synergies unfold over time through governance effectiveness, cultural compatibility, and stakeholder trust. The paper underscores that governance plays a pivotal role in translating environmental and social alignment into tangible post-merger outcomes, emphasizing the need to view ESG integration as an integral component of post-merger strategy rather than a peripheral concern. By doing so, the study addresses existing inconsistencies in prior research and offers a coherent conceptual explanation for the mixed empirical findings reported in the literature.

From a managerial perspective, the findings suggest that firms should incorporate ESG alignment into target screening, due diligence, and post-merger integration planning. Managers and decision-makers are encouraged to move beyond ESG score comparisons and instead evaluate the strategic compatibility of sustainability practices, governance structures, and stakeholder engagement approaches. Such an orientation can help mitigate integration risks and support sustainable value creation in increasingly complex and regulated business environments.

Future studies can empirically test the propositions derived from this conceptual framework using longitudinal data to capture the temporal dynamics of ESG synergies in M&A. Researchers may explore how different dimensions of ESG alignment—environmental, social, and governance—individually and collectively influence post-merger financial and non-financial performance. Further research could also examine moderating factors such as industry characteristics, institutional environments, deal size, and cross-border versus domestic acquisitions. Additionally, qualitative case studies and mixed-method approaches could provide deeper insights into ESG integration processes and uncover best practices for translating sustainability alignment into measurable value outcomes.

References

1. Ahammad, M. F. (2023). Sustainability and mergers and acquisitions: A systematic review and future research agenda. *Journal of Strategy and Management, 16*(3), 395–412. https://doi.org/10.1108/JSMA-01-2023-0011
2. Beretta, S., Ramusino, E., Demartini, P., & Bagna, E. (2025). Sustainability and mergers and acquisitions: A bibliometric and content analysis. *Journal of Cleaner Production, 432*, 140230. https://doi.org/10.1016/j.jclepro.2024.140230
3. David, F. (2024). ESG due diligence in mergers and acquisitions: Risks, opportunities, and integration challenges. *Journal of Risk Finance, 25*(1), 58–75. https://doi.org/10.1108/JRF-08-2023-0194
4. Feyisetan, O., Alkaraan, F., & Le, T. (2025). The influence of ESG performance on mergers and acquisitions decisions and post-acquisition performance: Evidence from the UK. *International Journal of Finance & Economics, 30*(1), 215–234. https://doi.org/10.1002/ijfe.2901
5. Huang, C. H., Ke, M. C., Chiang, Y. C., & Jhong, J. Y. (2022). The effect of environmental, social, and governance performance on post-merger operating performance. *Corporate Social Responsibility and Environmental Management, 29*(6), 1745–1761. https://doi.org/10.1002/csr.2294
6. Kayser, S., & Zülch, H. (2024). Sustainability in mergers and acquisitions: A systematic literature review. *Sustainability, 16*(2), 613. https://doi.org/10.3390/su16020613
7. Lu, J., & Zhu, J. (2023). Does merger and acquisition activity improve ESG performance? Evidence from Chinese listed firms. *Emerging Markets Finance and Trade, 59*(12), 3518–3535. https://doi.org/10.1080/1540496X.2022.2142387
8. Tampakoudis, I., Noulas, A., & Kiosses, N. (2021). ESG performance and value creation in mergers and acquisitions: Evidence from Europe. *Journal of International Financial Markets, Institutions and Money, 71*, 101287. https://doi.org/10.1016/j.intfin.2020.101287
9. Teti, E., & Spiga, P. (2023). ESG performance and post-merger operating performance: Evidence from international acquisitions. *Accounting & Finance, 63*(2), 1907–1935. https://doi.org/10.1111/acfi.12962
10. Zrigui, I., Khanchel, I., & Lassoued, N. (2024). ESG performance and acquisition premiums: Evidence from international mergers. *Journal of International Accounting, Auditing and Taxation, 53*, 100566. https://doi.org/10.1016/j.intaccaudtax.2024.100566