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Integration Between ESG And Merger And Acquisition Transaction

Ritu Agarwal, B.B.A.LL.B, United World School of Law, Karnavati University

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Dr.Mayura Sabne, Assistant Professor of Law, United World School of Law, Karnavati University

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Abstract

Mergers and acquisitions (M&A) all across the world have been profoundly affected by the increasing relevance of Environmental, Social, and Governance (ESG) elements in the business environment. Focusing on the developing legislative framework and the pragmatic difficulties in including ESG concerns into M&A operations, this dissertation investigates the complex interaction between ESG ideas and M&A transactions. Starting with the development of ESG ideas and their applicability in the Indian setting, the paper highlights the part Indian company law and the Securities and Exchange Board of India (SEBI) structure play in encouraging ESG compliance and governance. The study explores even more the difficulties in applying ESG policies, especially with regard to jurisdictional problems and regulatory compliance.

From due diligence to post-acquisition integration, the dissertation's central concentration is on how ESG elements affect M&A transactions. Examining the relevance of ESG factors in M&A helps the research underline the requirement of thorough due diligence evaluating not only financial performance but also social and environmental effects. Furthermore, covered are the difficulties in implementing ESG policies following a merger and recommended practices to guarantee ethical and environmental corporate behaviour. The dissertation offers case studies of significant M&A deals, like Unilever's purchase of Seventh Generation and Bayer's acquisition of Monsanto, therefore offering pragmatic insights on how ESG factors affected the results. It also emphasizes effective post-acquisition integration techniques and the possible hazards of ignoring ESG elements.

Emphasizing the need of a strong legal framework and aggressive corporate governance procedures to support long-term sustainability and stakeholder value, the dissertation ends with significant results and recommendations for enhancing ESG integration in M&A.

Keywords: *Environment Social Governance (ESG), Mergers & Acquisitions, Due-Diligence, Integration, Corporate Governance, Post-Merger Integration*

INTRODUCTION

In the words of Charles Darwin:

"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."

Recent studies related to the more general & broader sustainability issues related to corporate governance have found that apart from CSR as conventionally understood, ESG has taken centre stage.[1] Corporate India is rising; its landscape is changing towards sustainability; the relevance of Environmental, Social, and Governance (ESG) rules is fast becoming apparent. ESG rules are different criteria the government sets for behaviour connected to the same.[2] These rules are meant to inspire businesses to implement sustainable policies and practices that would eventually provide an ethical and sustainable effect as well as shield their investors against greenwashing. The social component of ESG calls on a business to handle issues including labour policies, stakeholder management and employee performance. Governance on the other hand covers a company's leadership and decision-making capacity as well as its openness in handling the same.

Merger and Acquisitions or say M&As are the frameworks when a corporation purchases or merges with another company due of strategies to develop or expand within new or undiscovered markets. Usually driven by rivals purchasing to increase their market share, these mergers or acquisitions help to strengthen their product range or enter the company into a new market. Usually, the management employs M&As to increase performance and seize synergies. Different obstacles, like cultural variations, misjudged synergies, too much debt, might, however, significantly affect the company's

[1] Awad S and Gilad M, 'Whistleblowing Corporate Fraud – Regulation in India' (SSRN, 2023) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4323313 accessed 23 March 2025.

[2] 'Unraveling ESG Regulations: A Closer Look at India's Approach' (Live Law, 2025) https://www.livelaw.in/lawschool/articles/unraveling-esg-regulations-a-closer-look-at-indias-approach-250448 accessed 23 March 2025.

post-acquisition success.[3] Mergers and acquisitions are mostly driven by the desire to realise synergies not possible for the businesses acting alone, hence generating value. Cost savings resulting from economies of scale, more market power, cross-selling's boost in income potential, and the sharing of knowledge and technology are just a few of the several ways that synergies could display themselves. Since it is expected to result in improved efficiency, innovation, and competitiveness, which finally reflects in the financial performance of the combined business, synergy realisation is a basic driver of M&A performance. Still, reaching these expected synergies is not easy. The success or failure of these business deals is significantly influenced by the integration process following M&A. Synergy realisation can be greatly hampered by cultural differences, misalignment of goals and strategies, and integration complexity, therefore compromising M&A success. Apart from the internal dynamics of M&A performance, the surroundings are quite important. M&As' success can be influenced by industry trends, legislative changes, and economic circumstances as much as by financial conditions. For instance, the regulatory climate can help or hinder acquisitions to be completed and influence their final success. Strategic justification for M&As and their performance results can be influenced by changes in industry-specific rules, cross-border M&A policies, and competition legislation.

"Environmental, Social, and Governance (ESG) issues have become increasingly important determinant of business decisions in many different sectors. Regarding mergers and acquisitions (M&A), including ESG considerations into due diligence procedures has become somewhat popular. Due diligence procedures historically concentrated on operational, legal, and financial factors. Still, the terrain has changed to acknowledge that the long-term viability and performance of a combined company can be much influenced by ESG elements. Long-term value creation[4]: Including ESG issues into M&A plans helps to further the more general objective of building long-term shareholder value. Companies are realising more and more how resilient and profitable sustainable practices such as lowering carbon footprint or enhancing workplace diversity may be[5]. ESG elements might point up possible hazards that might not be readily seen from financial accounts. Post-acquisition, environmental hazards including regulatory fines for pollution, social concerns about labour

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[3] Jørgensen MW and Jensen TL, 'Integrating ESG into Corporate Strategies' (Master Thesis, Copenhagen Business School 2022) https://research-api.cbs.dk/ws/portalfiles/portal/68333648/1110913_Master_Thesis_CIBSO1027E.pdf accessed 23 March 2025.

[4] Ernst & Young, 'Why Integrating ESG into Your Business Could Be the Key to Its Resilience' (EY, 2025) https://www.ey.com/en_in/climate-change-sustainability-services/why-integrating-esg-into-your-business-could-be-the-key-to-its-resilience accessed 23 March 2025.

[5] Ernst & Young, 'How Companies Can Link ESG to Long-Term Value' (EY, 2025) https://www.ey.com/en_ph/real-world-strategy/how-companies-can-link-esg-to-long-term-value accessed 23 March 2025.

standards, or governance problems influencing decision-making can all be rather serious[6]. Stakeholder impression and reputation: Not only are mergers and acquisitions about numbers; they also affect public opinion and shareholder confidence. Strong ESG track record of a target firm might help to improve the appeal to socially concerned investors of acquiring company. An M&A transaction's due diligence phase is where ESG considerations really shine. This stage consists on a thorough evaluation of the operations, finances, and any hazards of the target company[7]. Examining the target's board composition which comprises of its structure, independence of directors, and diversity gives important understanding of its governance policies[8].

This overview explores how ESG issues affect deal-making, risk assessment, and post-merger integration in M&A transactions. Often considered as turning points in a company's path, mergers and acquisitions offer chances for risk as well as growth. Though a lot of data on ESG is now available, studies specifically on how it affects M&A results are rare. This disparity emphasises the need of a thorough analysis to clarify how ESG factors affect M&A performance, an effort central to this research. Examining the interaction between ESG and M&A transactions, this dissertation investigates how ESG variables affect deal-making, risk analysis, and post-merger performance. The next chapters will offer a disciplined study of this changing relationship. Chapter 2 will centre on ESG concepts, their increasing relevance, and legal systems influencing ESG compliance. Chapters 3 will go over M&A deals, the due diligence process, and main elements affecting deal success. The importance of ESG in M&A will be explored in Chapter 4 together with its advantages, difficulties, and ramifications for company strategy. At last, the conclusion will highlight important results and provide analysis of the direction ESG-driven M&A deals are headed.

EVOLUTION AND REGULATORY FRAMEWORK OF ESG

EVOLUTION OF ESG PRINCIPLES

We would go over the ideas of Environmental, Social, and Governance (ESG) concepts in this chapter, following their development from corporate social responsibility (CSR) to become a major component in investment and legal systems. It examines how ESG has evolved from voluntary

[6] APLANET, 'Understanding ESG Risks and Their Impact on Businesses' (2023) https://link.springer.com/article/10.1007/s10551-021-04850-z accessed 23 March 2025.
[7] ComplianceQuest, 'Environmental Compliance: Managing Risks and Meeting Standards' (2025) https://www.compliancequest.com/environmental-compliance/ accessed 23 March 2025.
[8] Ritchie H and Roser M, 'Environmental Impact Assessment and Compliance' (ScienceDirect, 2020) https://www.sciencedirect.com/science/article/pii/S2405844020300050 accessed 23 March 2025.

company projects to a vital part of compliance and financial decision-making.

ESG IN INDIA – CONCEPT AND IMPORTANCE

The UN Global Compact's Initiative "*Who Cares Wins: Connecting Financial Markets to a Changing World*" by Kofi Annan initially put forth the ESG idea, with an eye towards analysing the interaction of social, environmental, and governance concerns. The worldwide scene of business and finance has seen a significant change towards sustainability and ethical corporate behaviour in recent years. This transition has been captured in the idea of ESG, which consists of three crucial non-financial criteria i.e. environment, social and corporate governance.[9] From the originally known Environmental, Health, and Safety (EHS) standards to the "Corporate Sustainability" movement in the 1990s, the Corporate Social Responsibility (CSR) revolution in the early 2000s, and finally, the emergence of ESG in the late 2010s and into the present, environmentally and socially responsible factors have developed together. Investors traditionally saw businesses' attempts at positive social responsibility projects with a critical eye since they thought the programs were "risks that would eat into profits" and offered either little to no economic value. Furthermore, some investors claimed that it was illegal or a breach of fiduciary duty for pension funds and other financial institutions and intermediaries to consider ESG when making investment decisions. These traditional investors were well-known to assert that companies engaged in ESG-oriented reporting did so specifically to purposefully generate a false sense of social consciousness by making promises they never meant to keep and developing positive environmental and social responsibility projects. All of this is done to boost their standing as decent members of the community. However, this bleak prognosis appears to be mainly passed given recent financial industry shocks and uncertainty.[10] Incorporating important ESG elements into financial analysis and decision-making helps to satisfy investor value or achieve desired social and environmental results.[11] ESG emphasises the holistic perspective that sustainability is not restricted to environmental challenges. The environmental criterion takes into account a company's environmental management. Examining how a company handles its contacts with its customers, employees, suppliers, and the local areas where it conducts business using social criteria helps one understand Issues including shareholder rights, internal controls, audits and

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[9] Mishra R, 'Evaluating ESG Integration in Corporate Strategies' (OP Jindal University Business Review, Volume 3, 2023) https://www.opju.ac.in/opjubr/documents/volume3/1.pdf accessed 28 Feb 2025.

[10] David McSweeney & Lisa Shelton, Corporate Financial Disclosures and Environmental, Social, and Governance Concerns: Evolving Issues, Nat. Res. & Env't, Summer 2020, at 23.

[11] Sharma, P. et al. (2022) Measurement of ESG Performance: A Study of Indian companies, SSRN. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4153779 (Accessed: 28 Feb 2025).

leadership go under governance.[12]

Establishing rules and standards for environmental, social, and governance (ESG) issues is increasingly the responsibility of regulatory organisations. Authorities all over the world are seeking to provide defined guidelines for ESG integration in businesses; demand for ESG information and integration is projected to rise. The “Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI), and the Task Force on Climate-related Financial Disclosures (TCFD)” among other organisations are helping to define materiality and set standards so that these elements may be more easily included into the investing process. Beginning in 2009 with the publication of the “Voluntary Guidelines on Corporate Social Responsibility by the Ministry of Corporate Affairs (MCA)”, ESG reporting in India started. With the introduction of “Business Responsibility Reporting (BRR), Corporate Social Responsibility (CSR), internal reporting (IR)”, the “National Guidelines on Responsible Business Conduct (NGRBC)”, and most recently the “Business Responsibility and Sustainability Report (BRSR)”, the reporting scene has evolved dramatically since then. India has developed policies to solve the problem and is fast ensuring compliances under the worldwide ESG standards.[13]

ESG PILLARS

- **Environment Pillar:** Environment Pillar evaluates company efforts to protect the environment, including attempts to mitigate climate change and lower carbon emissions, manage pollution and waste produced during the production process, use energy efficiently and water and focussing on biodiversity and deforestation. Return on Equity and environment pillar have a favourable link since investors awareness of environmental practices as main determinant of higher asset efficiency influences their decisions.
- **Social Pillar:** The Social pillar clarifies how the organisation sees relationships and people. Included are customer satisfaction, respect of data privacy and security, gender and diversity, employee involvement, community relations and human rights and labour standards. Socially aware companies are connected to good business management since they show better financial results. Social responsibility exercises help society to be credible and legitimate as well as help to lower financial risk and boost shareholder worth.

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[12] Pareek, M. (2022) Making ESG work: Examining the changing ESG regulations in India, SSRN. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4258206 (Accessed: 28 Feb 2025).

[13] APLANET, 'Understanding ESG Risks and Their Impact on Businesses' (2023) https://link.springer.com/article/10.1007/s10551-021-04850-z accessed 28 Feb 2025.

- **Governance Pillar:** The pillar of governance talks on business management rules. It covers executive compensation, whistle-blower programs, board makeup, audit committee structure, bribery and corruption prevention. Governance systems help to lower information asymmetry in financial reporting, therefore safeguarding the shareholders and investors.[14]

INDIAN ESG REGULATION AND FRAMEWORK

Though it comes under several laws including the Companies Act 2013, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations), ESG in India is not governed by a single statute.[15]

ESG AND INDIAN COMPANY LAW

The ESG framework has been applied by the stakeholders to assess the companies' performance on several sustainability criteria and has been a main determinant of investment attraction in a company. In a nation like India ESG is very important since many Indian businesses compete worldwide for goods and services in addition to drawing foreign investment. The Indian company law is somewhat complex about the idea of CSR, “Section 135” addressing “Corporate Social Responsibility (CSR)”, and “Section 149” of the Act demands some kinds of enterprises to have a female director. Even if CSR and ESG coexist in India right now. The emphasis has since switched more to ESG.[16] The tone of the ESG trip in India was set in 2009 when the Ministry of Corporate Affairs (MCA) announced voluntary corporate social responsibility.[17] Under Section 135 of the Companies Act, 2013, which requires some companies to fulfil particular financial threshold to spend a minimum of 2% of their net profit over the previous three years as CSR, CSR was formally established.[18] This clause mostly addresses businesses making a minimum contribution to social events, therefore defining CSR as corporate charity. The 2% regulation in the part shows how eager the government is to control social behaviours and environmental issues. The firms' actions show that no jurisdiction has granted CSR

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[14] David McSweeney & Lisa Shelton, Corporate Financial Disclosures and Environmental, Social, and Governance Concerns: Evolving Issues, Nat. Res. & Env’t, Summer 2020, at 23.

[15] Singh, A. (2024) Unraveling ESG regulations: A closer look at India’s approach, Live Law. Available at: https://www.livelaw.in/lawschool/articles/unraveling-esg-regulations-a-closer-look-at-indias-approach-250448?fromIpLogin=76925.65156784908 (Accessed: 28 Feb 2025).

[16] Chaudhary, P. (2024) The evolution of ESG goals in India, Dr. Reddy’s Foundation. Available at: https://drreddysfoundation.org/the-evolution-of-esg-goals-in-india/ (Accessed: 28 Feb 2025)

[17] Acharya, J. (2024) Corporate Social Responsibility under Section 135 of Companies Act 2013, cleartax. Available at: https://cleartax.in/s/corporate-social-responsibility (Accessed: 28 Feb 2025)

[18] Chaudhary, P. (2024) The evolution of ESG goals in India, Dr. Reddy’s Foundation. Available at: https://drreddysfoundation.org/the-evolution-of-esg-goals-in-india/ (Accessed: 28 Feb 2025)

more prescriptive authority than India.[19] Though the text of the legislation does not provide any clear interpretation, the Act goes into great detail regarding corporations' obligation to act in a way that benefits the society at large rather than Section 166(2). It thus mandates that directors take the long-term interests of the company into account rather than just its immediate needs. The Court upheld in "***M.K. Ranjitsinh v. Union of India***"[20] that the director must give "the protection of the environment" priority and regard it on par with responsibilities to other stakeholders. Scholars say a "decision taken seemingly in the financial interest of the company and its shareholders, but which is detrimental to the environment, may transgress section 166." Directors thus have a more significant statutory responsibility to consider ESG issues.[21] About section 166(2), the Court said in "***Tata Consultancy Services v. Cyrus Investments Private Limited***" "the history of evolution of the corporate world shows that it has moved from the familial to a regime of social accountability and responsibility".[22] Companies like Asian Paints and TCS have put policies for ESG in use even though it is still somewhat new in India. Among these are TCS running an Adult Literacy Program to encourage education among individuals in rural India and Asian Paints' dedication to use ecologically safe ingredients for manufacture. The change from CSR to ESG marks a clear divergence from a single charitable approach to a more strategic one. At the centre of corporate decision-making, the ESG criteria combine environmental sustainability, the obligation of the company towards society, and good corporate governance (Mahajan, 2022). The changing terrain of investor expectations of companies aligned with ESG values helps to drive the change. Global funds and institutional investors are supporting companies in this regard. Investors view the companies that share ESG values as strong and able to withstand any future economic shocks or corporate cycles. Consequently, the company strategy has been realigned to welcome the ESG standards in their decision-making procedures.

ESG WITH SEBI FRAMEWORK

"With COVID-19 considered as the main driver of this movement, ESG investment has shown an amazing worldwide rise over the previous five years. Increasing data and studies showing that businesses that give ESG concerns top priority have better management teams and create more

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[19] Singh, A. (2024) Unraveling ESG regulations: A closer look at India's approach, Live Law. Available at: https://www.livelaw.in/lawschool/articles/unraveling-esg-regulations-a-closer-look-at-indias-approach-250448?fromIpLogin=76925.65156784908 (Accessed: 28 Feb 2025).

[20] M.K. Ranjitsinh v. Union of India 2021 SccOnline SC 326.

[21] Divan, S., Yadav, S. and Singh, R. (2021) Directors' obligations to consider clmate chnage related risk in India, ccli. Available at: https://ccli.ubc.ca/wp- content/uploads/2021/09/CCLI_Legal_Opinion_India_Directors_Duties.pdf (Accessed: 18 October 2024)

[22] Tata Consultancy Services Limited vs Cyrus Investments Pvt Ltd (2021) 9 SCC 449.

profits help to explain this development as well. In PwC's "Global Investor Survey", 2022's top five goals for companies were performing on ESG criteria, assessed by investors. As ESG investment gains traction, not only from companies and investors but also from international authorities, the degree of scrutiny it is under is rising. Two problems that have to be solved are "the lack of reliable and consistent ESG data and laws controlling ESG rating businesses (ERPs)". Furthermore, the lack of a shared knowledge of what an ESG grade represents that of the company's impact on the globe or that of the financial future of the company is problematic. For instance, MSCI boosted McDonald's Corp.'s ratings even though "McDonald's producing more greenhouse gas emissions than other entire countries," adding the company had good environmental policies."

"This decision was taken in line with MSCI's analysis that McDonald's is not financially vulnerable in response to climate change. This, however, runs counter to the common discourse's association of ESG investing with "sustainable investment".[23] In the year 2012, SEBI introduced the Business Responsibility Report (BRR), making the top 100 listed companies, prepare and disclose sustainability disclosures based on principles of transparency and accountability and encourage organizations to adopt sustainable business practices. The same was replaced in 2021 with Business Responsibility and Sustainability Reporting (BRSR) expanding the earlier Business Responsibility Report. BRSR is a data-heavy framework aligned with 9 principles of the "National guidelines for responsible business conduct and it also adopts the "United Nations Sustainable Development Goals" (UNSDG). SEBI in 2023 amended" regulation 34 (2) of the LODR regulations" and introduced a framework commonly referred to as 'BRSR Core' and 'BRSR Core for company's value chain'. As per the same, it mandated the top 1,000 listed entities by market capitalization to make disclosures related to their ESG policies and practices. The BRSR report should include disclosures on the following parameters: Governance: Disclosures related to board composition, independence of directors, director remuneration, and board evaluation."[24]

"In 2019, the Ministry of Corporate Affairs (MCA) introduced the National Guidelines on Responsible Business Conduct (NGRBC), which set out nine key principles that organizations are encouraged to adhere to. These guidelines extend beyond basic legal compliance, emphasizing sustainable growth and fostering social, economic, and environmental progress. The NGRBC principles align with the "17 United Nations Sustainable Development Goals " and serve as a

[23]Cone Communications. (2019). "The Role of Corporate Social Responsibility in Consumer Decision-Making." Cone Communications Research.

[24] Divan, S., Yadav, S. and Singh, R. (2021) Directors' obligations to consider clmate chnage related risk in India, ccli. Available at: https://ccli.ubc.ca/wp- content/uploads/2021/09/CCLI_Legal_Opinion_India_Directors_Duties.pdf (Accessed: 28 Feb 2025)

framework for both private and public sector entities to contribute to these global objectives. Additionally, Indian organizations are increasingly embracing international best practices and standards. Many companies have begun incorporating multiple sustainability reporting frameworks, such as the Global Reporting Initiative Standards, formerly the Carbon Disclosure Project), Dow Jones Sustainability Index, and the Task Force on Climate-related Financial Disclosures, driven by rising stakeholder expectations for ESG and sustainability-linked disclosures.

"With the latest updates to the BRSR, it is clear that the focus of Indian regulators has moved from encouraging organisations to report qualitative and voluntarily reporting using a principles-based approach to a more quantitative, metric-driven approach that enables year-on-year, cross-company, and cross-sectoral comparability. Starting with voluntary CSR practices, followed by mandatory disclosure of CSR activities, and expanding to include environmental and governance factors, ESG reporting practices in India can be seen as a gradual process.[25]"

ROLE OF ESG FOR COMPLIANCE AND CORPORATE GOVERNANCE

"Corporate governance mechanisms play an important role in fulfilling strategic, monitoring and advisory functions while also facilitating a company's access to valuable information. CG practices involves various activities and regulations designed to ensure that companies conform to prescribed codes and processes, considering both the legal framework of the company's jurisdiction and internal organizational procedures. Several major corporate scandals in the 21st century, including those involving Enron, WorldCom, Refco, and Volkswagen, have increased investor awareness academic interest in this domain."

"In recent years, there has been increasing trend of using CG mechanisms to oversee a wider range of business operations, including their impact on the environment and society. The composition of corporate boards, ownership structures, and the establishment of corporate committees have drawn considerable attention in academic research due to their influence on firms' participation in sustainable initiatives and nonfinancial disclosure practices. The principles of CG mechanisms and a firm's involvement in environmental, social, and governance (ESG) activities—often synonymous with corporate social responsibility (CSR)—seek to help businesses strike a balance between profitability and ethical operations.

"Companies have been driven to modify their strategies and increase their investments in ESG

[25] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4323313

initiatives due to various factors, including environmental policies, the rise of shareholder activism, and the growing consumer preference for sustainable goods and services. Within the framework of CG, ESG involvement reflects a company's ability to sustain long-term growth and profitability while integrating ESG considerations into its operations, thereby maintaining a competitive edge. The mounting pressure from stakeholders and society at large has increase corporate engagement in non-financial performance and disclosure, making the role of CG even more importance."

"Several studies have linked strong ESG performance with enhanced financial performance and shareholder value.[26] Companies with effective environmental management practices often experience cost reductions through resource efficiency and minimizing regulatory compliance cost.[27] Similarly, companies with strong social practices tend to have higher employee productivity and lower turnover rates, leading to improved profitability.[28]"

"ESG factors play an important role in risk management, helping companies identify and mitigate both traditional and emerging risks.[29] Environmental risks, such as climate change and resource scarcity, can pose significant operational and financial risks.[30] Social risks, including labour disputes and supply chain issues, can disrupt operations and damage reputation.[31] Governance failures, such as ethical lapses and boardroom scandals, can lead to legal and regulatory penalties, as well as investor backlash.[32]"

"Maintaining a strong reputation is essential for companies to attract investors, customers, and talent. ESG performance is increasingly seen as an important driver of reputation and shaping brand value. Companies with robust ESG credentials are perceived as more trustworthy, ethical, and responsible, which can enhance customer loyalty and brand resilience.[33]" ESG considerations are also critical for engaging with various stakeholders, including investors, customers, employees, and communities. Investors are increasingly incorporating ESG criteria into their investment decisions, seeking to align

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[26] Clark, G., & Feiner, A. (2020). "The Impact of ESG on Corporate Financial Performance: A Meta-Analysis." Journal of Sustainable Finance & Investment.

[27] Hussen, A. (2018). The business case for environmental sustainability. [online] ResearchGate.

[28] World Economic Forum. (2020). "Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World." World Economic Forum Report.

[29] Sustainalytics. (2020). "ESG Risks and Opportunities: A Guide for Investors." Sustainalytics Research.

[30] UN Environment Programme. (2019). "Global Environment Outlook 6: Summary for Policy Makers." United Nations Environment Programme.

[31] https://www.deskera.com/blog/supply-chain-disruption/

Singh, A. (2024) Unraveling ESG regulations: A closer look at India's approach, Live Law. Available at: https://www.livelaw.in/lawschool/articles/unraveling-esg-regulations-a-closer-look-at-indias-approach-250448?fromIpLogin=76925.65156784908 (Accessed: 01 March,2025).

[32] PricewaterhouseCoopers (PwC). (2021). "Governance Insights: Legal and Regulatory Compliance." PwC Report.

[33] Cone Communications. (2019). "The Role of Corporate Social Responsibility in Consumer Decision-Making." Cone Communications Research.

their portfolios with sustainability goals.[34] Customers are more likely to support companies that demonstrate a commitment to environmental and social responsibility.[35] Employees are attracted to companies that prioritize ESG issues and are more engaged when they feel their employer is making a positive impact.[36]

"Communities expect companies to operate responsibly, minimize environmental impacts, and contribute positively to local economies and societies.[37] Regulatory frameworks related to ESG issues are evolving rapidly, with governments worldwide introducing stricter environmental, social, and governance norms. Companies must stay informed about these regulatory shifts and ensure compliance to avoid potential legal or reputational setbacks.[38]" "ESG factors are increasingly shaping corporate decision-making processes, influencing strategies related to financial performance, risk management, reputation management, stakeholder engagement, and regulatory compliance. Companies that prioritize ESG considerations are better positioned to mitigate risks, capitalize on opportunities, and build long-term resilience in an increasingly complex and interconnected global marketplace."

ESG CONSIDERATIONS IN MERGERS AND ACQUISITIONS

MERGERS & ACQUISITIONS

"M&A is the process of combining two or more firms via transactions; the merging process usually consists or typically involves two similarly sized companies into one new company. The target company refers to the one under acquisition; the buyer is known as the acquirer.[39] In contrast, an acquisition refers to a scenario where one company (the acquirer) purchases the shares or assets of another company (the target), resulting in the latter losing its independent existence.[40]"

"Mergers and Acquisitions are a key way for companies to expand and become stronger and better

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[34] World Economic Forum. (2020). "Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World." World Economic Forum Report.

[35] Global Sustainable Investment Alliance (GSIA). (2021). "Global Sustainable Investment Review 2021." GSIA Report.

[36] Business for Social Responsibility (BSR). (2021). "Community Engagement: A Guide for Responsible Companies." BSR Handbook.

[37] Nielsen, K. M., & Thomsen, C. (2019). "The Business Case for Environmental and Social Responsibility: Evidence from Eco-labeled Products in Denmark." Ecological Economics.

[38] Task Force on Climate-related Financial Disclosures (TCFD). (2021). "TCFD: Implementing the Recommendations for Corporate Reporting." TCFD Guidelines.

[39] Sharma P, 'A Study on Cryptocurrency and Its Impact on the Indian Economy' (IRE Journals, 2023) https://www.irejournals.com/formatedpaper/1702599.pdf accessed 01 March,2025.

[40] Ghosh S and Sahoo S, 'Mergers and Acquisitions in India: A Strategic Approach' (SSRN, 2013) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2294836 accessed 01 March,2025.

organisations, there is better reputation in the marketplace or with stakeholders, reduction of operating expenses or costs, access to management or technical talent, access to new product lines, growth in market share (complement/extend current business), quick access to new markets or entry into new industry (diversification), reduction in number of competitors, access to new technology, manufacturing capacity; even though a merger and acquisition has several benefits but the risks involved are equivalent too."

Competitors buying to increase their market share, improve their product line, or enter the company into a new market usually drive mergers or acquisitions. In buyouts or takeovers, it more often reflects a generic change of ownership of the business. Usually, the management employs M&As to increase performance and seize synergies. Different obstacles, such cultural variations, misjudged synergies, too much debt, can, however, significantly affect the post-acquisition success of the company.[41] The phase of post-implementation is rather important as many mergers or acquisitions fail and most businesses should do due research to find the actual risks and profitability of such deals before starting any transaction.

DUE-DILIGENCE

Warren Buffet once said, *"A sales pitch gives you the price, while due diligence gives you the value."*

"Due diligence in mergers and acquisitions involves thoroughly evaluating and investigating a potential business decision by analysing financial, legal, intellectual, and other critical aspects of the target entity. The primary objective of this process is to uncover any hidden risks, liabilities, or complications that could negatively impact the transaction. Conducting due diligence ensures that the acquiring party is well-informed and can strategize effectively for a seamless merger or acquisition. Neglecting this crucial step could lead to unforeseen complications, such as undisclosed encumbrances, debts, or legal issues tied to the acquired asset.[42]"

"The insights gained while conducting due diligence will further help in drafting and negotiating the transaction agreement and related agreements. The final aim of such activities is to make sure that

[41] Narayanan S and Kothari P, 'Mergers and Acquisitions in India' (IGIDR Conference Paper, 2020) http://www.igidr.ac.in/conf/oldmoney/MERGERS%20AND%20ACQUISITIONS%20IN%20INDIA.pdf accessed 01 March,2025.
[42] 'Due Diligence in M&A: Importance and Implications' (Live Law, 2025) https://www.livelaw.in/lawschool/articles/due-diligence-in-ma-importance-and-implications-252306 accessed 01 March,2025.

there are no hidden setbacks or traps associated with the business transaction under consideration. Although the cost of doing a due diligence is on the higher side since it usually entails the services of a CA and an attorney, the need of doing a full due diligence before making a deal cannot be underlined under any conditions. The due diligence study will try to expose all material facts and any liabilities connected to the target firm or unit/business to any company engaged in or involved in the merger or acquisition.[43]"

"Due diligence is essential in verifying whether the company really is what it seems to be. As you learn more about the company doing due diligence, it is quite clear which deal killers should be eliminated. Moreover, through due diligence one can acquire information on valuing assets, defining representations and warranties, and/or negotiating price concessions. The knowledge gained during due diligence will be especially useful for creating and negotiating the transaction agreement and other agreements."

"with respect to representations and warranties, pre-closing guarantees and post-closing indemnity, this information will also be useful in distributing risks. Contractual Due diligence aid us in understanding ;capital structure including shareholding pattern, composition of board of directors, shareholders' agreement or restrictions on the shares, for example, on voting rights or the right to transfer the shares, level of indebtedness, whether any of its assets have been offered as security for raising any debt, any significant contracts executed by it, the status of any statutory approvals, consents or filings with statutory authorities, employee details, significant litigation, show cause notices and so on relating to the target and/or its areas of business, Intellectual Property of the Company or any other liability, existing or potential.[44]"

"Due diligence done previous to completing any merger or acquisition aids in transaction evaluation and identification of legal or contractual obstacles that might affect the outcome. It also helps to validate the business plan and reduce any apparent risks by means of solutions to handle different problems. New businesses or start-ups are always the one with creative concepts that make them profitable for investors.[45]"

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[43] Patel V and Mehta R, 'Evaluating ESG Factors in M&A Transactions' (SSRN, 2021) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3843300 accessed 01 March,2025.
[44] Gupta S and Bansal T, 'Mergers and Acquisitions in India: Regulatory Challenges' (SSRN, 2013) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2294836 accessed 01 March,2025.
[45] Arora A, 'Due Diligence as a Key Success Factor of Mergers and Acquisitions' (ResearchGate, 2015) https://www.researchgate.net/publication/281647947_Due_diligence_as_a_key_success_factor_of_mergers_and_acquisitions accessed 01 March,2025.

UNDERSTANDING ESG CONSIDERATION IN M&A

The section emphasizes the growing significance of ESG factors in M&A transactions, stressing the need for thorough due diligence and highlighting the advantages of incorporating ESG considerations into strategic decision-making.

IMPORTANCE OF ESG INTEGRATION IN DUE DILIGENCE

In the environment of investments of today, including Environmental, Social, and Governance (ESG) issues into due diligence procedures becomes ever more important. Along with pointing up possible hazards, this integration reveals chances for value generation and sustainable development. In more than half of their deals during the past two years, 33% of dealmakers performed ESG due diligence, according to a 2023 KPMG survey; 43% of them want to do so in most of their next deals. This change suggests a greater understanding of the importance of ESG elements in evaluating prospects and short-term as well as long-term hazards. In particular, 53% of investors said they cancelled acquisitions because of relevant findings during ESG due diligence, therefore stressing its important part in investment decision-making.[46]

RISK IDENTIFICATION AND MITIGATION

ESG considerations might point to possible hazards not immediately clear from financial accounts. Post-acquisition environmental hazards including regulatory fines for pollution, social concerns about labour standards, or governance challenges influencing decision-making can all be rather serious. M&As help to define public opinion and stakeholder confidence; a target firm with a solid ESG record can improve the appeal to socially concerned investors of the acquiring company.

Companies with strong social performance usually have higher staff productivity and lower turnover rates. Analysing the target's board composition including its structure, independence of directors, and diversity helps one to better grasp its governance policies. Evaluating the performance of the company's governance depends on knowing how it recognises, analyses, and reduces risks including those about ESG elements. Examining the ethical criteria of the target, such its anti-corruption rules and protections for whistle-blowers, helps one to gauge its integrity. Companies with strong

[46] KPMG, 'ESG: The Sustainable Advantage' (KPMG Report, 2023) https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2023/esg-sustainable-advantage-1.pdf accessed 01 March,2025.

governance systems often show better financial performance and pay less for capital.[47]

Non-compliance with laws and rules controlling environmental, social, and governance issues increases regulatory compliance risks. Regulatory compliance concerns in M&A deals could result from target companies not following industry standards, permits, or reporting guidelines. Examining regulatory compliance means looking at permits, filings, and enforcement actions. Strong governance systems help organisations to have superior financial performance and reduced cost of capital, according a study by EY.[48] Negative publicity, brand erasure, or stakeholder reaction brought on by ESG-related events can all compromise reputation. In M&A deals, reputation harm risks could result from target companies' participation in ethical failures, scandals, or controversy.[49] Evaluating harm to reputation calls for tracking media coverage, social media opinion, and stakeholder impressions. The Global Rep Trak 100 study by Reputation Institute offers information on the most respectable businesses worldwide as well as elements impacting corporate reputation. Issues include worker exploitation, product safety, and supplier integrity which can affect product quality and brand reputation are supply chain hazards. Supply chain risks in M&A deals could result from target companies depending on suppliers with unethical sourcing, bad labour practices, or supply chain interruptions. Evaluating supply chains means charting them, running supplier audits, and applying ethical sourcing policies. Nike's 2008 acquisition of Umbro underlined the need of supply chain due diligence in M&A deals since it exposed supply chain concerns about worker exploitation in supplier factories.[50] Factors including revenue volatility, cost overruns, and asset impairments which can influence deal pricing and investment returns cause financial performance concerns. Financial performance risks in M&A deals could result from target companies' exposure to ESG-related charges such legal settlements or environmental remedial costs. Evaluating financial performance calls for sensitivity studies, predictions, and financial statement analysis.[51]

IMPORTANCE OF INTEGRATING ESG CONSIDERATION POST-ACQUISITION

Realising the possible advantages and reducing risks depends on effective integration of ESG issues

[47] Environmental, Social, and Governance (ESG) Factors in M&A Due Diligence: Legal Obligations, Risk Assessment, and Integration Strategies. Posted: 18 Jun 2024. Yugank David

[48] Task Force on Climate-related Financial Disclosures (TCFD). (2021). "TCFD: Implementing the Recommendations for Corporate Reporting." TCFD Guidelines

[49] Edelman. (2020). "Employee Experience 2020: The New People Imperative." Edelman Report.
Reputation Institute. (2021). "Global RepTrak® 100: The World's Most Reputable Companies." Reputation Institute Report

[50] Clark, G., & Feiner, A. (2020). "The Impact of ESG Data on Corporate Valuation and Financial Performance: A Meta-Analysis." Journal of Sustainable Finance and Investment.

[51] Boston Consulting Group (BCG). (2015). "Risk Management in M&A: Navigating Challenges and Opportunities."

post-acquisition beyond just due attention. Clear ESG goals for the combined company help to guarantee alignment and responsibility by means of which ESG is integrated. Top executives supporting sustainability projects help to define the tone of the whole company by showing leadership commitment to ESG integration. Including staff members in ESG projects helps to create a sustainable culture and could inspire fresh ideas. Open communication with communities, consumers, investors, and other stakeholders fosters confidence and shows the business's dedication to ESG principles.

Not only can good post-merger integration (PMI) help to reduce ESG risks, but it also allows one to grab chances to improve environmental projects. Companies have to smoothly include ESG ideas into every facet of the PMI phase. This entails developing thorough roadmaps, establishing high ESG targets, and ingrain a sustainable culture inside the combined company. Companies can show a consistent approach to stakeholders and strengthen their dedication to ESG by deliberately matching their ESG goals with efficient measurements and reporting criteria.

I. VALUE GENERATION

Including ESG factors once acquired can also help to improve competitive advantage and stimulate value development. Businesses who give ESG issues top priority will be more likely to draw talent, consumers, and investors who progressively value corporate responsibility and sustainability.[52] Companies that match business strategies with ESG values will stand out in the market, strengthen brand reputation, and seize fresh market prospects. Strong ESG performing organisations have been shown to have greater long-term financial returns, reduced cost of capital, and higher market valuations.[53] By including ESG issues into post-acquisition plans, businesses can release value, inspire innovation, and provide stakeholders with chances for sustainable development.

II. STAKEHOLDER ENGAGEMENT

Building trust and keeping good relationships with stakeholders depend on the effective integration of ESG issues following acquisition. Investors, consumers, workers, communities, and other stakeholders all want businesses to show moral and responsible corporate behaviour more and more. Companies may improve stakeholder involvement, build confidence, and reinforce their social

[52] World Economic Forum. (2020). "Stakeholder Capitalism: A Manifesto for a Cohesive and Sustainable World." World Economic Forum Report

[53] Jones, A., et al. (2021). "The Business Case for ESG: How Social Performance Drives Financial Performance." McKinsey & Company.

license to operate by openly and aggressively addressing ESG concerns. Strong ESG-performing organisations typically have stronger employee involvement, customer loyalty, and community support65. Including ESG issues in order is a wise choice to improve stakeholder relationships, lower reputational risks, and produce shared value for society.[54]

III. RESILIENCE AND LONG-TERM SUSTAINABILITY

Ensuring long-term sustainability and resilience depends on including ESG issues into post-acquisition decisions. Investors, legislators, and civil society are pressing businesses to handle ESG risks and opportunities in their activities. Companies can fit changing market trends, legal constraints, and stakeholder expectations by including ESG values into corporate culture and decision-making procedures. Good ESG performance of companies directly corresponds with a more resilient to environmental, social, and governance shocks. Companies can future-proof their business models, reduce systematic risks, and improve their capacity to negotiate challenging and uncertain operating conditions by including ESG issues into post-acquisition plans.[55]

CHALLENGES IN INTEGRATING ESG PRACTICES- POST-MERGER

Accurate assessment of the target's ESG performance during M&A due diligence processes is greatly hampered by limited availability of consistent and trustworthy ESG data. Many times, lacking consistency, comparability, and openness, ESG data makes it challenging for buyers to make wise judgements. A study by EY reveals the data gaps in ESG reporting: just 27% of corporations worldwide reveal quantitative measurements linked to ESG criteria.[56] This absence of data could result in partial evaluations of ESG risks and possibilities, therefore influencing the valuation and integration policies of M&A transactions. Further complexity of metrics ESG measurements cover a wide range of elements, including environmental effect, social responsibility, and corporate governance, each with own indicators and measuring technique. Choosing which criteria apply most to a particular M&A transaction call both industry knowledge and experience. Evaluating a company's carbon footprint or diversity and inclusion policies, for instance, requires examining intricate data sets and knowing sector-specific issues. The intricacy of ESG measurements might

[54] KPMG, ESG Due Diligence in Mergers & Acquisitions (KPMG, 2022) https://assets.kpmg.com/content/dam/kpmgsites/ch/pdf/esg-due-diligence-mergers-acquisitions.pdf, accessed 01,March,2025.

[55] Mondaq, ‘ESG And M&A Transactions’ (Mondaq, 5 February 2024) https://www.mondaq.com/india/corporate-governance/1565176/esg-and-ma-transactions accessed 01, March 2025].

[56] Ernst & Young (EY), 'About Us: Corporate Responsibility' (EY, 2025) https://www.ey.com/en_gl/about-us/corporate-responsibility accessed 02,March 2025.

complicate the assessment process and impede sound judgement. 73% of investors find the complexity of ESG data difficult, according a Harvard Law School study, which emphasises the importance of standardised standards and direction.[57]

Particularly across several countries, the changing regulatory environment on ESG reporting and disclosure requirements adds complexity and uncertainty into M&A transactions. Regulatory rules pertaining to ESG differ greatly depending on the area; some governments use voluntary guidelines while others have obligatory reporting systems. Regarding the integration of sustainability risks and variables into their investment decisions, the European Union's Sustainable Finance Disclosure Regulation (SFDR) for instance places rigorous disclosure responsibilities on financial market players including asset managers and investment firms.[58] By contrast, the United States has a patchwork of ESG reporting requirements at the state level, which causes regulatory fragmentation and compliance difficulties for businesses functioning across several states. Furthermore, including ESG issues into post-merger integration procedures is difficult especially if the target and acquirer have differing ESG policies, practices, and cultures. Effective integration attempts may be hampered and cultural conflicts resulting from misalignment in ESG priorities and objectives between the merging companies can result. Combining several ESG systems, concepts, and approaches need for careful organisation across several departments, communication, and planning. According to a Deloitte survey, the most difficult component of post-merger integration is cultural integration - 64% of executives said. Ignoring ESG integration issues could cause value loss and post-merger disturbance.[59] At the end, opposition from investors, executives, and staff members especially if they view ESG projects as a poor priority or diversion may make it difficult for ESG practices to be integrated. Resistance to change can come from scepticism about the business case for ESG, worries about short-term financial repercussions, and inertia towards conventional business practices. According to a PwC poll, 38% of executives claimed cultural opposition to be a challenge in including sustainability into their companies.[60] Strong leadership commitment, good communication, and stakeholder involvement help to overcome change resistance hence fostering buy-in and support for ESG projects.

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[57] Harvard Law School Forum on Corporate Governance, 'ESG Global Study 2022' (2022) https://corpgov.law.harvard.edu/2022/06/17/esg-global-study-2022/ accessed 02,March 2025.

[58] European Commission, 'Sustainability-Related Disclosure in the Financial Services Sector' (2025) https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en accessed 02, March 2025.

[59] Deloitte, 'ESG Topics in M&A: Navigating Challenges and Maximizing Value' (2025) https://www.deloitte.com/de/de/services/consulting/perspectives/esg-topics-in-m-and-a.html accessed 03,March 2025.

[60] PwC Strategy&, 'Cultural Change in ESG Transformations' (2025) https://www.strategyand.pwc.com/de/en/functions/sustainability-strategy/cultural-change-in-esg-transformations.html accessed 03,March 2025.

CASE STUDIES: ESG AND M&A TRANSACTION

UNILEVER AND SEVENTH GENERATION

Unilever's 2016 acquisition of Seventh Generation offers still another striking example and case study proving how ESG elements affect consumer deal pricing and valuation
the goods sector. Unilever paid anywhere between $600-$700 million for Seventh Generation. Former Unilever executive John Replogle, who formerly served as Burt's Bees' prior CEO, has been leading Seventh Generation since 2011. Seventh Generation has achieved phenomenal expansion over this period, with income exceeding $200 million in 2015.[61]

Unilever operates in over 190 countries and reaches 2 billion people daily, making it one of the world's leading suppliers of Personal Care, Food, Home Care, and Refreshment products. With a workforce of 169,000, the company generated €53.3 billion in revenue in 2015. A significant portion of its business—58%—comes from developing and emerging markets. Unilever's diverse portfolio includes more than 400 well-known brands found in households worldwide, such as Persil, Dove, Knorr, Domestos, Hellmann’s, Lipton, Wall’s, PG Tips, Ben & Jerry’s, Marmite, Magnum, and Lynx. In 2016, Unilever secured the top spot in its industry on the Dow Jones Sustainability Index and achieved the highest environmental rating (5) in the FTSE4Good Index. It was also recognized as one of the Global Corporate Sustainability Leaders for the sixth consecutive year in the GlobeScan/Sustainability annual survey. Additionally, for the second year in a row, Unilever ranked first among food and beverage companies in Oxfam’s Behind the Brands Scorecard.[62]

Seventh Generation was well-known for its great dedication to ethical procurement, environmental responsibility. The product line of the company consisted in a variety of natural and environmentally friendly products meant to reduce environmental impact and enhance consumer well-being and health. Consumers giving sustainability and social responsibility first priority connected with Seventh Generation's brand reputation and market orientation. Seventh Generation has been proving that company may have a larger goal, therefore serving not only profit but people and the earth as

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[61] Vermont Biz, 'Unilever Buys Vermont’s Seventh Generation' (20 September 2016) https://vermontbiz.com/news/2016/september/20/unilever-buys-vermonts-seventh-generation accessed 03,March 2025.

[62] Unilever, ‘Acquisitions & Disposals’ (Unilever, 2025) https://www.unilever.com/investors/news-and-announcements/acquisitions-disposals/ accessed 03, March 2025.

well.[63] They have been producing products that are not only efficient but also created with environmental and human health in mind.

Unilever's acquisition of Seventh Generation was driven by strategic considerations aimed at strengthening its presence in the growing market for sustainable and natural products. Seventh Generation's strong ESG performance, including its commitment to environmental sustainability, ethical sourcing, and social responsibility, contributed to its attractiveness as an acquisition target. Unilever recognized the strategic value of Seventh Generation's brand, customer loyalty, and sustainability credentials, which aligned with its own sustainability objectives and corporate values. Seventh Generation's brand, consumer loyalty, and environmental credentials matched Unilever's own sustainability goals and corporate ideals, so acknowledging their strategic relevance.

The acquisition appraisal represented not just the financial performance and development capacity of Seventh Generation and the intangible value connected with its excellent ESG brand as well attitude of the market. Unilever understood the viability of Seventh Generation credentials in improving its competitive edge, fostering brand identity, and attracting
for consumers with environmental consciousness. The sale cost so reflected a premium for
ESG qualities and brand strength of Seventh Generation.

Once acquired, Unilever concentrated on maintaining and improving Seventh Generation's
brand identity, product integrity, and environmental promises. Emphasising Seventh Generation's autonomy and entrepreneurial energy while leveraging Unilever's resources, scale, and worldwide reach to hasten development and increase market presence, the integration process focused Unilever strengthened their dedication to sustainability by including Seventh. By including sustainability projects into its larger business plan and best practices, Generation is enhancing its leadership in environmentally friendly consumer goods.

BAYER'S ACQUISITION OF MONSANTO

The 2018 acquisition of Monsanto by Bayer offers a noteworthy case study stressing the
great influence of ESG elements on valuation and deal pricing in the sectors of biotechnology and agriculture. Global pharmaceuticals and life sciences giant Bayer said it would be acquiring Monsanto, a top supplier of agricultural seeds, biotechnology qualities and crop protection goods in a historic agreement worth almost $63 billion. Renowned for its predominance in genetically modified

[63] Vermont Biz, 'Unilever Buys Vermont's Seventh Generation' (20 September 2016) https://vermontbiz.com/news/2016/september/20/unilever-buys-vermonts-seventh-generation accessed 03,March 2025.

(GM) seeds and crop protection chemicals, Monsanto was a divisive player in the agricultural sector. Regarding its agricultural methods including the use of genetically modified crops, herbicides like glyphosate (also known as Roundup), and claimed environmental and health effects - the firm was under heavy criticism and legal challenges. Public health groups, environmental activists, and officials closely examined Monsanto's ESG performance and strategic needs aiming at producing a desired outcome drove Bayer's acquisition of Monsanto.[64]

But for Bayer, Monsanto's controversial ESG record presented major questions and problems. Investor mood and value considerations were swayed by worries about environmental liabilities, regulatory scrutiny, glyphosate-related litigation, and reputational damage. Bayer was under pressure to answer these ESG questions and offer guarantees on public health, environmental stewardship, and ethical farming methods. The deal appraisal represented not just the inherent worth of Monsanto's agricultural assets and technological portfolio but also the supposed ESG risks and uncertainty connected with the purchase. Investors and analysts considered the possible legal and regulatory risks, environmental liabilities, and reputational effects resulting from Monsanto's contentious corporate policies. To reflect the ESG-related uncertainty and possible financial responsibilities, the deal pricing thus included a risk premium. Bayer started a thorough integration process following the purchase meant to solve ESG issues, match corporate actions with environmental values, and re-establish confidence among stakeholders by means of sustainability concepts.

Bayer gave top priority to settling outstanding legal claims and lawsuits connected to glyphosate and other contentious products in order of integration. In order to settle cases connected to glyphosate and create a compensation fund for possible future claims, the firm paid multibillion-dollar settlements to guarantee adherence to environmental rules, product safety criteria, and ethical business practices, the corporation instituted strict compliance policies and risk control systems. Regarding product safety, environmental impact analyses, and regulatory approvals, the firm improved openness and disclosure. To further solve issues, get comments, and show its dedication to ethical farming methods and sustainable innovation, it also interacted with a broad spectrum of stakeholders including farmers, consumers, environmental groups, and authorities. Bayer made R&D investments in order to create creative agricultural solutions that support climate resilience, biodiversity, and sustainability by means of which novel farming practices The company started projects aiming at helping smallholder farmers, advancing environmentally friendly farming

[64] The Clorox Company, 'Company Information' (2025) https://www.thecloroxcompany.com/company/ accessed 04, March 2025.

methods, and tackling food security issues all around.

CLOROX'S BURT BEE ACQUISITION

American worldwide personal care product firm Burt's Bees is Comprising products for personal care, health, beauty, and personal hygiene, the company bills itself as an "Earth-friendly, Natural Personal Care Company". Its goods find distribution all around. Originally founded in 1984 by Burt Shavitz and Roxanne Quimby, the brand began with candles made of “beeswalk” focussing on personal care then grew into other products. Using recycled packaging and carefully chosen ingredients, Burt's Bees stresses sustainability.[65] American worldwide manufacturer and marketer of consumer and professional products is The Clorox Company. Originally established in 1913 and with its headquarters in Oakland, California, Clorox is most well-known for its namesake cleaning and bleach products. The business runs in several divisions: home cleaning, lifestyle, health and wellness, and foreign markets. Serving millions of customers worldwide across more than 100 countries, Clorox is really ubiquitous. Reacting to consumer needs for environmentally friendly and health-conscious products, it keeps innovating in cleaning and wellness solutions.[66]

Chief executive of Burt's Bees and Beth Springer, vice president at Clorox, that Clorox had acquired Burt's for the cool price of $913m. The business has listened to its clients, who said their families as well as the surroundings matter more and they are growingly concerned about health and wellness. Their preferences were for sustainable, safe, natural items. Clorox knew it had to answer that need, but it also needed knowledge to do so, which Burt Bees obtained. This calculated action helped Clorox fit consumer trends favouring sustainability and wellness and enter the growing natural personal care industry. An interesting case study in including Environmental, Social, and Governance (ESG) issues into business strategy is the acquisition.[67]

Burt's Bees had developed a reputation for sustainability before the purchase, having attained zero waste to landfill and carefully chosen natural ingredients. Traditionally connected with conventional cleaning products, Clorox regarded this purchase as a chance to broaden its portfolio and improve its environmental, social, and governance (ESG) projects. Following numerous of Burt's Bees' sustainable practices, including waste reduction initiatives and aggressive goals for lowering

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[65] The Clorox Company, 'Increased Transparency Benefits' (2025) https://www.thecloroxcompany.com/blog/increased-transparency-benefits/ accessed 04, March 2025.
[66] Anon, ‘Burt’s Bees and Clorox: The Road to Sustainable Change’ (The Guardian, 15 April 2015) https://www.theguardian.com/sustainable-business/burts-bees-clorox-sustainable-change accessed 04,March 2025.
[67] Id.

greenhouse gas emissions, water use, and energy use, Clorox embraced post-acquisition Strong environmental responsibility ingrained in Burt's Bees affected Clorox's own business plans, including improving supply chain sustainability and using environmentally friendly materials more widely. Clorox also worked to improve corporate openness and stakeholder involvement, so addressing issues about whether a big company could maintain Burt's Bees' ethical standards. This acquisition proved that including ESG issues into M&A deals may lead significant company transformation and over time it became increasingly important for Clorox's long-term sustainability strategy.

SUMMARY OF KEY FINDINGS

Due diligence procedures in M&A (mergers and acquisitions) increasingly depend on environmental, social, and governance (ESG) factors, therefore influencing risk assessment and decision-making in corporate transactions. Examining research, case studies, and industry reports holistically reveals numerous important conclusions about the relevance, difficulties, and best practices related with including ESG issues into M&A due diligence. These results are synthesised in this overview to show the need of ESG issues in improving deal outcomes, reducing risks, and encouraging sustainable wealth generation.

The paper emphasises how investor and regulatory attention on ESG compliance is developing and how this affects M&A deals. ESG risks including stranded assets, regulatory fines, and reputational damage are becoming more and more important to acquirers in determining deal results. Still, a major obstacle is the absence of consistent ESG evaluation systems, which makes it difficult for businesses to measure ESG risks and properly include them into due diligence and valuation procedures.

Even if ESG is becoming more and more important for M&A due diligence, there are still some difficulties with properly including ESG elements into the procedure. Among these difficulties are the absence of consistent measurements and data availability, limited knowledge and tools for analysing ESG risks, and the difficulty of determining how ESG issues affect valuation and financial performance. Further complicating ESG due diligence processes are cultural variations, regulatory uncertainty, and stakeholder expectations; hence, a multidisciplinary strategy and close coordination between legal, financial, and sustainability teams is very essential.

The dissertation suggests ways to close these gaps by means of recommendations for enhancing ESG due diligence, regulatory compliance, and post-merger integration methods. To guarantee uniformity in ESG compliance across sectors, it supports uniform ESG assessment approaches, strengthened disclosure rules, and more precise legislative policies. Moreover, it emphasises the importance of proactive investor involvement, participation of stakeholders, and leadership dedication to include ESG ideas into business plans.

RECOMMENDATIONS

Incorporating ESG considerations into M&A transactions is increasingly essential for both practitioners and policymakers. Here are some recommendations for practitioners and policymakers to enhance the integration of ESG factors in M&A:

Strengthening ESG Due Diligence

Comprehensive ESG due diligence helps practitioners find possible hazards and opportunities early in the purchase process. These covers evaluating the environmental effect, social policies, and governance style of the target organisation. Policymakers can help this by creating uniform ESG reporting systems and rules to enable due diligence methods throughout sectors. Using worldwide reporting guidelines including the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI) can help to improve ESG disclosures.

Integrate ESG into Deal Structuring

Practitioners should incorporate ESG considerations into deal structuring and negotiation strategies. This involves evaluating how ESG factors may impact deal valuation, pricing, and terms. Policymakers can incentivize ESG-aligned M&A activity through tax incentives, subsidies, or regulatory frameworks that reward companies for integrating ESG into their business practices. The acquisition of Burt’s Bees by Clorox serves as a compelling example of how ESG considerations can be integrated into M&A deal structuring and negotiations. When Clorox acquired Burt’s Bees in 2007 for $925 million, ESG factors played a significant role in shaping the deal’s valuation, strategic alignment, and post-acquisition integration. Clorox conducted ESG due diligence to assess risks associated with sustainability claims, regulatory compliance, and consumer perception, ensuring that Burt’s Bees' commitment to ethical sourcing and responsible packaging remained intact post-acquisition.

Develop ESG Integration Playbooks

Create ESG integration playbooks to help practitioners direct M&A operations and post-merger integration projects. These playbooks should define ideal procedures for including ESG issues into performance monitoring, governance structures, and integration planning. Policymakers can cooperate with professional organisations and industry groups to provide standardised ESG integration models and tools catered to many sectors and deal types.

Enhance Stakeholder Engagement

To better grasp their ESG aims and issues, practitioners should interact with investors, staff members, consumers, communities, and others. This can establish trust, help to spot serious ESG problems, and improve openness all through the M&A process. By mandating businesses to reveal ESG risks and performance measures in their annual reports and filings, policymakers can encourage stakeholder involvement by so enhancing responsibility and openness.

Promote Education and Capacity Building

To raise ESG literacy and knowledge inside their companies, practitioners should make investments in education and capacity building. These covers offering tools, seminars, and training courses to enable staff members grasp the relevance of ESG elements in M&A decision-making and execution. Funding research projects, academic programs, and professional development chances targeted on ESG integration and sustainable finance helps policymakers promote this.

Incentivise Long-Term Thinking

When considering ESG elements in M&A transactions, practitioners should give long-term value creation top priority over temporary benefits. This entails over the long run evaluating how ESG risks and opportunities affect the company's financial performance, brand reputation, and stakeholder relationships. Policymakers can inspire long-term thinking by enforcing rules or norms that let businesses reveal their long-term ESG strategies and performance measures, therefore empowering investors to make more wise investment decisions.

ESG-Linked Financing and Incentives

Governments and financial institutions should encourage ESG-aligned acquisitions by offering lower interest rates on financing for transactions that prioritize sustainability. This could include green bonds, sustainability-linked loans, or tax incentives for acquiring ESG-compliant firms.

Post-Merger ESG Compliance Monitoring

Acquirers should implement post-transaction ESG integration frameworks with clear timelines, KPIs, and accountability structures. A third-party ESG audit mechanism could be introduced to ensure that the merged entity maintains and improves upon pre-acquisition ESG commitments.

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