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Green mergers and acquisitions as a driver for better corporate sustainability practices

Special role of environmental, social, and governance frameworks
with financial performance in Europe.

Bachelor's thesis
In International Business

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Abstract

Sustaining competitive advantage requires firms to adapt to evolving legal standards and place greater emphasis on environmental, social, and governance (ESG) practices. ESG is nowadays a critical and common component in companies' strategies. Europe seeks to become the world's first carbon-neutral continent by 2050 under the European Union (EU) Green Deal, necessitating companies to adopt and further develop their ESG frameworks. Companies can embed ESG into their strategy differently and thus comply with the EU Corporate Sustainability Reporting Directive (CSRD). When lacking resources and knowledge on ESG practices and to achieve a competitive advantage, companies can pursue mergers and acquisitions (M&A). Conventionally, M&A have been compelling to expand market opportunities, financial synergies, and cost efficiency. M&A is a high-risk strategic decision that enables companies to gain better ESG performance. This thesis examines how ESG performance changes without compromising corporate financial performance (CFP) in a green M&A in the EU.

Especially when acquiring a higher ESG target, the acquirer benefits from the ESG practices in the target company, which is seen in the ESG score increase. Scoring for ESG practices is used in investment activities and reflects non-financial activities. The ESG score is given by rating agencies based on available non-financial reports from the company. The scoring is divided into an overall score and three pillars: environmental responsibility, social responsibility, and good governance. The overall score is a combination of these three separate pillars. The scores are delivered as a numeric (for example, 0-100) or letter-based (for instance, AAA-D), depending on the rating agency. They are widely used variables to study CFP or M&A success through a sustainability lens. The commitment to ESG aligns closely with adherence to the triple bottom line (TBL) framework encompassing people, planet, and profit (3P). The TBL and ESG stem from corporate social responsibility (CSR), and the ESG score can be used to measure CSR activities.

Advancing ESG practices holds little strategic relevance unless aligned with favorable financial outcomes. This thesis gives a valuable insight into the interrelation between ESG and CFP, along with M&A as a strategic tool to obtain better ESG practices. Governance and social pillars indicate better integration between the companies involved in M&A, whereas the environmental pillar has the most influence on determining the CFP. This thesis recognizes shareholder expectations and argues that, beyond maximizing shareholder value, ESG engagement is financially sound and delivers tangible and intangible value that resonates with all stakeholders. Combining the implication of finding a competitive advantage, the M&A seems to be a feasible strategic decision to acquire better ESG practices and enable European companies to be part of the EU's green deal initiative. Green M&A deals, in particular, enable companies to develop sustainable environmental practices while aligning with financial objectives. The findings highlight the central role of corporate responsibility principles in strategic management and their significant impact on the planning and implementation of corporate acquisitions in today's business context.

Keywords: Environment, social and governance responsibility, corporate financial performance, environment, social and governance score, mergers and acquisitions, corporate social responsibility

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Tiivistelmä

Kilpailuedun ylläpitäminen edellyttää yrityksiltä sopeutumista muuttuviin lakisääteisiin standardeihin sekä yritys vastuuseen, mikä pitää sisällään ympäristövastuun, sosiaalisen vastuun ja hyvän hallintotavan. Yritysvastuu on nykyään kriittinen ja yleinen osa yritysten strategiaa. Ilmastonmuutoksen torjumiseksi ja Euroopan unionin (EU) vihreän kehityksen ohjelman tavoitteiden saavuttamiseksi, yritykset ovat parantaneet ja parantavat edelleen yritys vastuukäytänteitään. Vihreän kehityksen ohjelman tavoitteena on, että Euroopasta tulee ensimmäinen hiilivapaa maanosa vuoteen 2050 mennessä. Yritykset voivat sisällyttää yritys vastuukäytänteitään strategiaansa eri tavoin ja näin noudattaa EU:n kestävyysraportointidirektiiviä. Yritys vastuukäytäntöihin liittyvien resurssien ja tietojen puuttuessa, yritys voi saavuttaa kilpailuetua toteuttamalla yritys fuusion tai -kaupan ja hankkia ko. resursseja ja tietoa. Perinteisesti yritys fuusiot ja -kaupat ovat olleet houkuttelevia markkinamahdollisuuksien, taloudellisten synergioiden ja kustannustehokkuuden aikaansaamiseksi, vaikka ne ovatkin korkean riskin strateginen päätös, jonka avulla yritykset voivat parantaa yritys vastuutaan. Tämä oppinnäytetyö tarkastelee, miten ESG-suorituskyky muuttuu vaarantamatta yritysten taloudellista suorituskykyä vihreän yritys kaupan yhteydessä EU:ssa.

Erityisesti ostettavan yrityksen paremmat yritys vastuukäytänteet hyödyttävät ostajaa saavuttamaan paremmat yritys vastuukäytänteet, mikä näkyy ympäristövastuun, sosiaalisen vastuun sekä hallinnointitapojen pistemäärän nousuna. Pistemäärät annetaan ulkopuolisten toimijoiden arvioinnin perusteella, pohjautuen yrityksistä saatavilla oleviin ei-taloudellisiin raportteihin. Pisteytys on jaettu kokonaispistemäärään sekä kolmeen pilariin: ympäristövastuuseen, sosiaaliseen vastuuseen ja hyvään hallintotapaan. Kokonaispistemäärä on näiden kolmen erillisen pilarin yhdistelmä. Riippuen toimijasta, pisteet annetaan numeerisina tai kirjaimin, ja niitä käytetään laajalti yritysten taloudellisen suorituskyvyn ja yritys fuusioiden ja -kauppojen onnistumisen osoittamiseksi kestävä kehityksen näkökulmasta. Sitoutuminen ympäristöön, sosiaaliseen vastuuseen ja hyvään hallintotapaan on linjassa kolmoistilinpäätöksen noudattamisen kanssa, mikä kattaa ihmiset, planeetan ja voiton. Kolmoistilinpäätös sekä yritys vastuukäytänteet juontavat juurensa yritysten yhteiskuntavastuusta, ja edellä kuvattuja pistemääriä voidaan käyttää yritys vastuutoiminnan mittaamiseen ja apuna sijoitustoiminnassa.

Sitoutumisella yritys vastuuseen on vain vähän strategista merkitystä, ellei se ole linjassa yrityksen taloudellisen tuloksen kanssa. Tämä tutkielma antaa arvokkaan käsityksen, miten yrityksen sitoutumista ympäristöön, sosiaaliseen vastuuseen ja hyvään hallintotapaan voidaan hyödyntää yritys fuusioissa ja -kaupoissa strategisena työkaluna paremman yritys vastuukäytäntöjen saavuttamiseksi. Hyvän hallintotavan ja sosiaalisen vastuun pilarit parantavat integraatiota yritys kaupoissa, kun taas ympäristöpilarilla on suurin vaikutus taloudelliseen suorituskykyyn. Tutkielma tunnistaa osakkeenomistajien odotukset ja väittää, että osakkeenomistajien arvon maksimoimisen lisäksi yritys vastuukäytänteet on taloudellisesti järkevää ja tuottaa sekä konkreettista että aineetonta arvoa, joka resonoi kaikkien sidosryhmien kanssa. Yhdistämällä kilpailuedun saavuttamisen merkityksen, yritys kaupat vaikuttavat toteuttamiskelpoiselta strategiselta päätökseltä parempien yritys vastuukäytäntöjen omaksumiseksi ja mahdollistavan eurooppalaisten yritysten osallistumisen EU:n vihreän kehityksen ohjelmaan. Erityisesti vihreät yritys kaupat mahdollistavat kestävien ympäristökäytäntöjen omaksumisen samalla, kun ne ovat linjassa taloudellisten tavoitteidensa kanssa. Tutkielma tuo esiin yritys vastuuperiaatteiden keskeisen aseman strategisessa johtamisessa sekä niiden merkittävän vaikutuksen yritys kauppojen suunnitteluun ja toteutukseen nykypäivän liiketoimintakontekstissa.

Avainsanat: ympäristövastuu, sosiaalinen vastuu, hyvät hallintotavat, yritys vastuukäytänteet, yrityksen taloudellinen suorituskyky, fuusiot ja yritys kaupat, yritys vastuukäytänteet

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1 Introduction

1.1 Background

The world is in turmoil in many ways. Human activity has neglected the ecological boundaries of the Earth, creating biodiversity loss, overexploiting natural resources, and causing climate change, with inevitable effects on the environment and people in societies. Economic inequality and increasing social discontent have grown while multinational corporations (MNCs) have globalized in recent decades. (Madhok, 2021, 199–200; Paganetto, 2020, 261-269.) War in Ukraine and the broadest manmade market instability by the USA (Egan, 2025), along with a very low economic growth in Europe, and possible trade wars (Blot et al., 2025), reflect on MNCs' mergers and acquisitions (M&A) tendency and the commitment they can place on environmental, social, and governance practices. Europe's competitiveness has been questioned as the European Union's (EU) sustainability requirements increase (European Commission, Omnibus, 2025; EU, Corporate sustainability reporting, n.d.). Therefore, it is paramount to continue studying environmental, social and governance (ESG) engagement's impact on a company's finances. At the same time, within this bachelor's thesis framework, the effect of mergers and acquisitions (M&A) on ESG figures and financial sustainability is essential so that the EU's Green Deal goals can be implemented sustainably without compromising economic growth or the already acquired ESG practices by the EU companies. (EU, The European Green Deal, n.d.)

In light of the current climate and environmental crises, measures to reduce emissions and promote sustainability are urgently required. The goals of the Paris Agreement, specifically, limiting global warming to below 1.5 degrees, remain far from being achieved. In the European Union (EU), stemming from the United Nations' Sustainable Development Goals (SDGs) and the Paris Agreement, the European Green Deal aims to facilitate the EU in becoming the first climate-neutral continent by 2050. Governmental intervention to address Corporate Social Responsibility (CSR) has been a key to mitigating climate change and laying the foundations for good ESG practices. ESG principles lie at the heart of the UN Global Compact, "the world's largest corporate sustainability initiative" (UN Global Compact, n.d.). The usage of "ESG" emerged in 2004 when it was introduced by the UN Global Compact together with the Swiss Federal Department of Foreign Affairs in the report "Who cares to win". Recommendations were framed for companies to integrate environmental, social, and governance influences on their financial analysis, reporting, and investment decisions. (Dathe et al., 2022, 119; UN Global Compact, n.d.) The first implication of ESG has been its use in sustainable finance, which emerged after the financial crisis of 2008–2009 (Lins et al., 2017). Since then, growing interest, even exponential investments in funds (Eccles et al., 2020, 578), to measure CSR practices and address the stakeholder expectations and value of a company's strategy has made ESG a trending topic or even a daily common way to express nonfinancial or intangible assets (Edmans, 2023, 3).

The Corporate Sustainability Reporting Directive (CSRD) replaces the previous Non-Financial Reporting Directive (NFRD) and requires a broader range of companies to report on sustainability while tightening reporting requirements. The ESG topic is relevant since the EU reporting initiative, which obligates EU companies to report corporate sustainability performance under the CSRD directive, came into effect at the beginning of 2024 in the form of the European Sustainability Reporting Standard (ESRS). The CSRD is essential to the European Green Deal and Sustainable Finance Action Plan. The CSRD requires large companies and publicly listed companies to supplement their financial statements with non-financial reporting, in which they describe the social and environmental risks associated with their operations and how their operations affect people and the environment. This standard also considers the engagement of stakeholders. The standard requires undertakings to report value-chain information to the extent necessary for understanding their sustainability-related impacts, risks, and opportunities. This is the broadest unified reporting standard in the world. Sustainability information is essential for investors, particularly for implementing and monitoring the EU's green transition. (European Commission, Omnibus, 2025; EU Corporate sustainability reporting, n.d.; EU Council, Paris agreement, 2025; EU, The European green deal, n.d.; UN SDG, n.d.)

Companies must adopt responsible and sustainable practices and implement CSR into their strategy. The concept of CSR is not new; it has been introduced as a framework for companies to take responsibility and positively change their social impact. It has evolved and incorporated similar concepts related to business ethics, corporate citizenship, stakeholder management, and sustainability along the way (Caroll, 2015, 91). Companies invest in their CSR activities since it delivers legitimacy, enhances employee satisfaction, and addresses the growing pressure from stakeholders (Amor-Esteban et al., 2018; Andersson et al., 2023, 1888; Branco & Rodrigues, 2006). Companies need to fulfill regulatory compliance, and they can create new business opportunities and increase productivity through processes and employee satisfaction when committing to CSR (Andersson et al., 2023, 1888). Companies invest in their CSR activities since they can contribute to the Triple Bottom Line (TBL) of economic, social, and environmental performance. Companies are aligning the TBL framework, emphasizing people, planet, and profit (3P), with the ESG paradigm by operationalizing its principles through the three corresponding pillars: environmental (E), social (S), and governance (G). (Evans et al., 2017, 599–600; Caiazza et al., 2021, 2.)

Investment in ESG practices, especially in Europe, has risen; concurrently, research on ESG commitment, its effect on ESG score, and corporate financial performance (CFP) has gained popularity (Friede et al., 2015; Huang et al., 2023; Velte, 2017). The ESG score indicates a company's commitment to environmental, social, and governance issues. Rating agencies give the score, whether numerical or in letter format. There have been positive indications that high ESG performance positively affects financial performance (Aboud et al., 2023; Friede et al., 2015; Li Y. et al., 2018, 60; De Lucia et al., 2020; Narula et al., 2025, 1096; Qureshi et al., 2019, 1213; Velte, 2017). However,

some studies have found no relationship or even a negative relationship between the ESG and CFP (Behl et al., 2022, 231; Nirino et al., 2020, 1; Orlitzky, 2003; Raimo et al., 2021; Shaikh, 2022, 233).

The CFP remains critical, and in the contemporary business environment, equal emphasis is increasingly placed on ESG commitments. These affect companies' competitive position in their market. Competition is fierce, and legislation and regulations are pushing companies to get access to the knowledge and technologies in the sustainability field. In cases where such knowledge is lacking, the motivation for pursuing an M&A deal may lie in acquiring the necessary expertise, which can enhance sustainability performance. M&A seems exceptionally reasonable when the acquiring company is searching for a feasible target company, not just from the economic side, but one that holds better ESG practices, or the target possesses technology that can simultaneously create higher values and a competitive advantage. (Tampakoudis & Anagnostopoulou, 2020; Teti & Spica, 2022, 3166.)

M&A is a strategic choice with multiple points of failure and possibilities, which can lead to inorganic growth, economic growth, and advantages over competitors. M&A actions are strategic high investments where shareholders have high expectations for their success. Overall, 50 % of all M&A fail (Teerikangas, 2008, 12). Combining M&A and ESG is a novel research area, especially in the green market (Barros et al., 2022; Caiazza et al., 2021; Shaik, 2024). The green market can be framed as a market that involves sustainable economy, low-carbon practices, and the market focuses on environmentally sustainable operations, securing resources for the next generations (Liao et al., 2024, 4800; Salvi et al., 2018, 96). Green M&A encompasses acquisitions that denote strategic transactions to promote CSR activities through external growth. The green M&A deal can be crucial if an acquirer wants to improve their CSR performance (Salvi et al., 2018, 98, 102.) There is an indication from the literature that when an acquiring company has a lower ESG score than the target company, the M&A increases the acquirer's ESG score in the long term (Tampakoudis & Anagnostopoulou, 2020, 1865).

While the link between ESG performance and CFP has been widely studied, the results remain mixed, with some research showing positive effects and others finding no relationship or negative outcomes. At the same time, the role of ESG in M&A has only recently begun to attract academic attention. The European context, shaped by the EU Green Deal, CSRD, and ESRS, is remarkably underexplored. This thesis addresses these gaps by investigating how ESG practices interact with M&A performance and corporate financial outcomes, with special attention to green M&A as a potential driver of sustainability performance through ESG scoring and the post-deal performance of the acquiring company in Europe.

1.2 Aim of the thesis

This thesis examines how ESG practice affects financial performance and how ESG performance changes following the M&A process of EU-listed companies. The ESG practice and performance are

measured with ESG scores. ESG score changes indicate ESG performance change in M&A activities (Feng, 2021, 287). The thesis's central research question is: *How does the ESG performance of European MNCs affect financial and ESG outcomes in green M&A?* The answer to the question is developed by exploring literature, underlying theoretical frameworks, and key concepts of ESG, ESG score, financial performance, and M&A. The research question will be answered through sub-questions: 1) *What is the relationship between ESG practices and MNCs' financial performance?* 2) *How do ESG practices influence M&A performance?* 3) *How does the M&A influence the acquirer's ESG performance?* and 4) *What are the special characteristics of green M&A concerning ESG performance?*

The first sub-question provides insights into whether substantial investments, such as those inherent in M&A, enhance ESG practices while generating positive financial outcomes. The first sub-question is relevant because commitments to ESG must ultimately be accompanied by sustainable financial performance to ensure the company's long-term viability. The second and third sub-questions are designed to offer managers relevant and up-to-date evidence on the extent to which corporate investments in ESG practices translate into measurable benefits and on how acquirers' ESG performance develops following M&A activity. The final sub-question examines whether green M&A possess distinctive characteristics that lead to especially superior environmental performance outcomes.

In this thesis, the M&A activity is not bound to a specific type, such as cross-border, friendly, or hostile M&A, since the aim is to gather as much information as possible within the EU economic area, which has not been widely studied, and compile a conclusion considering different M&A types when necessary. In a friendly takeover, there is conversation and negotiation between the parties. In a hostile takeover, negotiation is more one-sided, from the acquirer to the target, and the acquirer exercises power over the other organization. Cross-border M&A is performed between entities from different nations (Faulkner et al., 2008.) ESG performance can be assessed with an outside-provided scoring system, namely ESG scores, the broadest up-to-date scoring system for sustainability objectives. The ESG score is a valuable tool for evaluating sustainability performance. It is widely applied in investment decisions and aligns with interdisciplinary standards such as the CSRD and ESRS based on the ESG framework. While investors and funding institutions commonly use ESG scoring (Barros et al., 2022), this thesis explicitly applies it to evaluate sustainability performance changes in M&A. This approach is appropriate because ESG scores capture non-financial aspects of corporate behavior that traditional financial metrics cannot reflect. Since the scores are derived from reported commitments to corporate social responsibility, changes in ESG ratings can be interpreted as indicators of shifts in sustainability performance. Notably, the ESG score provides a standardized, quantitative measure that enables comparison before and after M&A transactions, thereby revealing the extent to which M&A activity drives improvements in ESG practices.

The EU Green Deal's climate neutrality goals, the growing adoption of ESG disclosures in the United States, and technological advancements enabling sustainable transformation underscore the

relevance of this thesis. Examining the relationship between ESG performance and financial outcomes is particularly important, as sustainability is increasingly linked to future business value. The war in Ukraine facilitated the need for a secure energy network within the EU. Green energy will have a vast future impact in the EU, primarily as it is influenced by the regulatory changes of the EU Green Deal and the tendency towards local energy sources. (Boehm & Wilson, 2023; Deloitte, 2024, Sustainability Action Report; EU, The European green deal, n.d.; EU Corporate sustainability reporting, n.d.; Statista, 2025). Despite growing interest, green M&A remains under-researched (Salvi et al., 2018, 97; Zhao & Jia, 2022, 27341), especially in the context of the EU's Green Deal era. This gap highlights the need to investigate ESG performance in Europe and examine M&A performance in the green market, as explained in the previous paragraph.

This thesis is relevant since it delivers ESG and financial performance information pertinent to current policy frameworks and investor expectations, especially considering the proposed EU Parliament's Omnibus package. The Omnibus package, which focuses on "The Future of European Competitiveness" (European Commission, Omnibus, 2025), eases the non-financial reporting requirements for EU companies initially subject to the CSRD starting in early 2024. Companies have welcomed this rollback of certain corporate sustainability reporting obligations requirements to avoid overregulation. While policymakers affirm commitment to the EU Green Deal's climate objectives, critics warn that easing regulatory pressure may dilute green policies, create uncertainty, and undermine transparency. Despite these concerns, Europe has achieved notable progress in the green energy transition in recent years. (European Commission, Omnibus, 2025; Hodgson, 2025) Because of this, Omnibus questions the investments made in the EU for ESG practices. Accordingly, this thesis is relevant in emphasizing the value of MNCs' contributions, which should not be disregarded when developing new policies.

This thesis is composed of three parts besides this introduction. The next chapter gives the reader a theoretical landscape of CSR, ESG, TBL, and stakeholder theory. The chapter continues with reporting standards, ESG performance, and ESG score. Companies adopt sustainable practices to satisfy the expectations of their diverse stakeholders. Stakeholders are the reason and motivation for companies' sustainability practices. This thesis is grounded in stakeholder theory, which highlights that companies must satisfy stakeholders' expectations when reporting and managing financial and non-financial information. Nevertheless, in connection with reporting and demonstrating the company's commitment to CSR, the tools to meet the stakeholder requirements, namely ESG, and CFP must be in line with must be in line with the company's strategic goals, the expectations of its stakeholders, and the pursuit of sustainable financial and non-financial performance. The second chapter connects the stakeholder theory to CSR and ESG. The third chapter gives readers an overview of the M&A phenomenon and then focuses on the role of ESG and financial performance in the M&A setting. This thesis ends with chapter four, where the conclusion, future research, and observed limitations of the thesis are discussed.

2 Environmental, social, and governance practices for sustainability initiatives

This chapter addresses the theoretical underpinnings of sustainability and Corporate Social Responsibility (CSR) in this thesis. This chapter breaks down sustainability as a framework approach for companies to deliver superior sustainable practices, employing ESG performance. This helps the reader to understand the concepts behind this thesis.

2.1 Corporate social responsibility as a foundation

Sustainability is a pervasive topic that extends beyond academic discourse and corporate responsibility, increasingly becoming integral to broader public and organizational discussions. Sustainability can be understood according to the World Commission on Environment and Development (WCED), “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, 37). Sustainability embraces environmental, economic, and social factors, and it stresses the long-term perspective and explicitly incorporates a concern for future generations (Carroll, 2015, 92–93). CSR is a framework that delivers understanding to the relationship between businesses and societies (Carroll, 2015, 90). CSR is a concept with ethical consideration and economic, legal, and philanthropic thinking. Companies must have economic foundations to commit and deliver their practices legally and ethically in the social-ecological system involved. (Carroll, 2015, 91; Schaltegger et al., 2016, 267.) Carroll has expressed the ethical, economic, legal, and philanthropic in a pyramid shape illustration. Economic responsibility in the pyramid represents the base for other layers and recalls companies to be profitable, since otherwise, the base for the different layers would collapse. The second layer, the legal responsibility, is to fulfill the legislative responsibility in society. The third layer, the ethical responsibility, is the company’s value-based practices towards doing no harm to others and acting according to what is right in society. Fourth layer, the philanthropic practices, goes beyond the organization’s borders to positively influence society in which a company is involved. (Carroll, 1991.)

As a concept, CSR emerged from the needs after World War II. Increasing interest in corporate social performance has been growing since the late 1970s. From philosophical thinking to company strategy, CSR has been introduced as a concept for companies to take responsibility and create social value. CSR can be understood as the 2001 and 2011 European Commission definition: “a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis” (2001, 6) and the updated definition “the responsibility of enterprises for their impacts on society” (2011, 6). CSR can be divided into internal and external social responsibility. Internal refers to employees and managers of the company, while external social responsibility relates to responsibility beyond the corporate boundaries (Macassa et al., 2021, 867) and fulfills regulatory compliance. Companies can create new business opportunities

besides increasing productivity through responsible processes and employee satisfaction when committing to CSR actions. Companies invest in their CSR activities since they can address the growing pressure laid by their stakeholders, minimize their risks, and contribute to social and environmental objectives to increase economic value. (Rafi, 2022.)

Stakeholders are different interest groups that businesses have. Stakeholders are the reason and motivation for companies' sustainability practices. They can be divided into internal and external stakeholders, notably primary and secondary or inner tier and outer tier, respectively. Primary stakeholders, also referred, as inner tier stakeholders, are in brief: customers, employees, communities, financiers, and suppliers. Secondary stakeholders, also called outer tier stakeholders, are briefly: government, competitors, consumer advocate groups, special interest groups, and media. (Freeman et al., 2007, 51.) In addition to the former, they can be divided into internal and external stakeholders, which means the following, respectively: legitimate members of the organization (employees, managers, and owners) and non-members (suppliers, customers, media, unions, creditors, investors, competitors, and governmental actors). They can be divided into upstream (suppliers, manufacturers, and raw material producers), downstream (wholesalers, retailers, and intermediaries), market stakeholders (consumers, marketplace, and society), and societal (government, interest groups, and general public). (Andersson et al., 2023, 1886, 1888–1889; Dathe et al., 2024, 146.) As outlined above, companies have multiple stakeholders, which can be divided differently. Irrespective of their classification, a company must address sustainability issues with all its stakeholders to be a legitimate actor in the market. (Andersson et al., 2023, 1886.)

Stakeholder theory is, as Freeman (2010, 9) stated, “how business works at its best and how it could work. It is also about value creation, trade, and managing business effectively.” Regarding CSR, stakeholder theory states that investment in socially responsible activities enhances the company's relationship with stakeholders by satisfying their different and sometimes conflicting expectations (Dakhli, 2021, 376). The shareholder theory conflicts with stakeholder value, as investments in ESG initiatives may undermine financial gains for the company. It can be contended that the allocation of financial and managerial resources consequently maximizes stakeholder value, which subsequently diminishes the value of shares in the form of dividends.

In addition to CSR, companies engage with other frameworks, which have emerged after and concurrently with CSR. These frameworks are Business Ethics, Stakeholder Management, Sustainability, and Corporate Citizenship (Carroll, 2015, 93), which are closely linked, overlapping, and intertwined. Companies have adopted CSR and sustainability to deliver their commitment to the public. In this thesis, sustainability is conceptualized through the lens of CSR to ensure alignment with the broader discussion. CSR, sustainability, Triple Bottom Line (TBL), and ESG are distinct yet interconnected approaches to assessing corporate sustainability. To meet the environmental, economic, and social responsibilities, the TBL framework was introduced by John Elkington in mid-1990, and it has been widely accepted by companies to deliver sustainability performance figures and enable them to reach increased profitability (Slaper & Hall, 2011, 4, 6). TBL focuses on economic

prosperity, environmental quality, and legitimacy from society in which the company is involved in terms of the social justice of its existence (Elkington 1999, 2). The TBL provides companies with the conceptual framework for balancing between people, the planet, and profit.

The TBL framework is linked with stakeholder and shareholder theory, coupled with ESG, which is the quantitative tool to measure satisfaction of stakeholders' interest, which delivers competitive advantage, reduces company risk, and supports better financial performance by building legitimacy (Li H. et al., 2022; Velte, 2017). As companies have relationships with other groups and individuals, they must consider their existence outside their organizational boundaries. (Freeman, 1984, 25, 31). Opposite to stakeholder theory, especially when considering a company's financial performance, shareholder theory lays the fundamentals that a company's primary goal is to deliver profit for its shareholders, who are regarded as its primary group. Friedman expressed in the New York Times magazine that "the only social responsibility of business is to increase its profits" and "the primary objective of management is to maximize shareholders' value" (Friedman, 1970). Companies are affecting the society they are engaged with. Looking beyond the value creation opportunities to capture value and value co-creation, the key perspective is to enable companies to create value for their shareholders and stakeholders.

At the intersection of social, environmental, and economic performance are sustainable activities of the company, which not only deliver long-term financial benefits but also enable the company to sustain a competitive advantage (Carter & Rodgers, 2008). TBL is a widely adopted thinking and guiding tool for businesses, NGOs, and the government to operate sustainably and to contribute to the SDGs. The SDGs or Agenda 2030 are the latest responsibility resolution that will help both governments and businesses better meet the goals of limiting global warming and improving people's social and economic well-being. There are 17 goals that call on all companies and their stakeholders to join forces. UN Global Compact guides CSR and connects businesses with local networks. More than 20,000 businesses of all sizes in over 160 countries and across various industries have committed to the UN SDGs. (UN Global Compact, n.d.)

Even with the UN Global Compact, standardized methods to calculate TBL are lacking. However, it has fundamental similarities to the ESG practices, which are getting more standardized calculation methods (Slaper & Hall, 2011). As ESG addresses the environmental, social, and governance dimensions and is linked to people, planet, and profit, the three components—hereafter referred to as 'pillars'—are considered within the TBL framework. To connect the topics of CSR, sustainability, TBL, and ESG, these can be seen as distinct, as narrated above, yet interconnected since they all assess sustainability. Organizations demonstrate their commitment to sustainability by adopting the CSR framework, which incorporates the TBL and ESG. Within this framework, performance is increasingly communicated through ESG reporting, and the TBL can be further enhanced by ESG practices (Lee, 2024, 5260), as illustrated in figure 1.

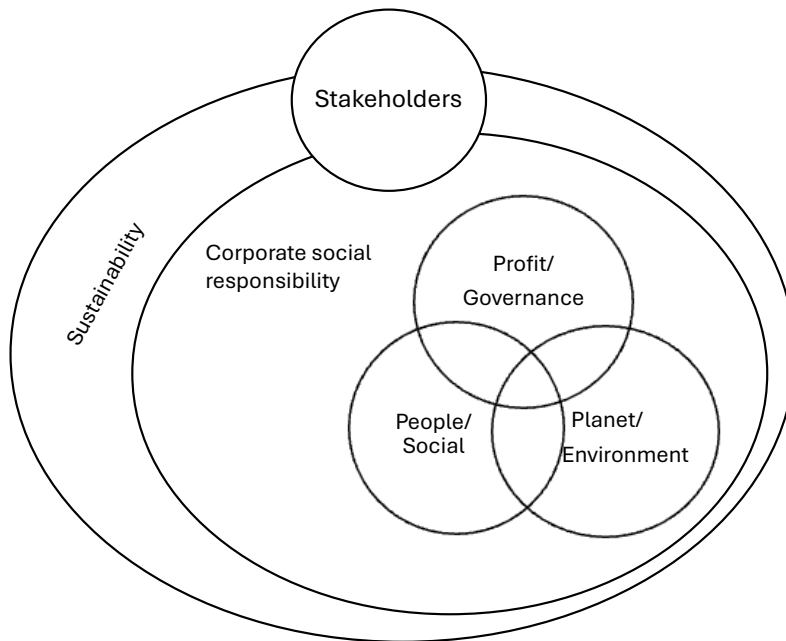


Figure 1 Connecting CSR with TBL, ESG, and stakeholders (adapted from Carter & Rogers, 2008; van Marrewijk, 2003)

Companies' stakeholder relationships affect their sustainability commitment. As competition rapidly evolves in the pursuit of competitive advantage, sustainability emerges as a potential tool. CSR is closely linked with sustainability, which is conceptualized through the TBL. (Dathe, 2022, 112.) The three pillars of TBL are integrated with the three pillars of the ESG criteria. Figure 1 illustrates the foundation of sustainability within a company context, addressing stakeholders through the CSR framework and demonstrating how TBL and ESG frameworks align with stakeholder theory. This alignment meets the expectations set by stakeholders and guides sustainable investments that companies may undertake. CSR is frequently perceived as the qualitative dimension of sustainability, whereas ESG criteria represent its quantitative aspect. In essence, the ESG provides measurable metrics that reflect a company's CSR commitments, serving as a tangible representation of its philosophical foundations (Wang et al., 2024, 1116). ESG thus can be regarded as the metric system for CSR, as ESG performance is evaluated by assessing the CSR activities of a company. However, adopting ESG principles is inconsequential if a company fails to integrate them into its business model and operationalize them to facilitate metric evaluation. While the TBL model effectively integrates the dimensions of people, planet, and profit within a cohesive framework, the ESG encompasses the domains of social, environmental, and governance considerations.

2.2 From standards to sustainability reporting

Recalling from the past section, sustainability and CSR are tools to make companies accountable for satisfying customers, are driven by social media pressure, and respond to all stakeholders. In contrast, ESG is a tool to make work and efforts measurable. In particular, ESG focuses on three key areas: environment, social, and governance. ESG has a double meaning since it can be seen as a social

construction with a normative aim and a financially value-driven side (Eccles et al., 2020). The nonfinancial side especially tackles the pressure laid by stakeholders and gives legitimacy to the company. Reporting helps stakeholders evaluate companies' CSR practices, encouraging companies to execute their business responsibly. The financial side enhances companies' valuation and value through stock return (Gillan et al., 2022; Khan, 2020; Qureshi et al., 2020).

As mentioned, ESRS emphasizes sustainability reporting in addition to financial information. The standard contains general requirements and general information about the company's operations. Before reporting, the company performs a dual materiality analysis, based on which the content of the company's report is defined. This means that the company maps the materiality of the impact of its operations. This includes identifying the company's sustainability aspects, which means that the reporting must report those aspects and actions relevant to the company's operations and are material to sustainability. Sustainability information is necessary for investors, especially for implementing and monitoring the EU's green transition. The ESRS 12 standards increase uniform practices within the EU and enable better comparability. The ESRS interdisciplinary and subject-specific standards can be reviewed in appendix 1, Table A (EU-Lex, 2022; Rantakari, 2024.) According to Gilbert and colleagues (2011, 6), international sustainability standards can be divided into four hierarchical categories, expressed in the following table 1, where level 1 represents the highest hierarchy level, followed by levels 2,3, and 4.

Table 1 Hierarchy of standards (modified from Forest Stewardship Council 2025: Gilbert et al., 2011; ISO n.d.)

Hierarchy level	Classification of the standard	Examples	Explanations
Level 1	1. Principle-based	UN Global Compact	Broad guidelines, which offer companies social and environmental guidelines for their CSR initiatives
		OECD Guidelines for Multinational Enterprises	A general framework for business behaviors and practice. Focus on areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, and competition and taxation
Level 2	2. Certification	Forest Stewardship Council	Non-profit organization which unites individuals, businesses, governments, and non-governmental organizations under a common goal to protect forests.
		Sector specific: Marine Stewardship Council (MSC)	Sustainable fishing and responsible marine certification
		Social Accountability, SA800	focuses on labor rights and work conditions
Level 3	3. Reporting	Global Reporting Initiative (GRI)	Framework for disclosing responsibility practices (social, environment and economic)
		Carbon Disclosure Project (CDP)	Framework for disclosing carbon dioxide practices
Level 4	4. Process	The International Standardization Organization (ISO)	Largest non-governmental international organization which provides practical solutions for real-life problems.

In table 1, the first level is the broadest guiding principles, followed by the certification principles, level 2, which stems from the level 1. Certification standards are non-governmental standards for an industry. Regulations lean on fulfilling set standards in the industry (Gilbert et al., 2011, 24). The third level is based on voluntarily followed initiatives; however, the CSRD and ESRS are based on the GRI. The last group includes standards that guide companies in running their daily operational practices to achieve their sustainability goals (Qureshi et al., 2020, 1200). Regardless of which level standard is in question, they all aim to hold companies accountable for their judgments, acts, and omissions. International accountability standards are not legally binding; they can be called soft laws compared to legally binding laws, which can be called hard laws. Soft laws can “harden” over time due to stakeholder pressure and legitimacy, or become a norm in a particular industry to reach legitimacy. The standards have contributed to greater consistency in reporting practices; however, the absence of universally accepted frameworks and binding regulations for non-financial disclosures persists. (Gilbert et al., 2011.)

Whereas this thesis relies primarily on academic literature, the effect of ESRS or CSRD was not realized at the time of publication. For this reason, it is reasonable to turn back to the TBL and ESG practices, which academics have published before the implementation of ESRS. Although voluntary, the standards presented in table 1, guide the TBL principles and ESG approaches. Both are a combination of three aspects, as revealed in Figure 1. In table 2, the ESG dimensions within the TBL framework are presented, together with their correspondence to the 3 Ps.

Table 2 Components of ESG combination with TBL (modified from GRI, 2025; Galbin & de Vibe, 2024)

Planet	Environment						
	Materials	Energy consumption	Water efficiency	Biodiversity	Greenhouse gas emission	Waste management	
People	Social						
	Employee practices	Human rights	Product responsibility	Health and safety	Diversity and equal opportunities	Training and education	Child labor
Profit	Governance						
	Business ethics, anti-corruption	Financial implications	Compensations	Infrastructure	Indirect economic impact	Stakeholder engagement	Local supplier usage

ESG is a combination of its three pillars. Table 2 shows that the first of the three pillars, the environment pillar, addresses the planet from the 3Ps. This pillar considers pollution, the share of renewable energy usage, climate change efforts, water, and energy usage. The second pillar, the social pillar, addresses people from the 3Ps. This pillar considers social components within and outside the company. These include production safety, prohibition of child labor, labor practices, equality, and human rights. The social pillar relates to the different stakeholders the company has. This links the

company's social commitment to the underlying reason and motivation for implementing CSR practices. Last, but not least, the third pillar, the governance pillar, addresses profit from the 3Ps. This pillar considers board independence, reporting and disclosure, and corruption. (Billio et al., 2021; Dathe, 2024, 115; Galbreath et al., 2013.) Notably, investments in one of the separate pillars may compromise other pillars regarding resource allocation, for example. Since each of the pillars has a distinctive role, it is reasonable to evaluate each pillar separately, and in addition to the ESG practice as a whole. (Agnese et al., 2025, 630.) The subsequent discussion presents ESG ratings that provide the reader with an understanding of the framework used in a company setting and how to evaluate and compare companies' behaviors with the ESG scores. The empirical approach to sustainability, represented by ESG practices—often operationalized in the form of ESG scores—is extensively utilized in the literature. Although the rating systems of various agencies differ. (Billio et al., 2024; Tamimi & Sebastianelli, 2017.)

2.3 Assessing sustainability with ESG rating and scores

ESG is challenging to implement, particularly when measuring the three different types of activities: environmental, social, and governance. Not depending entirely on monetary values, an index-based approach, as was proposed by Slaper and Hall (2011), is a foundational approach to measuring the ESG practices in the company. However, measuring such practices has been voluntary, which creates a dilemma of reporting the ESG practices and how they are comparable. A widely used tool to evaluate a company's sustainability practices through its performance is the ESG score. ESG scores are a metric for assessing a company's sustainability performance. Although the methodologies for assigning these metrics vary among different rating agencies, the ESG score can be used as a metric of doing good. The ESG scores are provided by sustainability rating agencies, which have been accepted as agents within the market. Researchers have used a handful of ESG score rating systems. (Billio et al., 2021.) Table 3 delivers overall information on rating agencies and details on the agency and the scoring system they utilize.

Table 3 Rating agencies and rating scene (modified form Billio et al., 2021)

	FTS Russell	LSEG	Sustainalytics	Bloomberg	ISS Oekom	ECPI	RobecoSAM	Vigeo-Eiris	MSCI
Rating score	0 to 5	0–100 and A to D-	0–100	0–100	A to D-	EEE to F	0–100	++ to -	AAA to CCC
Since	2001	2002	1992	23008	1985	1997	1995	1983	1990
Country	UK	UK	Netherlands	USA	Germany	Italy	Switzerland	France	USA
Number of assessed indicators	300	178	155	120	100	80/86	74	38	37

The rating agencies listed in table 3 use different sources to assemble information on companies' ESG practices. Sources are, to name a couple, company disclosures, media sources, conventions, company webpage and reports, NGO webpage or reports, news, stock exchange filings, publicly available information, interviews with stakeholders, direct contact with the company, and surveys. Rating scoring differs from numbers to letters, and the providers' headquarters are in Europe and North America. Regarding the number of indicators used in the assessment, risk factor criteria vary between the providers. The table has been organized by the number of indicators the provider uses. Each agency assesses different ESG criteria, ranging from 37 to 300 points, for MSCI and FTSE Russell, respectively. As noted by Billio and colleagues (2021), there is evidence that rating agencies and ESG score providers differ in their interpretation of criteria, assessment methods, benchmarking, and reported figures. This raises the question of whether large firms benchmarked as the top of their industry from their public visibility caused bias. (Billio et al., 2021, 1430; Drempevic et al., 2020, 335, 338.) To harmonize now unharmonized rating agencies' policies, in Europe, the European Council has laid regulations which aim to make the agencies' rating system more consistent, transparent, and comparable. The new regulation comes into force in 2026. This regulation complements existing Union legislation on sustainable finance and seeks to improve information flows to support investment decisions. It requires ESG information agencies to make their methodologies publicly available. This measure is expected to enhance investor confidence and improve the reliability and comparability of ESG ratings across providers. (European Council, ESG ratings, 2024)

This paragraph offers a comprehensive explanation of the London Stock Exchange Group (LSEG) rating system as an example, including illustrative examples. The LSEG data, its validity as a database

is good, it delivers performance data (Baldini et al., 2018, 84), and its wide use in academic research (among others, Barros et al., 2022; Gaiazza et al., 2021; Huang et al., 2023; Nirino et al., 2021; Tampakoudis & Anagnostopoulou, 2020). LSEG has over 600 analysts who collect ESG data. The data is processed, and it is independently audited. Data is gathered from annual reports, company webpages, NGO webpages, stock exchange filings, CSR reports, and news sources. According to LSEG data & analytics, the database is the most comprehensive of the data providers' databases, covering over 90% of the global market. LSEG emphasizes transparency and a data-driven approach. The ESG data is available for close to 16,000 private and public companies since 2002. In the LSEG, one can obtain over 870 metrics, which include 186 ESG-based scores. LSEG uses benchmarking against industry groups, and the data covers 10 main themes in the boxes in figure 2. The ESG and ESGC principles are shown in figure 2. (LSEG, 2024.)

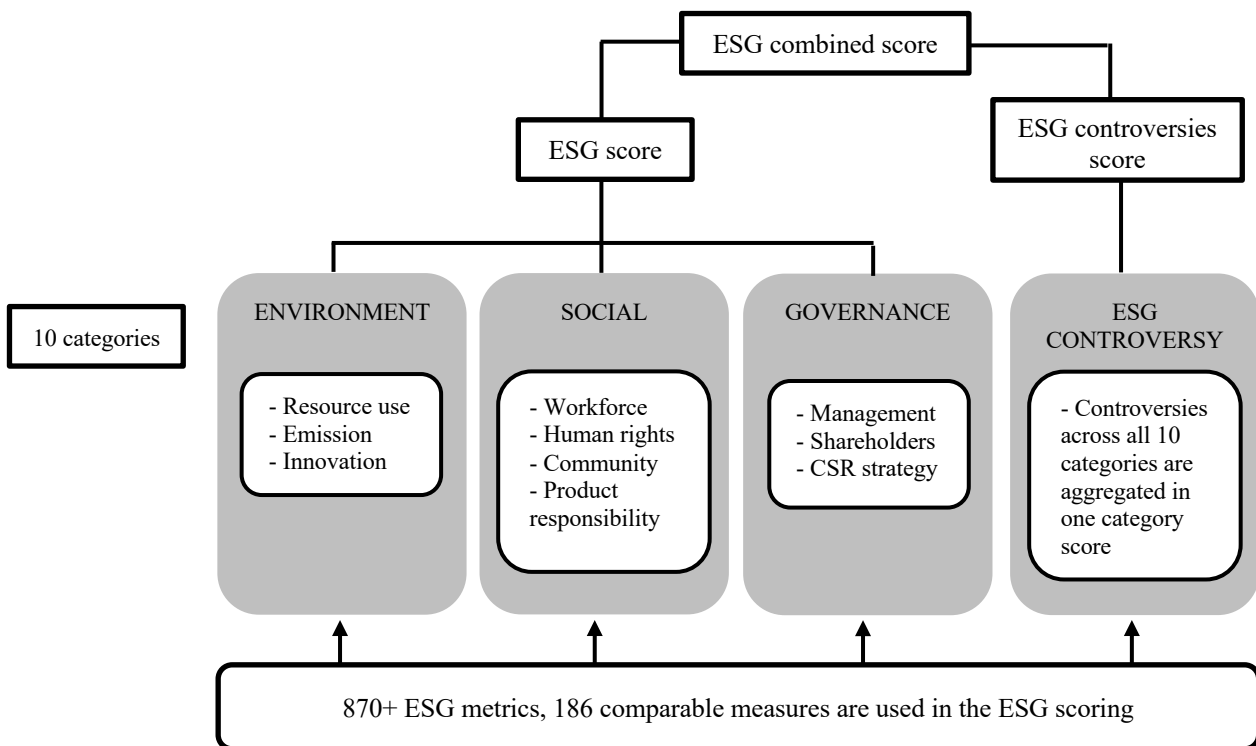


Figure 2 LSEG scoring categories (LSEG, 2024)

The ESG basic rating is divided into three parts: environment, social, and governance, as mentioned before. The ESG scores, for example, run from 0 to 100. Each pillar's category receives a score depending on category weightings based on the themes under the category. The total ESG score is the sum of each separate categorized score. The category weights vary per industry for the environmental and social pillar. For governance, the weight is the same across industries. For example, in the food and drug retail industry, the standard weights for the E, S, and G categories are 23 %, 47 %, and 30%, respectively. And for the oil & gas industry, the weights are 34%, 42%, and

24%. These reflect the components of ESG, which were presented in table 2. The combined ESG score sums the three separate scores, E, S, and G, and controversies are deducted. Controversies are disclosed in the ESG controversy score, which is calculated based on 23 ESG controversy topics. Community, human rights, product responsibility, management, resource use, shareholders, and workforce are the main categories into which the 23 controversial topics fall. The controversy score considers any scandal that occurs, and the company involved is penalized, which affects their overall ESG combined (ESGC) score and grading. The controversy score can have a value between 0 and 100. Companies that have no controversies in the year of analysis will have a score of 100. The smaller the number, the more controversies or severe controversies have occurred. The ESGC score is the sum of the ESG score and the ESG controversy score. Letter grades are also provided, which makes their comparison to, for example, MSCI rating scores easier. (Billio et al., 2020; LSEG 2024.)

Next, table 4 presents examples of ESG scores across industries, offering a multifaceted view.

Table 4 ESG scores of selected Finnish companies (figures derived from LSEG database, 1.5.2025)

Company	Industry	ESG	E	S	G	Controversy, min-max.	Grade
Metso Oyj	Machinery, Construction and Handling	73,23	85,44	71,71	60,58	31,10-100	B+
Neste Oyj	Energy: Oil Refining and Marketing	74,89	71,49	75,71	78,45	28,66-100	B+
Konecranes Abp	Commercial Vehicles and Parts	71,34	75,70	66,50	72,45	43,90-100	B+
Kesko Oyj	Food Retailers and Wholesalers	69,36	81,378	76,95	47,64	100	B+
Marimekko	Clothing and Accessories	45,36	42,41	45,91	46,19	100	C+
The EU	-	51,50	43,29	54,36	48,93	-	
The USA	-	38,70	28,10	43,00	48,90	-	

In table 4, the LSEG assessments provide insight into how Finnish companies that prioritizing sustainability perform in terms of their ESG practices. All, except Marimekko, of these companies have been listed by Corporate Knight among the top 100 most sustainable companies in one or several years between 2020 and 2025 (Corporate Knights, 2025). Marimekko was chosen as it is a known Finnish brand, has not achieved a spot in the Corporate Knights top 100 list, and represents a different industry. The obvious low ESG score reflects the non-inclusion in the list. Corporate Knights Inc. is a leading sustainable-economy media and research organization founded in 2002, and its commitment to both people and the planet is its driving force (Corporate Knights, 2025). The table includes average scores for the EU and the USA to set out the scene, and a comparison of the chosen companies can be weighed against the average figures. The grade is derived from LSEG (2024, 9) based on the ESG score's scoring range, enabling comparisons between rating systems. The controversy score given in a table is the range the example company has had between 2015 and 2024 if a non-financial report has been published between 2015 and 2024.

The example companies are major Finnish multinational firms, allowing operational scope comparability. Companies #1-3 represent an environmentally sensitive industry (such as oil and gas,

chemical, paper, or mining) and possess a higher environmental risk, which obligates them to place more emphasis on sustainability practices than companies not belonging to a sensitive industry (Garcia et al., 2017). Evidence by Amor-Esteban and colleagues (2018) is visible in the Finnish companies, as Metso, Neste, and Konecranes, which are in the most sensitive industry, scoring high, compared to Kesko and Marimekko. Within the ESG scoring system, industry sensitivity is reflected in the weighting applied to ESG scores. For example, the oil and gas industry, a sensitive industry, has an environmental weight of 34 % while the food and beverage industry has 23 %. Due to the environmental orientation, sensitive companies are leaders in sustainable practices and, in this sense, are good partners in an M&A situation when considering improving environmental issues. However, companies in an industry that does not pose environmental risks (such as media or financial services) have lower ESG scores but tend to do better in social issues. (Amor-Esteban et al., 2018.) ESG can be seen as an investment tool. Still, it is gaining more popularity as a risk management tool that supports maintaining and increasing the value of the company and its performance. At the same time, ESG rating can be utilized in the M&A process, making it not only an ethical tool but also a tool for strategic implementation. (Chen et al., 2023, 13; Eccles et al., 2014; Gillan et al., 2021)

3 Acquiring sustainability

3.1 Mergers and acquisitions

Mergers and acquisitions constitute a significant phenomenon in contemporary business environments, with a long and multivariable history. This chapter provides a broad overview of M&A, outlining its different forms and classifications. M&A activity can vary by geography, transaction type, and strategic orientation. Since this thesis aims to capture the diversity of M&A within the EU economic area, it does not restrict the analysis to any single category. Instead, it considers multiple forms where relevant. M&A are strategic means for change and adaptation, providing companies opportunities to acquire new competencies, assimilate cultures, and align with shifts in competitive and institutional environments (Vastola & Russo, 2021, 109). The Institution of Mergers, Acquisitions and Alliances indicates that in 2024, 3 6037 transactions worth 226 288 799 US dollars were completed. Of these 38 %, 13 709 transactions worth 1 250 564 963 euros, were completed in Europe. Europe is not a small player compared to North America, which had 49 % of all the M&A transactions (17 643 transactions, worth 189 557 613 US dollars). (IMAA, 2025) As the concept of M&A is broad, definitions are provided in table 5 to give overall background information before discussing the M&A strategies and how it is linked with ESG and CFP.

Table 5 Definitions of M&A concepts (Faulkner et al., 2008, 285, 374, 687-688).

Core-Elements	Key Concepts and Classifications	Explanation
Parties involved	Acquirer	An entity or entities that makes a transaction involving one or more entities of the target. Synonym: bidder
	Target	A company or companies that receive the acquirer's transaction.
M&A situation	Mergers	A situation where two or more entities come as one, combine into one legal entity. Often two similar-size companies with benefitting both sides.
	Acquisition	A situation where control of assets is transferred to one company. Often, larger organization takes control of a smaller organization without common benefits. Takeover in nature
	Reverse acquisition	A smaller company makes a transaction upon of a larger company
M&A style	Friendly	Conversation between parties of the situation and its steps
	Hostile	One sides; acquirer uses power over the target
	Cross-border	M&A occur between entities from different nations
Strategy	Horizontal	M&A takes place within the same industry.
	Vertical	M&A within the same industry but acquiring a supplier or a customer
	Concentrical	Acquisition between companies that share the same technology but do not share the same customers, or vice versa
	Conglomerate	Acquisition of completely unrelated companies
M&A stages	Pre-deal	Target search, strategic, and financial evaluation
	Negotiation	Due diligence, valuation, and deal structuring, and financial authentication. Synonym: during
	Post-negotiation	Integration of the entities

Table 5 summarizes the primary forms and definitions of M&A, distinguishing between domestic and cross-border transactions, different acquisition strategies (horizontal, vertical, concentric, and conglomerate), and the roles of acquirer and target. It also outlines the conceptual differences between mergers and acquisitions, including friendly and hostile takeovers. Broadening of the description given in table 5 follows. In an acquisition situation, more specifically, the acquiring company acquires a sufficient share of the target company or uses capital, for example, debt or cash, to buy the target company. Henceforth, the term M&A will be employed in this thesis to denote both friendly and hostile transactions, unless a specific type is explicitly indicated. The conglomerate strategy involves acquiring completely unrelated companies, which can be in different geographic markets or companies whose products do not directly compete. The stages of M&A can be divided into three phases: pre-deal, negotiation, and post-deal, as presented in Table 5. In the last stage, the integration occurs, starting after the deal signing. (Faulkner et al., 2008; King et al., 2014, 189.)

M&A has been utilized as a strategic tool to address rapidly evolving global competition. M&A is an increasingly popular strategy for companies that look to create growth through market expansions, cross-selling, or new capability acquisitions. (Renneboog & Vansteenkiste, 2019) With the help of the M&A process, smaller companies can grow and decrease the gap between themselves and industry peers. This applies to ESG practices, too, but the downside is the possible lack of money to invest in such a big strategy. (Caiazza et al., 2021, 4.) Resources and profit gains drive companies to go through M&A actions (Eschen & Bresser, 2005, 167). In table 6, the motives for M&A are concluded to give the reader an overview rather than an exact, detailed picture of the M&A motives and their implications.

Table 6 Motives for M&A (modification on Faulkner et al., 2008; Renneboog & Vansteenkiste, 2019)

Strategy	Reasoning
Growth	Faster, since organic growth is too time consuming
Cost reduction	Synergistic value between the entities
Revenue enhancement, shareholder wealth increase	Synergistic and financial value between the entities
Market power increase	Synergistic value between the entities
Overcapacity	Capacity reduction. Eliminate capacity for market share and efficiency
Scope or Scale extension	Expansion to new markets, widen distribution channels, exploit economic of scale
Geographic	Expand geographically
Product	Extend product line and/or new markets
Service	Better service form customers
R&D, Innovation, technology	Acquiring innovation or technical specialty rather than building in-house or prevent competitor to get access to the innovation or technology. Defragmentation. Responding to rapid industrial changes.
Sustainability, ESG	Acquiring sustainable practices rather than building these in-house or to meet regulatory pressure
Convergence	New industry conquest
Image	Improve company image
Investment	A financial acquirer, exert market potential is looked

It is a matter of diversification decision of the acquiring firm regarding which type of strategy and which target they aim for. Table 6 outlines a comprehensive set of strategic motives commonly pursued through M&A and the corresponding rationale behind each objective. Growth is a strategic driver for each company. In the M&A concept, the acquirer seeks external growth instead of organic growth, which is considered too time-consuming. Cost reduction, revenue enhancement, shareholder wealth, and market power increase are drivers in synergistic M&A. Overcapacity as a reason for M&A can be seen as addressing excess capacity, enabling better resource utilization, market consolidation, and operational efficiency. Financial motives include seeking undervalued targets, tax benefits, or better capital allocation. Scope and scale expansion also fall here, allowing entry into new territories and markets, expanding products, services, or distribution networks, and leveraging economies of scale. From the perspective of this thesis, M&A for better ESG performance, the intangible assets, knowledge transfer, innovation, and R&D, especially targeting environmental competitive advantage, is a strategic implication for green M&A. (Faulkner, 2013, 1; Renneboog & Vansteenkiste, 2019, 650.)

Green M&A encompasses company transactions to acquire green resources and develop green technology (Salvi et al., 2018). A green acquirer is a company committed to environmentally responsible business strategies and acquires a target to enhance this commitment (Kengelbach et al., 2022, 8). These companies are “greenifying” themselves by obtaining a target company operating in the green sector to improve their post-acquisition performance. The thesis focuses on M&A in which the acquiring company exhibits a lower ESG score than the target company, with particular emphasis on green M&A.

3.2 ESG and financial performance across the M&A lifecycle

The whole process of M&A can be assessed from three perspectives: strategic, financial, and sociocultural lenses. Each lens is essential in M&A success, and balancing between them is the key to success (Faulkner et al., 2008, 677.) In the context of ESG considerations in M&A, the strategic perspective is relevant, especially when the acquisition involves a target company with a higher ESG score than the acquiring company, which is applied as an indicator in this thesis. Performance and success may be considered independently or in conjunction. Ultimately, companies aim to achieve successful outcomes from M&A transactions, making it essential to define what constitutes success and from which perspective it is evaluated in this thesis. Here, success is conceptualized as a proxy for performance, with ESG performance operationalized through ESG scores. The concepts of performance and success are multifaceted. Although considerable resources have been devoted to understanding the success measure in M&A, the determinants of successful M&A are still not comprehensively understood (Renneboog & Vansteenkiste, 2018, 650). Performance is often distinguished between financial and operational outcomes or financial, product market, and shareholder return (Richard et al. 2009, 722), while success is more context-dependent, reflecting the

degree to which strategic objectives are achieved. In the M&A literature specifically, performance and success encompass not only financial returns but also strategic fit, realization of synergies, cultural integration, and long-term value creation. (Zollo & Meier, 2008.)

3.2.1 Mergers and acquisitions performance

M&A performance, according to Zollo and Meier (2008), has a time horizon that is further divided into two: short-term and long-term. The success of the M&A can be looked at from both time horizons, as well as from the financial side, namely stock return and accounting figures, and the integration side, namely the operating performance. Short-term perspectives are typically assessed using market-based measures, namely stock returns, with Tobin's Q being one of the most commonly employed proxies (Rennebook & Vansteenkiste, 2018). The capital market reaction after M&A & announcements is short-term- financial performance indicators (Deng et al., 2013). Market-based measures and short-term valuation are excluded from this thesis; nevertheless, ESG performance is a long-term commitment process rather than a short-term and external stakeholder engagement, which causes companies to implement a long-term focus. In the context of CSR in conjunction with M&A, the short-term performance has not been found to be relevant.

ESG practices are integrated progressively, affect long-term performance, and the benefits emerge only beyond the first year following the M&A. (Barros et al., 2022; Caiazza et al., 2021, 14; Eccles et al., 2014; Faulkner et al., 2008; Li, Y. et al., 2018, 64; Rennebook & Vansteenkiste, 2018.) Moreover, accounting-based metrics are used by many researchers to find whether sustainability practices enhance financial performance in the long term (Zollo & Meier, 2008). Internal stakeholders are affected by the M&A situation in the short term during the integration phase. In this phase, the integration of the entities is realized, where the human aspect plays a pivotal role, not to forget the physical and task integration. The human aspect has often been seen as the significant point of error. This aspect includes, among others, employee retention, cultural fit, communication, and leadership. Human integration is the longest integration compared to system or physical location integrations. (Faulkner et al., 2008, 339–346) In this thesis, a short-term perspective is only used in conjunction with internal stakeholders and their role in the ESG practices and the influence of ESG practices on them.

3.2.2 Financial performance in the ESG context

Financial performance is “financial visibility, or the extent to which a company achieves its economic goals” (Price & Müller, 1986, cited by Orlitzky et al., 2003, 411). Literature has shown contradictory evidence on ESG and financial performance, mostly positive, but mixed and nonsignificant correlation (Freide et al., 2015). De Lucia and colleagues (2022) focused on European public

companies' ESG effect on financial performance and found a positive connection between these. Their study is interesting for the scope of this thesis since it is one of the first studies to consider the EU green deal, ESG performance, financial outcome, and how to enhance ESG practices. As stated by De Lucia and colleagues, a few green studies have concentrated on how the ESG impacts financial performance solely in the EU and green deal markets. A study by Conca and colleagues (2021, 1085, 1090) addressed an agricultural market in Europe, and they found positive results between overall ESG and CFP, especially they found the environment and social pillar to be the most significant, implying that the ESG closure on the E and the S pillars is essential in the agri-industry. Return on Assets (ROA), an accounting-based variable, confirmed the positive impact on CFP. Opposing results were obtained for the governance pillar. These results were reflected by Orlitzky and colleagues (2003), who found that social responsibility showed the most positive association between corporate sustainability performance and CFP. The environmental pillar also had a positive impact. Correspondingly, they found these to correlate with accounting-based measures rather than market-based.

Connecting ESG, M&A, and CFP, Huang and others (2023, 1, 12) found that acquirers' social and environmental practices are critical for achieving financial success in M&A, with the social pillar exerting the most decisive influence, as also noted by other researchers. Governance, while less impactful by comparison, was still found to have a positive effect on long-term stock returns and return on assets. Good governance aligns managers' and shareholders' interests by linking rewards to performance, encouraging value creation, and discouraging value-destroying M&As, while good social practices align with internal and external stakeholders. They found that overall ESG performance actively influences the M&A success regarding integration and financial performance.

Contradictory results were obtained from the German market, within manufacturing and service industries, by Velte (2017). He found that the governance performance has the most positive influence on CFP. Even the evidence from separate pillars is the opposite; for example, Conca and colleagues (2022) and Velte (2017) found positive changes in the accounting-based ROA due to ESG practices, but not the market-based Tobin's Q. Most research that found a positive effect of ESG practices on corporate financial performance focuses on the total ESG performance. Mainly positive findings have been expressed, and a broad literature review by Friede and colleagues (2015) stated that a positive correlation is stable over time. The difference in the results could indicate that the E pillar is most significant in the Agri-industry since the industry is directly linked with its surroundings. Velte (2017, 176) conversely assumed that the long legal history of governance practice in Germany affects the ROA. Still, not Tobin's Q. The market assumes companies will address each pillar in Germany, and the governance pillar has the most positive effect due to the long legal heritage of corporate governance. Interestingly, Agnese and colleagues (2025, 35) found that ESG commitment positively affects account-based metrics in the CFP context. However, when studying further, they found variation between the pillars and interaction between the pillars. The E pillar positively affects the CFP, although the S pillar amplifies its effect and the G pillar diminishes it. Conversely, the G pillar

is positively linked to CFP when the E pillar is low. Further study is needed, but could the positive influence of the E pillar in the study by Conca and colleagues (2021) influence the G pillar's adverse effect in their research?

Negative findings (Raimo et al., 2021; Shaikh, 2022, 233) were found in market-based metrics, which are explained by the cost per capita or poor integration process. As seen by the researchers above, this implies that negative findings on the CFP are found when market-based metrics are used. Reasons for positive and negative findings were proposed to derive from the nonlinearities identified between the separate pillar and their interaction with other pillars (Agnese et al., 2025, 35). Non-significant or mixed findings are the multidimensional study frameworks used, where one variable delivers positive results and the other nonsignificant or negative results (Orlitzky et al., 2003; Velte, 2017). Regarding the difference in the ESG levels of acquirers and targets, Feng (2021) found that low ESG acquirers result in lower accounting-based financial results than high ESG acquirers.

3.2.3 ESG considerations in mergers and acquisitions

Zollo and Meier (2008, 55) identified a positive short-term correlation between M&A and ESG. However, they also noted that short-term performance is often examined at the task level, for instance, information technology integration or immediate financial returns. In contrast, long-term operating performance is typically assessed through accounting-based indicators such as return on assets (ROA), return on equity (ROE), sales growth, employee growth, operating margins, cash flow, firm size, leverage, and market-to-book ratio (Caiazza et al., 2021, 8; Huang et al., 2023, 5; Renneboog & Vansteenkiste, 2018, 652). ROA can be used to study the effect of ESG on CFP, and it has been shown that there is an association between ROA and ESG performance (Chen et al., 2023, 9), making ROA a valuable variable to deliver the company's sustainability commitment information. Similarly, Caiazza et al. (2021, 10) found that ROA aligns with sustainable strategies in generating competitive advantage, as such strategies are often difficult to imitate and thereby enhance financial performance. Fischer and Sawczyn (2013, 34) found return on assets (ROA) to represent a company's stakeholder commitment. This is explained by the reputational benefits and cost reductions achieved through more efficient resource use, yielding improved financial performance. Conca and others (2020, 1083) have used ROA as a variable since it delivers information on a company's capability to generate returns. ROA is calculated from the company's net profit divided by total assets (Salvi et al., 2018, 100).

Stakeholder theory within the ESG context not only supports positive M&A implications but also contributes to broader sustainability objectives and the TBL, as emphasized by Barros and colleagues (2022). However, the results are not received in the year of the transaction but in the following year. The M&A process can be divided into pre-deal, negotiation, and post-deal. In the literature, the M&A-ESG context is studied regarding how the ESG affects pre- and post-deal phases (stages). It seems reasonable that in the pre-deal stage, the target is selected to have higher ESG scores than the

acquirers, especially when the strategy for the M&A is to acquire better ESG practices. These targets are interesting from a risk mitigation perspective, which affects financial performance. Social practices are enhanced in the integration phase, so the target's social score can be used as a determining factor. (Gomes, 2019.) Friede and colleagues (2015) provide a useful foundation for assessing long-term impacts, presenting evidence that the synergistic effects of ESG in the post-deal stage of M&A allow the acquirer to achieve higher ESG scores than the pre-deal stage. This is the case especially when the target has a significantly higher ESG than the acquirer (Tampakoudis & Anagnostopoulou, 2020, 1872). The acquirer takes advantage of the knowledge the target has. Similarly, Aktas and colleagues (2011) and Nguyen and colleagues (2025) found that higher ESG performing targets positively affect the acquirer's post-deal ESG performance. The social and environmental performance of the acquirer especially increases in the M&A context in the post-deal stage (Nguyen et al., 2025, 1753-1753). Aktas and colleagues (2011) found the acquirer's environmental performance to have the most substantial improvement, while the social and governance performance demonstrated a more minor, yet still significant, post-deal performance increase. Beyond these ESG enhancements, acquiring a company with a superior ESG rating is further linked to higher bid premiums and stronger post-merger financial performance, indicating the value-creating potential of such acquisitions. The increase has been caused by learning and from the risk mitigation practices that target possess.

Caiazza and colleagues (2021) found that ESG in the M&A context significantly correlated with long-term but not short-term performance. Regarding the separate pillars of evidence, Huang and colleagues (2023) demonstrated a positive correlation between M&A success, particularly in the social and environmental dimensions. Caiazza and colleagues (2021) provided evidence that each of the three pillars positively affects M&A success. Their study especially adds to the converging evidence and found that the social pillar has a more significant effect on M&A success, twice as much as the environmental or governance pillar. This can be because the company's governance and environmental practices are not people-related, and their implementation takes time. Still, the human aspect of integration starts immediately in the post-deal stage. This could be interpreted as meaning that when a company's social score is higher, it tends to have better processes for human integration, which was seen as necessary by Faulkner and colleagues (2008, 123-124), together with operational integration, in the integration process in M&A. The most compelling proof underscores the improvement of the social pillar score in the post-acquisition stage success, which can be transmitted to better social outcomes, especially in cases where the acquirer has a lower social pillar score than the acquired firm. The main reasons for the better outcome are the better cultural integration and knowledge transfer. Customer retention and employee retention also affect the M&A outcomes. (Zollo & Meyer, 2008, 59.) Following the previous two studies, Barros and colleagues (2022) did not find the governance pillar significant.

In particular, Salvi and colleagues (2018, 98) found that green deals are crucial if the acquirer wants to improve their CSR performance. They also found evidence of better financial outcomes

within green deals than non-green deals. Greening yourself through M&A deals can be an effective way for the acquirer to receive higher ESG performance and achieve superior financial results compared to firms engaging in deals in other sectors. (Salvi et al., 2018, 103; Shi & Huang, 2024.) The same conclusions were reached by Liao and colleagues (2024), especially in the energy and manufacturing sector, however, in China. In a similar vein, findings from heavy industry (thermal power, steel, cement, electrolytic aluminum, coal, metallurgy, chemical industry, petrochemical, building materials, paper making, brewing, pharmaceutical, fermentation, textile, leather, and mining industries) indicate green M&A, enabling the acquirer to gain technological improvement. At the same time, CFP improves. (Lu, 2021, 1, 5.) EU evidence is limited but growing interest among researchers since the EU green deal initiatives and the opportunity presented in the transfer and perhaps turning to evaluate companies' non-financial and financial performance through the proposed European Green Deal Index (EGDI). The EU Commission proposes EGDI, which includes 26 indicators derived from the three pillars of ESG. (Olczyk & Kuc-Czarnecka, 2025.) The green M&A considers environmental aspects, such as climate change mitigation, renewable energy adoption, or circular economy practices. These can be pivotal in aligning with the EU green deal and creating long-term competitive advantage (EU, The European green deal, n.d.)

4 Conclusions

This thesis aimed to examine how ESG performance affects the financial outcome and how ESG performance changes in the M&A process of EU-listed companies. A specific notion was given to green M&A. It has been observed that companies are increasingly adopting CSR and extending these efforts through ESG practices, as reflected in the development of ESG scores and the growing academic attention to the topic. ESG scores have become an integral part of investment decisions and the strategic dimension of M&A. None of the changes made for a sustainable future generate benefits if the MNC cannot capture financial success simultaneously. CSR should not be something that companies have or do not have; it must be embedded into their strategies. Four sub-questions were presented to answer the research question comprehensively. In this concluding chapter, the gained knowledge is compiled to give the reader thorough and truthful answers.

The first sub-question finds an answer to whether committing to ESG practices enhances financial performance. Most research has found a positive effect of ESG practices on a company's financial performance in the long term. The use of the accounting-based variable, ROA, confirmed the positive financial impact of ESG practices. However, the separate pillar effect on financial outcome gave mixed evidence. In light of the evidence, in environmentally influential industries, like agriculture or non-renewable energy, the enhanced environmental practices deliver CFP as well. The financial results come from the sustainable practices that strengthen resource use in processes and less costly forms of resource use, like water or energy consumption. Stronger ESG practices, particularly within the social dimension, help reduce employee turnover, improve financial performance, and strengthen stakeholder commitment, thereby enhancing the company's market position. One could think of the governance practices to enhance CFP, but evidence to support this was not found. The governance pillar yielded inconsistent results. Pillars amplifying or deteriorating effects were presented. While governance diminished the positive effect of environmental and social performance in some cases, it exhibited a positive association with CFP when environmental performance was low. These interaction effects suggest that the influence of each ESG pillar is not isolated but dependent on the presence and strength of others. The opposing findings for the governance pillar to be the most significant come from a long-standing legal tradition in corporate governance. In light of the findings, investing in ESG practices results in gains and delivers financial results. Mostly positive findings for the CFP and ESG score evolution in the M&A context have been proposed.

The second sub-question outlines how ESG practices influence the M&A performance. Outcomes of an M&A are highly complex. The integration of the involved entities from an ESG perspective in the M&A context can be looked at from the overall M&A success or specifically from each separate pillar's perspective. Integration was found to be more enhanced when the companies involved in M&A have higher social scores. From all the studies, the social pillar is most significant in many cases. Appreciating social values can positively reflect organizations' M&A cultural integration and caring attitude. It can be concluded that these results suggest that acquirers' social performance is an

essential determinant of merger performance and the probability of its completion, and this supports the stakeholder value maximization view of stakeholder theory. These results indicate that acquirers' social performance is a key determinant of both M&A success and integration being completed sufficiently. This may be because strong social performance signals responsible management, enhances stakeholder trust, and reduces potential conflicts during the integration process, all of which can facilitate smoother and more successful mergers. This intention emphasizes the importance of integration between the entities rather than merely asserting control over the target organization.

The third sub-question aims to deliver tactical information on whether to go through high investment, as M&A can be understood, to gain better ESG practices. This sub-question focuses on how an M&A influences the acquirer's ESG performance, especially when the target has higher ESG scores than the acquirer. In the M&A context, the ESG performance improves overall when a higher ESG score target is acquired. Companies that aim to develop better ESG practices through M&A are probably more open to the targets' processes and how these could be implemented in the new company. Their objective is to expand knowledge and strengthen the sustainability of their practices by adopting innovative processes, which reduce risks, respond to stakeholder demands, and support the goals of the EU Green Deal. It is evident that ESG has its place in the M&A process overall, and it does affect its success, while M&A can be used strategically to improve a company's ESG practices. High-performing companies' ESG practices can be seen as an enabling tool for M&A success.

As was the case with the overall effect of ESG practice on M&A, the social pillar has been shown to improve the success of the post-merger stage. It can be transmitted to better social outcomes, especially in cases where the acquirer has a lower social pillar score than the acquired firm. Environmentally riskier industries have higher ESG scores, and companies in this industry emphasize environmentally sustainable practices. Targeting an environmentally focused company, an acquirer can gain better environmental practices. From a strategic perspective, M&A aimed at acquiring a company with environmental strengths presents tangible opportunities for knowledge transfer, innovation, and the absorption of intangible assets such as environmental expertise and R&D capabilities. One could assume the knowledge transfer does call for governance practices to be implemented to succeed in M&A. Still, changes in governance scores have received limited attention in prior research, and this thesis cannot verify the individual effect of acquirers' post-deal governance scores on CFP. Some evidence does suggest that the governance pillar influences CFP, particularly in Germany, where a long tradition of governance practices may explain this relationship. However, governance has shown the least consistent evidence of its impact on financial performance in the studies reviewed in this thesis compared to the environmental and social pillars. Overall, governance appears to play a positive role in post-deal M&A integration. Empirical studies indicate that acquirers exhibit improved overall ESG performance post-M&A when the target company has a high ESG rating. This observation supports stakeholder theory, highlighting the benefits of responsible practices that extend beyond organizational boundaries and contribute positively to financial performance. Similarly, the positive correlation between the ESG and CFP is proof of stakeholder theory.

Stakeholder theory is relevant in M&A since it delivers value beyond shareholders, as was expressed by the positive correlation of M&A and CFP.

The last sub-question delivers detailed knowledge on green M&A concerning ESG performance and the special characteristics. The environmental pillar is most determining in green M&A. Green M&A can be seen as a tool for European companies to reach the Green Deal goals, and the progress made in the EU seems to be in the right direction, in light of ESG scores indicating the companies' CSR commitment. It can be concluded that investing in green technology can foster value creation, allowing companies to achieve superior financial results compared to firms engaging in deals in other sectors. Green M&A results encourage companies to transition to the green economy. This reinforces the notion that environmental competitiveness is not merely a compliance issue, but a value-generating strategy. The ability to internalize environmental capabilities through M&A contributes directly to improved financial performance, impacting the protection of the environment and non-financial performance, making green acquisitions an attractive and viable option for forward-looking firms. In light of these findings, companies are encouraged to reevaluate their M&A strategies regarding financial synergies through the lens of sustainability integration. Green M&A is increasingly becoming a mechanism for achieving ESG targets, complying with evolving regulations, and building long-term competitive advantage in a resource-constrained and sustainability-driven global economy.

To answer the main research question: *How does the ESG performance of European MNCs affect financial and ESG outcomes in M&A?* Implementing ESG practices into company strategy yields results in superior ESG practices that maintain financial performance while ensuring long-term financial sustainability. Considering M&A, which is also a strategic choice of the company, an ESG perspective by acquiring a target with a better ESG score positively affects the acquirer's ESG score. On the other hand, ESG practices, especially governance and social pillars, indicate better integration between the two firms involved in M&A. Social and environmental pillars were found to have the most positive effect on the financial performance. However, the G pillar plays a role, and the total ESG performance positively affects the company's financial performance.

When a green M&A is aimed at, the environmental pillar plays an important role, and an acquirer with lower ESG scores in the pre-deal phase can improve ESG practices in terms of ESG score when targeting a company with a higher ESG score. The investments made in companies' ESG practices should not be neglected and should be embraced. Changes and hopefully unified standards and ESG ratings will allow companies to stay on their chosen path and raise the awareness of doing good in business, without causing more harm. Following SDGs and applying CSRD brings financial and non-financial value creation while addressing the urgent mitigation and beyond to tackle climate change and bringing possibilities to each stakeholder, not just shareholders, around the globalized markets.

Adherence to responsible business conduct is increasingly becoming the norm, and even the most traditionally resistant corporate actors can no longer ignore the widespread shift toward ESG practices, along with people, planet, and profit. The "greenness" obviously brings a competitive

advantage and gives hope for future generations' availability. But one could argue that companies need to do more, but they are very well on the road where sustainability becomes common and not seen as a tradeoff of monetary value. The ESG framework is broadly used academically to deliver findings on CSR and sustainability practices, making the thesis's findings comparable to other research. The unified CSRD in the EU, namely ESRD and ESG rating harmonization, makes the ESG practices more unified and ESG scores more reliable in the future when the CSRD practice becomes more familiar. All the investments made in the EU must bear fruit and encourage small and medium-sized enterprises to follow the same path so that the goals of the green transition can be achieved by 2050.

A limitation of this thesis is that the analysis does not account for several factors typically considered in explaining M&A outcomes, such as deal structure, M&A style, strategies beyond sustainability and corporate 'greenification,' and country-level differences. Instead, the study focuses specifically on ESG and CFP within the context of the EU market. While this focus excludes other essential dimensions of the complex M&A process and the multifaceted nature of ESG performance, it allows the thesis to make a more targeted contribution by examining how sustainability practices and financial performance manifest in green M&A, providing a nuanced perspective on their role in M&A success. This thesis does not cover the strategies behind the ESG practices and how companies improve their environmental, social, and governance practices organically instead of pursuing M&A. Considering the non-agreed definition of ESG performance, future research should try to deliver a definition for ESG performance that would allow for more comprehensive conclusions on the performance improvement; nevertheless, to frame the outcomes or impact of ESG practice should be assessed. As the M&A process in each of its phases is complex, further study is needed on how ESG affects the pre-deal stage or the negotiation phase, since most evidence is from the post-deal phase. But how, for example, does social score affect negotiation? Or how governance practices affect due diligence. This thesis touches only the surface of the possible mediating factors presented in other studies. The effect of the specific factor, like innovation, R&D intensity, acquiring organization's factors, or target organizational aspects, in the M&A process has not been presented, which could propose findings that are the underlying reason for M&A success or ESG effect.

In light of the current studies, green M & A offers promising contributions toward achieving the goals of the EU Green Deal. However, more comprehensive research is needed to draw solid conclusions about its effectiveness and broader implications. In particular, a mixed-methods study combining quantitative analysis of ESG–CFP relationships with qualitative case studies could reveal the corporate strategies that most effectively enhance ESG practices while maintaining strong financial performance. In addition, revealing the strategic implications behind the top ESG-performing companies would deliver a more comprehensive understanding of how companies become superior ESG companies and deliver superior ESG practices without compromising financial performance. The mixed method allows for finding quantitative results, in this case, verifying the link between ESG and CFP, as expressed above. In parallel, the qualitative side would yield findings, for

example, on the chosen strategies of MNCs, which deliver a positive link between ESG practices and CFP. Moreover, qualitative research can help benchmark best practices and find industry peers, especially given that CSR activities represent the qualitative aspect of ESG engagement. At the same time, ESG scores reflect the quantitative dimension. A qualitative study with case company examples on ESG strategies and their implementation in the M&A situation would deliver enhanced managerial implications, like the mixed-method study. This method also allows for a broader comparison across industries, which were not thoroughly evaluated in this thesis. Since ESG practices are often embedded within a company's overall strategic orientation, a qualitative lens is particularly well-suited to uncover the complexity behind these initiatives. Such research would provide policymakers and corporate leaders with actionable insights on leveraging green M&A to support sustainable economic growth and ensure alignment with the objectives of the EU Green Deal.

Based on the authors' best knowledge, industry-specific studies are limited. This proposes a future research subject to find how ESG and M&A interact in different industries and how the separate pillars affect the situation. The green M&A and green initiatives were shortly addressed due to limited publications. For future research, industry selection should be performed more in-depth, since there are differences in sensitive and non-sensitive or polluting industries' ESG scoring and practices. From the perspective of M&A, since the separate pillars have not been widely studied, prospective research could examine which pillar amplifies the relationship between M&A and ESG, and the combined effects of the pillars on M&A success.

As ESG has evolved over the years and become more regulated and standardized, studies examining recent ESG practices in the context of M&A are particularly valuable. The European market is especially relevant from the perspective of the Green Deal, making it an essential setting for future research. Investigating European companies in a more recent timeframe would provide up-to-date insights, building on knowledge gained from studies from 2000 to 2015. A particularly compelling avenue for future research would be to analyze the impact of the CSRD on ESG practices, comparing outcomes before and after its implementation in 2024.

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Appendices

Appendix 1: ESRS interdisciplinary standards

Table A ESRS interdisciplinary standards (EU-Lex 2022; Rantakari, R. 2024)

	Interdisciplinary standards		ESRS 1		ESRS 2	
			General principles		General, strategy. Governance and materiality assessment	
Subject specific	Environment	E1	E2	E3	E4	E5
		Climate change	Pollution	Water and marine resources	Biodiversity and ecosystems	Resource use and circularity
	Social	S1	S2	S3	S4	
		Equality of own workforce	Value chain workers	Affected communities	End users and community	
	Governance	G1				
		Business conduct				

Appendix 2: Declaration of use of AI

I, Hanna Nikkilä, declare the use of artificial intelligence (AI) in the following way. In addition to conventional library research, I used ChatGPT to give me synonyms for words, since my first options seemed too informal and unsuitable for academic writing. Synonym search was performed for example to the following words: as well as, specifies, peek, back up, has its spot/has its place, must, jump back and worth, how likely, apply to another context, transferability, believable, parallels, constructed, to think, this is that, indicate, for top of something, grounded, careful, for to show, for open up, traditional, pushing companies, stepped up, underlaying thinking, try to come up with. Table B delivers examples of an academic synonym search. Bolded words were chosen for this thesis.

Table B

Synonym for word		Synonym for word	
as well as	In addition to	Specifies	States
	Along with		Indicates
	Together with		Outlines
	Besides		Declares
	Moreover (if starting a new clause)		Prescribes
	Complementing		Details
Coupled with	Defines		
			Describes
			Articulates
			Identifies

AI-based tools, specifically the Grammarly program, were employed to correct spelling and improve language during the writing process. An example of a sentence in this thesis before and after the use of Grammarly is presented in figure A. Example of a sentence in this thesis before the use of Grammarly:

“...and financial sustainability is an important essential so that the EU's...” , important word, has changed to essential.

1.1 Background

The world is in turmoil in many ways. Human activity has neglected the ecological boundaries of the Earth, creating biodiversity loss, overexploiting natural resources, and causing climate change, with inevitable effects on the environment and people in societies. Economic inequality and increasing social discontent have grown while multinational corporations dominate the global market. Recent decades. (Madhok, 2021, 199–200; Paganetto, 2020, 2021) Manmade market instability by the USA (CNN), along with and possible trade wars (EGOV), reflect on MNCs’ merger and the commitment they can place on environmental, social and economic competitiveness has been questioned as the European Commission, Omnibus; EU, Corporate Sustainability Reporting Directive (CSRD) paramount to continue studying ESG engagement’s importance. Within this bachelor's thesis framework, the effect of financial sustainability is important so that the EU's Green Deal goes without compromising financial growth or the already acquired

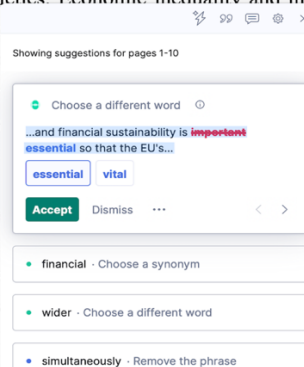


Figure A An example of a sentence in this thesis before and after using Grammarly.

To ensure that the original meaning of the content was not altered and that it was accurate, I proofread everything carefully and corrected where necessary. I confirm that I have used AI with essential care and caution, fully disclosed the use of AI, and take full responsibility for the content of this paper.