ESG Considerations in Nordic Corporate M&A

A Qualitative Study of ESG-themed M&A Strategy and Its Influence on Pre-deal Processes

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Abstract

As ESG considerations gain importance in corporate decision-making, their integration into M&A processes presents strategic opportunities and challenges. This study uses a qualitative research method, conducting 15 semi-structured interviews with M&A professionals, executives, and advisors, to investigate ESG in the context of corporate M&A. The research aims to answer three key research questions: (1) How does ESG inform M&A strategies, and what strategic rationales drive ESG-oriented deals? (2) How does ESG influence due diligence processes in M&A transactions, and how is this captured in the valuation of target companies? (3) What challenges do firms face when integrating ESG factors into their M&A processes? The findings show that ESG is increasingly considered within M&A deal rationales, driven by firms' desire to capture competitive advantages and align with sustainable megatrends. Additionally, ESG due diligence has become an increasingly important tool to flag ESG liabilities such as compliance risks and governance concerns. Furthermore, the study reveals an evolving financialization of ESG in M&A valuations, where ESG-related risks are commonly reflected through valuation deductions based on due diligence findings, while ESG-driven premiums are applied more intuitively and qualitatively. The study also presents challenges to further integration of ESG in M&A processes, such as a lack of formalized structures for ESG due diligence, marginalization of ESG in financial valuation, and ESG data gaps. This thesis contributes to the emerging field of ESG in corporate M&A by mapping its role across strategy and pre-deal processes, revealing structural challenges for deeper integration.

Key words: M&A, Sustainability, ESG, Due Diligence, Valuation

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Abbreviations

CSR = Corporate and Social Responsibility

CSRD = Corporate Sustainability Reporting Directive

D&I = Diversity and Inclusion

DCF = Discounted Cash Flow

DD = Due Diligence

EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization

ESG = Environmental, Social, and Governance

EU = European Union

M&A = Mergers & Acquisitions

WACC = Weighted Average Cost of Capital

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1. Introduction

Integrating ESG factors into corporate M&A processes has become an important capital allocation consideration. As sustainability and CSR gain importance in firms, ESG aspects are not seen as foreseeable concerns but as important considerations affecting risk, compliance, and long-term financial performance in M&A transactions (Eccles et al., 2011). Shareholders, regulators, and other stakeholders want increased transparency regarding ESG, resulting in companies implementing ESG due diligence more deeply into their M&A processes (KPMG, 2024). Furthermore, firms also view ESG-related M&A as a source of competitive advantage, which affects decision-making and transaction processes (McKinsey, 2024).

ESG integration in M&A presents opportunities for value creation. Porter and Kramer (2011) argue that efforts from businesses to minimize negative environmental externalities have historically been costly and driven by certain regulations and taxes. However, in the last decade there has been a growing consensus that improvements in environmental performance can be achieved with better technology at nominal incremental cost, and can even yield cost savings. Recent research by Ioannou and Serafeim (2014) suggests that firms with strong ESG performance tend to be more resilient to external shocks, making them attractive acquisition targets and improving the overall success rate of post-merger integration. Through ESG due diligence, firms can identify hidden risks within regulatory compliance, environmental externalities, or governance. These risks could lead to fines, reputational damage, or other challenges post-M&A. ESG due diligence, however, remains inconsistent in its methods across industries, due to variations in reporting standards, a lack of standardized metrics, and complexity in comparably quantifying ESG-related risks (Pozzoli et al., 2022). Further, quantifying ESG in M&A presents many challenges. The value of ESG is challenging to determine, as there is an intangible nature to ESG factors. Furthermore, many financial models rely on historical financial data and tangible asset valuations, whereas ESG benefits are shown in risk mitigation, reputational gains, or indirect operational efficiencies, which are challenging to model. Additional challenges include inconsistent reporting of ESG metrics, with potential greenwashing risks as companies distort their real ESG profile (Yin et al, 2015).

Due to the growing importance of integrating ESG in corporate M&A, this paper explores ESG's role in M&A strategy, due diligence processes, and valuation methods. It seeks to understand how acquiring firms assess ESG risks and opportunities during transactions and what challenges they face in the M&A process. The following research questions guide the thesis:

1. How does ESG inform M&A strategies, and what strategic rationales drive ESG-oriented deals?
2. How does ESG influence due diligence processes in M&A transactions, and how is this captured in the valuation of target companies?
3. What challenges do firms face when integrating ESG factors into their M&A processes?

This thesis's findings suggest that ESG shapes M&A processes in multiple ways. Firstly, interviewees explained that M&A can effectively secure technology, products, or capabilities within electrification and digitalization, which are necessary for a competitive advantage within the sustainable shift. M&A was also mentioned as a capital allocation tool to enter sustainable markets within renewable energy or other low-emission products. M&A managers were thus optimistic of ESG-related M&A, but with a lack of concrete examples. Secondly, the study found that ESG is increasingly integrated into M&A due diligence, primarily as a compliance tool to flag risks, with the CSRD and EU taxonomy driving structured ESG assessments. A key insight was that acquirers value structural ESG capabilities and reporting infrastructure over actual ESG performance. ESG due diligence can influence valuation through adjustments for post-acquisition investment needs or by applying implicit ESG premiums, such as higher multiples or lower WACC. Further financial modelling of ESG, for example, formal CO_2 pricing remains rare among interviewed firms. The third research question addressed the challenges of implementing ESG in M&A practices. Key findings suggested a lack of formality and comparability within ESG metrics, marginalization of ESG in financial valuations, and data gaps and reporting immaturity among acquisition targets. As a result, sustainability issues are flagged qualitatively but seldom shift the final deal value.

This thesis thus contributes to research in multiple ways. While many scholars have researched traditional M&A historically and in recent years (Jensen & Ruback, 1983; Feldman & Hernandez, 2022), the combination of ESG within corporate M&A has received

little attention. The few scholars who have explored the ESG-related M&A have focused on quantitative studies researching post-merger success and stock-price reactions (Hiltunen & King, 2025; Feyisetan et al., 2025). This thesis takes a qualitative method, leveraging traditional M&A theories combined with modern ESG research to explore drivers of integrating ESG into M&A processes. With in-depth interviews with corporate M&A professionals, executives, and advisors, this thesis addresses the research gap of ESG throughout the pre-deal stage: strategy formulation, due diligence, and valuation. This thesis also discusses ongoing challenges of ESG implementation that were previously unaddressed in research.

The remainder of this thesis is structured accordingly. Section 2 provides a literature review on existing research on M&A, ESG investing, and the integration of ESG in corporate acquisitions. This section then continues with a discussion of the theoretical research framework. Section 3 discusses the research methodology, the qualitative approach, the data collection process, and interview list. Section 4 shows findings from the interviews of corporate M&A professionals and other stakeholders. Section 5 discusses the results through the theoretical framework, interpreting key findings. Finally, section 6 summarizes key contributions, acknowledges limitations, and suggests areas for future research.

2. Literature review & theoretical framework

2.1 Literature review

This thesis explores the integration of ESG in corporate acquisitions. Therefore, the following section reviews previous literature on ESG investing, traditional M&A, and how these topics intersect.

2.1.1 ESG investing

Corporate sustainability has become increasingly relevant for firms due to its intrinsic value as shareholders, regulators, and other stakeholders place importance on firms taking a societal responsibility (Eccles et al., 2014). The sustainability-related concept of ESG, often applied to corporate settings, consists of three domains: environmental aspects, e.g., including CO2 emissions, resource use, pollution, and biodiversity; social considerations, e.g., labor standards, D&I, and societal relationships; and governance, referring to, e.g., board structures, executive pay, shareholder rights, anti-corruption, and geopolitical risks (Friede et al., 2015). In the last decades, ESG has been argued to have moved from being a distant side-objective for firms to increasingly being part of firms' overall business strategies (López-Cabarcos et al., 2025). Within corporate investment decision making, sustainability considerations and regulation increasingly influence how and why firms invest, as managers both need to consider the financial business case behind an investment and understand its stakeholder impact (Becchetti et al., 2022).

Researchers have explored the impact of ESG on firm performance and obtained different conclusions in their research. One stream of research suggests that strong ESG performance brings improved financial metrics such as lower implied cost of equity, higher accounting profitability, and stock valuations (Lins et al, 2019; El Ghoul et al., 2011). There is, however, another body of research which, on the contrary, argues for a negative correlation between ESG and corporate financial performance and firm value (Brammer et al, 2006; AJ Hillman et al., 2001). In terms of ESG investing, research from Pastor et al. (2021) shows how when investors value ESG characteristics, they are willing to pay a premium for stocks with high ESG scores, causing these stocks and thus ESG companies to have higher prices and lower expected returns. Pedersen et al. (2021) show how ESG can be understood as both

a risk factor and an investor preference, which can result in lower expected returns for ESG portfolios compared to an unrestricted portfolio due to constraints.

A significant shift in how ESG is treated in the corporate context stems from the CSRD (Corporate Sustainability Reporting Directive), an EU directive from 2022, which underlines new standardizations and legislation of sustainability reporting. The CSRD also introduces the principle of double materiality, requiring firms to disclose how sustainability issues impact financial performance and how their operations affect society and the environment. The objective of the directive is to offer investors, customers, and other stakeholders comparable sustainability metrics and reporting structures. This objective reflects the European Green Deal and the Sustainable Finance Action Plan, which the EU has developed as long-term plans for the union's sustainable shift (European Commission, 2021). This EU directive has become increasingly relevant for large firms and investors to adapt to. However, even with the implementation of the CSRD directive and standardized frameworks for sustainability reporting, problems with ESG data persist. Differences in how companies measure metrics, selective disclosure, and limited external checks still hurt the consistency and credibility of the numbers (Christensen et al., 2021; Berg et al., 2022; Pozzoli et al., 2022). Before directives like the CSRD, voluntary reports were often criticised for "greenwashing," with firms stressing positive results while ignoring important environmental or social risks (Serafeim, 2020). Christensen et al. (2021) observed that firms subject to mandatory reporting attract more institutional investment, as the disclosures reduce information asymmetry and allow investors to better assess the sustainability-related risks and opportunities associated with their investments.

In sum, ESG has become increasingly integrated into corporate strategy and investment decisions, influenced by stakeholder expectations and regulatory developments such as the CSRD. While empirical evidence on the financial effects of ESG remains mixed, the standardization of sustainability reporting is intended to reduce information asymmetries and guide capital allocation. Nonetheless, challenges related to data reliability and comparability persist, limiting the full effectiveness of these disclosures.

2.1.2 M&A

Mergers and acquisitions (M&A) represent a form of corporate investing and an important tool for corporate growth, resource allocation, and efficiency gains (Bauer & Matzler, 2014). Main theories on motives behind M&A rely on the argument of synergies (Feldman & Hernandez, 2022), where the combination of the acquirer and target creates value by adding resources, technology, and capabilities. Acquiring companies often cite synergy expectations in the form of cost synergies, such as reduced overhead or shared procurement. Revenue synergies, such as cross-selling, are also frequently mentioned. To justify deal rationales and pricing, synergies are expected to result in increased future cash flows (Huyghebaert & Luypaert, 2013). Synergies may also stem from entering new markets, acquiring skills and capabilities, or even integrating corporate cultures (Ficery et al., 2007). Synergies have also been discussed within other academic theories on M&A, such as the resource-based view, where firms acquire others to gain access to unique resources like patents, brands, or R&D capabilities that can provide the acquiring firm with competitive advantages (Barney, 1991).

When acquirers gather information to assess the quality of the target and its strategic fit across the organization (Hernandez & Shaver, 2019), resource- and capability-based rationales are central to this evaluation. Prior research shows that firms with strong patent portfolios, R&D-related resources, and environmental capabilities are often perceived as attractive targets (Bena & Li, 2014). A key element of this assessment is the concept of fit, where firms seek targets whose characteristics either supplement or complement their own (Datta, 1991). Acquirers tend to select targets with similar or complementary resources, products, or R&D pipelines (Schildt & Laamanen, 2006), or those with related human capital and geographically overlapping operations (Lee et al., 2018).

The idea of M&A as an investing tool for value creation is supported by academic evidence of positive returns of M&A dealmaking, despite the finding that acquiring firms, on average, break even (Jensen & Ruback, 1983; Bruner, 2002). Other academic studies have documented M&A activities to fall short of creating value for acquirers, with examples of an average value loss of 12% on cash spent on M&A (Moeller et al., 2004). The joint research therefore reflects some uncertainty in whether firms are able to realize value from M&A. Potential explanations to this variation in returns can be found in alternative perspectives on the motive behind corporate acquisitions, such as the suggestion that M&A is a way for for managers to decrease their “employment risk”, rather than motivated by the expectation of

tangible economic benefits, i.e. ‘synergism’, as a result of the acquisition (Amihud & Lev, 1981). Another way to look at M&A activity is that it sometimes benefits groups other than shareholders, like company management. In some cases, managers may focus on growing their power and influence through acquisitions, even if those deals do not create value. This “empire-building” approach can hurt shareholders because it often leads to costly, unnecessary takeovers or diversification that shareholders did not ask for, which may destroy value. (Masulis et al., 2007).

Recent research suggests that ESG considerations can inform and enhance the strategic rationale behind M&A activity. Galpin and Vibe (2024) argue that integrating ESG into the deal rationale allows firms to better align acquisitions with long-term value creation. ESG factors can help identify additional sources of synergies, particularly in areas like innovation, risk management, and reputation, thereby expanding the traditional focus on resources and capabilities in M&A.

2.1.3 ESG considerations in corporate M&A

Existing literature highlights the increasing relevance of ESG in the corporate context, such as in corporate investing. Furthermore, recent reports position M&A as a form of corporate investing, particularly suited for an ESG approach because it enables firms to rapidly reallocate capital toward low-emissions business models and technologies (McKinsey, 2024). As a result, the integration of ESG into M&A deal rationales and processes, including synergy identification and assessment of target strategic fit, becomes a key consideration. In the following section, this paper reviews the currently limited research on this intersection of ESG and M&A and identifies the research gaps this thesis will focus on studying.

As previously highlighted, ESG aspects have become increasingly important in the strategic rationale behind corporate M&A. According to a recent report named ‘Creating Value with Green M&A’ by McKinsey (2024), firms no longer see ESG as a compliance issue or a PR opportunity, but instead use it as a key tool to achieve ESG targets and sustainable growth. Acquisitions are argued to be motivated by five strategic deal rationales for acquiring firms: increase exposure to sustainable end markets, pivot toward lower carbon-intensive production technologies, secure advantageous green feedstock, inorganically build a reliable and green energy supply, and enhance circularity of the product portfolio (McKinsey, 2024). Additional research performed by KPMG (2024) suggests that

ESG is a prominent factor in corporate dealmaking and claims that over 70% of corporate leaders say that ESG has become increasingly important in the last 1-2 years. Previous academic research supports this idea as companies with high sustainability performance have been found to achieve better results after M&A integration (Deng et al., 2013). ESG-related acquisitions are further argued to enable market outperformance if the dealmaking has a clear ESG logic and with the proper execution of post-merger integration (McKinsey, 2024).

Following the integration of ESG into M&A deal rationales, ESG considerations are also increasingly influencing the valuation and pricing of M&A investments. Buyers have been found to be prepared to pay a premium for companies with a strong ESG performance, resulting from the expectation that such companies bring lower future risks and stronger growth possibilities. In a recent global study, 60% of respondents answered that they would pay more for a target firm with high ESG-maturity, and one-third said that ESG findings during due diligence have made them lower their valuations in a transaction (KPMG, 2024). Acquirers are increasingly building financial models that account for ESG-related factors such as carbon tax, environmental subsidies, and capital expenditure for environmental upgrades (KPMG, 2024). Existing literature on the subject has largely focused on the financial post-transaction outcomes, such as stock performance after ESG-related investments or ESG-M&A announcements. Research in these domains suggests that while acquirer announcement returns are generally negative, they are less so when both the acquirer and target have high ESG scores. Returns are found to be most negative when low-ESG acquirers purchase high-ESG targets, suggesting ESG alignment between firms may influence deal outcomes (Hiltunen & King, 2025). Other studies find that higher ESG scores significantly increase the likelihood of M&A and that ESG performance positively and significantly affects financial performance, suggesting that ESG initiatives may yield benefits over time (Feyisetan et al., 2025). Another study, by Ma et al. (2024), analyzes how 'green' M&As affect the post-acquisition performance of high-polluting enterprises (HPEs), based on 1,840 deals between 2012 and 2020. The results show that green M&As tend to negatively impact HPEs' performance after the deal, especially for non-state-owned enterprises (non-SOEs), firms with fewer financial constraints, and those with weaker ESG records. The performance decline is largely linked to higher acquisition premiums and more frequent use of cash payments in green deals. Despite these financial drawbacks, 'green' M&As are found to lead to less negative media coverage, suggesting reputational benefits. The study proposes that many HPEs pursue green M&As not necessarily for long-term value creation, but to meet

regulatory expectations or enhance executives' public image, potentially at the expense of shareholder value. Research by Binesh et al. (2021) also addresses the concept of 'ESG premiums' in M&A and similarly found that target firms with strong corporate social responsibility (CSR) performance tend to receive higher acquisition premiums in M&A transactions. Their results support the idea that CSR reduces information asymmetry and signals long-term value, making targets more attractive to acquirers. CSR is hence presented as a strategic asset that can differentiate firms in the M&A market and justify higher deal premiums. Recent academic research has also found that bidders with higher ESG standards tend to get better deal terms in M&A deals, such as lower acquisition premiums (Hussain & Tunyi, 2024).

Given ESG's influence on target firm valuation and acquisition pricing, it has also been suggested that ESG factors are increasingly being integrated into due diligence criteria. It is suggested that in ESG-oriented M&A deals, acquirers perform ESG due diligence that assesses how ESG aspects can affect future cash flows for the target firm, i.e., financial materiality, and the target firm's impact on society and the environment, i.e., impact materiality, to ensure the target offers credible ESG-driven growth. (PwC, 2023). Furthermore, within the scope of ESG due diligence, industry professionals have identified examples of 'orange flags' across the M&A landscape, i.e., risks that should signal that dealmakers must take careful steps to limit risk and enhance value. These are: unethical marketing, reputational risks, high-risk supply chains, disengaged employees, transformational deals that do not deliver on wider outcomes, and inadequate nonfinancial disclosures (PwC, 2023). Similar to 'orange flags', other studies suggest that when ESG-related issues are discovered during due diligence, acquirers are primarily mitigating the issues by adjusting price or transaction terms rather than cancelling the process. Usual measures are renegotiating the enterprise value of the firms, changing terms, or bringing in terms and liabilities to cover ESG-related risks (BCG, 2024). In contrast, other studies highlight cases where ESG risks rise to the level of 'red flags', which are serious concerns that lead to deal termination (KPMG, 2024).

2.1.4 Identification of research gap

Existing literature on ESG in corporate acquisitions remains limited, particularly on how ESG considerations are integrated into the pre-deal phase. Given the rising importance of

sustainability in corporate strategy, this research gap has both academic and practical importance. Much prior research has been focused on the impact of ESG performance on post-acquisition outcomes (Hiltunen & King, 2025; Feyisetan et al., 2025; Ma et al., 2024), while largely overlooking the strategic rationale that drives ESG-related acquisitions. To address this, the first research question; How does ESG inform M&A strategies, and what strategic rationales drive ESG-oriented deals?, seeks to uncover the motivations behind ESG-driven acquisitions. This will contribute to the literature by revealing how ESG shapes deal strategy and how firms position themselves in increasingly sustainability-conscious markets.

The second research question: How does ESG influence due diligence processes in M&A transactions, and how is this captured in the valuation of target companies?, addresses a critical but underexplored area in M&A research. While ESG factors are increasingly seen as material to deal outcomes, current academic work offers limited insight into how they are integrated into key transactional processes like due diligence and valuation. Welch et al. (2020) argue that research in the field has focused too heavily on identifying causes and outcomes, and encourage more studies that explore the processes and dynamics involved in M&A activity over time. This study responds to that call by examining the incorporation of ESG into the due diligence phase and its effects on deal pricing. As ESG due diligence evolves to include broader nonfinancial metrics (PwC, 2023), this question contributes to both theory and practice by unpacking how these processes unfold and affect decision-making under conditions of uncertainty.

Finally, while industry reports have highlighted practical challenges in integrating ESG into M&A, such as inconsistent data and difficulties aligning ESG with financial objectives, academic research on this topic remains limited. By exploring the third research question: What challenges do firms face when integrating ESG factors into their M&A processes?, this study contributes to a more structured understanding of the challenges firms face in practice.

2.2 Theoretical framework

2.2.1 Integrating ESG into corporate M&A

To analyze the ESG integration into the pre-deal phase of corporate M&A, this thesis draws upon two complementary M&A frameworks: (1) a structured M&A-process model described

by DePamphilis (2015) which identifies core key activities in the M&A process; and a recent practitioner-oriented framework by Galpin and de Vibe (2024), which illustrates how ESG considerations can be embedded into each phase of the M&A process. Together, these frameworks provide a structured lens for examining the integration of ESG into M&A decision-making. This paper draws on the research focus and synthesizes insights from the two established frameworks. This synthesis identifies two key pre-deal phases where ESG considerations are most prominently integrated in M&A activity: (1) the formulation of strategic rationales, and (2) the due diligence and valuation of target firms.

2.2.1.1 Formulation of strategic rationales

Mergers and acquisitions (M&As) are traditionally explained using both rational-choice and behavioral theories. From a rational perspective, M&As serve as strategic tools to achieve market expansion, economies of scale, diversification, or defensive responses to competitive threats (Trautwein, 1990; Hopkins, 1991). Behavioral theories, meanwhile, emphasize social and institutional factors such as imitation (Baum et al., 2000), macroeconomic shocks (Harford, 2005), and status-seeking behaviors (Kaul, 2012; Zhao, 2009; Haleblian et al., 2012).

The introduction of ESG objectives alters how strategic rationales for M&A are formed. According to Galpin and de Vibe (2024), ESG integration in strategy development involves identifying how acquisitions can strengthen the acquirer’s sustainability performance. Examples include expanding sustainable product portfolios, acquiring environmentally efficient logistics solutions, or improving supply chain transparency. Thus, ESG considerations add both normative and strategic layers to traditional strategic rationales in M&A.

2.2.1.2 Valuation and due diligence processes

Valuation is a core activity in the pre-deal phase of an M&A transaction. It serves as a foundation for deciding if a transaction is economically favorable. Corporate finance theory distinguishes a target firm's intrinsic value and the purchase price, where valuation models aim to estimate the value as accurately as possible to facilitate price negotiations and economic calculations (Rhodes-Kropf & Viswanathan, 2004).

In the Nordic market, two primary valuation methods are widely used. The first is the DCF model, which calculates a firm’s value through cash flow forecasts, which are then

discounted with a discount rate (Brotherson et al., 2014). The method requires detailed assumptions about the firm, such as revenue growth, profitability, and capital expenditure. The discount rate is typically measured by calculating a WACC (Weighted Average Cost of Capital). Integrating ESG into a DCF model brings complications, as it involves non-financial considerations that are challenging to calculate or estimate (Schramade, 2016). A challenge in integrating ESG into valuation models is quantifying and translating ESG factors into financial metrics, which is referred to as 'financialization' (Schiehll et al., 2023). There are arguments for firms with strong ESG performance to be valued at a lower WACC, due to reduced risk. However, empirical support for this claim remains limited and mixed (Ernst & Woithe, 2024). The second popular method is the use of valuation multiples, such as EV/EBITDA, EV/EBIT, or EV/Sales. These multiples benchmark a firm's valuation against industry comparable companies or precedent transactions. While this model is simpler and more accessible, it lacks customizability and fails to consider ESG-related risks or benefits unless subjectively adjusted. Therefore, ESG-related aspects tend to be excluded or only lightly addressed in valuation multiple analyses.

Another valuation element is the calculation of synergies, which is the value created through a favorable combination of two firms. Synergies may include savings on overhead costs, revenue increases, or strategic capabilities (Gupta & Gerchak, 2002; Kroll & Caples, 1987). Synergies from ESG, such as access to sustainable markets, favorable regulatory positioning, or operational efficiencies from energy savings, are increasingly relevant. However, these synergies are rarely incorporated with a formalized or consistent method in traditional valuation models.

Due diligence can complement a valuation by revealing information that can affect deal terms or post-merger success. Traditional due diligence research suggests thorough evaluation of matters such as the macroeconomic context, regulatory compliance, operational performance, financial reporting, and information systems of target firms (Harvey & Lusch, 1995).

ESG integration into due diligence is done by systematically evaluating the target firm's ESG metrics and identifying potential liabilities or opportunities. This evaluation includes reviewing environmental efforts, labor conditions, governance structure, and stakeholder relations. Research from Galpin & Vibe (2024) shows that ESG due diligence should aim to discover any sustainability-related red flags. These could come in the shape of

exposure to carbon pricing, supply chain compliance, or governance controversies that could be of material risk to the acquiring firm. Thus far, compared to more methodical approaches seen in private equity environments (Crifo et al, 2015), corporate ESG due diligence is found to adopt less standardized ESG routines and checklists.

2.2.2 Stakeholder theory

As firms face increasing CSR pressure from regulators, shareholders, customers, and society, stakeholder theory can provide a theoretical lens through which motivations behind integrating ESG into M&A can be analyzed. Established by Freeman (1984), stakeholder theory argues that firms should create value for all stakeholders, not just their shareholders. Classic corporate finance theory, influenced by Friedman (1970) and Jensen & Meckling (1976), argues for shareholder maximization where expenditures on ESG beyond legal requirements are agency costs and value-destroying. Stakeholder theory argues that firms are intertwined in a broader societal network and rely on support from various stakeholder groups to ensure long-term success (Donaldson & Preston, 1995).

The normative perspective of stakeholder theory suggests that firms have ethical obligations to consider the interests of all stakeholders, regardless of the impact on financial performance. From this view, ESG integration in M&A reflects a broader moral responsibility, ensuring that environmental impact, labor conditions, and governance standards are considered throughout the acquisition process. This ethical consideration is connected to the concept of impact materiality, one dimension of the double materiality principle introduced in EU sustainability reporting. Impact materiality refers to the significance of a company's activities on external stakeholders, such as communities, ecosystems, and future generations (Baumüller & Sopp, 2021). In this context, ESG due diligence and valuation incorporate not just financial risks but the ethical obligation to understand and manage societal and environmental stakeholders. This reflects the normative stakeholder view, where a firm's accountability goes beyond the shareholders, encompassing all those affected by the firm's actions.

The instrumental perspective views stakeholder management as a strategic tool for achieving business objectives (Jones, 1995). Research shows that addressing stakeholder concerns during M&A can reduce risks, protect reputation, and facilitate smoother post-merger integration (Harrison et al., 2010). ESG integration, in this light, becomes a form

of risk mitigation, helping firms manage liabilities, avoid regulatory penalties, and build trust among key stakeholders (Atanassov, 2013). This view is consistent with financial materiality, the second dimension of the double materiality concept, which assesses sustainability issues based on their potential to impact a firm's financial performance. According to Baumüller & Sopp (2021), this investor-oriented lens is typical of integrated reporting approaches that prioritize value-relevant sustainability disclosures to support capital allocation decisions. Thus, under the instrumental stakeholder view, ESG considerations are integrated to the extent that they influence financial valuation and M&A outcomes.

This thesis employs both the normative and instrumental dimensions of stakeholder theory to interpret its findings. First, the early stages of M&A strategy and target selection are analyzed to understand stakeholder-driven motives for ESG integration. Second, the due diligence and valuation practices are examined through a stakeholder lens to assess how non-financial risks and stakeholder expectations influence evaluation techniques. Finally, stakeholder theory is used to interpret firms' challenges in integrating ESG across the M&A lifecycle. By framing ESG integration through the dual lenses of normative and instrumental stakeholder theory, this study also engages with the EU's evolving regulatory emphasis on double materiality. This concept reflects the dual accountability firms face to investors (financial materiality) and to broader society (impact materiality). In this way, stakeholder theory and double materiality are mutually reinforcing, providing a comprehensive framework for understanding ESG integration in corporate transactions.

3. Methodology

This study adopts a qualitative research design, with semi-structured interviews serving as the primary data source. The study uses a semi-structured approach to explore how ESG aspects are considered in formulating M&A strategy, valuation, and due diligence of target firms, as well as what challenges the integration of ESG and M&A brings. The semi-structured qualitative interview method is used because of its flexibility, as it allows an in-depth discussion of the interviewees' perspectives and experiences, while at the same time, ensuring that the study maintains a focus on its key research questions and themes (Bryman et al., 2022). Hence, this research design is suitable for the complex nature of ESG integration in M&A, as it allows the interviewees to share insights openly within the research context.

3.1 Research design

This study aims to shed light on how ESG is incorporated into corporate M&A processes, expanding on previous research. To successfully achieve this objective, the paper follows a qualitative research method based on findings gathered from interviews with M&A professionals, corporate executives, and M&A and sustainability advisors. These findings were compared and analyzed together with academic research and industry reports. This research method provides a deeper understanding of the interviewee's perspectives and experiences within ESG and M&A strategies, valuations, and due diligence (Bryman et al., 2022; Qu & Dumay, 2011). The semi-structured interview format is necessary to balance the need for comparability and consistency, and allows open-ended questions to explore new themes and perspectives throughout the interview. The method is effective in obtaining detailed and novel findings from the interviews (Brinkmann, 2014). The method is also appropriate given that earlier research in this field has predominantly been quantitative.

3.2 Data collection

The primary data collection methods for this paper are interviews, publicly available research, and industry reports. To capture diverse perspectives, interviews were conducted with sustainability and M&A professionals, transaction advisors, and executives with vast experience in corporate M&A. Semi-structured interviews were conducted in person or via video chat tools, determined by the interview participants' preference and geographic

location. Before the interviews, the participants were provided with an interview guide containing information about the purpose of the study, the interview process, key topics to discuss, and other concerns, such as anonymity. Throughout the interviews, the interviewers followed this guide (Flick, 2022). The authors required consent from all participants, ensuring that the interviewees understood their right to confidentiality, anonymity, and the ability to withdraw from the study at any time. The interviews followed the interview guide, which includes a set of both open-ended and specific questions. The questions were designed to explore topics related to the research questions, focused on the role of ESG in M&A strategy, due diligence, valuation, and related challenges. These questions were designed to facilitate interviewees in sharing their experiences and perspectives with detailed explanations. The meetings were audio-recorded with explicit consent from the interviewee. For the analysis, the recording was transcribed afterwards. Finally, any information that allowed identification of the firm or individual interviewed was replaced with anonymized titles to ensure privacy.

The interviewees were chosen through purposive sampling, which was deemed appropriate for this type of qualitative study where the objective was to gain in-depth insights from individuals who can share relevant perspectives on the subject (Yin, 2014; Creswell, 2013). In contrast to a randomization, the purposive sampling ensured consistency in function and role, relevancy, and enabling different perspectives. Specifically, the interviewees are M&A professionals, corporate executives, and M&A and sustainability advisors. The criteria for the selection were to ensure that participants had practical experience and knowledge of both M&A processes and how ESG considerations might be relevant in this context. Most of the interviews were with M&A professionals from different firms, as those types of interview samples were considered key to gaining relevant practitioner insights. To minimise potential bias and secure a balanced perspective on the research questions, the interview sample was broadened to include sustainability and M&A consultants with substantial expertise in corporate M&A and ESG topics. The goal was to interview 15–20 participants. However, the final number of interviews was determined based on the principle of saturation, which is when no new themes appear from additional interviews (Guest et al., 2006). The 15 interviews conducted were deemed sufficient to provide a diverse range of perspectives while maintaining manageability within the scope of the research.

In total, 15 interviews were conducted digitally or in person between March 6th and April 8th, 2025, ranging between 30 and 60 minutes. Table 1 provides an overview.

Table 1: Overview of Interviews

Classification	Type of Firm	Interviewee Role	Interview date	Interview duration
Pilot study	Academia	Independent Researcher	06/03/2025	30 min
Executive	Global Industrial Firm	Group CFO	07/03/2025	45 min
M&A professional	Global Industrial Firm	Head of M&A	11/03/2025	60 min
Advisor	Global Management Consultant Firm	Senior Consultant	12/03/2025	35 min
Advisor	Global Consultant and Auditing Firm	Assistant director M&A Transaction Services	13/03/2025	50 min
M&A professional	Global Industrial firm	Corporate Finance Manager	18/03/2025	30 min
M&A professional	Nordic Energy Firm	M&A and Investment Manager	18/03/2025	55 min
Executive	Nordic Retail Firm	Director of Business Development	18/03/2025	40 min
M&A professional	Global Industrial Firm	Vice President M&A and Integration	20/03/2025	40 min
M&A professional	Global Automotive firm	Director Corporate Finance	24/03/2025	35 min
M&A professional	Global Automotive firm	M&A Strategy Director	25/03/2025	50 min
M&A professional	Swedish Consumer Staples Firm	Business Developer	25/03/2025	30 min
M&A professional; ESG professional	Global Materials Firm	Senior Manager, Strategy and M&A; Sustainability Manager	25/03/2025	45 min
M&A professional	Nordic Industrial Firm	M&A and Business Development Manager	26/03/2025	40 min
Advisor	Global Management Consulting firm	Senior Associate Consultant	08/04/2025	30 min

The study has also used complementary information in the form of publicly available data. This information has assisted in the preparation of the discussions and allowed for more precise follow-up questions during the interviews. The public data primarily pertains to firm annual reports, firm sustainability reports, industry reports, and academic research.

3.3 Research quality

In this paper, qualitative data collection was performed through the semi-structured interviews that were previously described. The relevant challenges of qualitative research are recognized, and several strategies were used to address these potential data validity issues and biases. There is also the consideration of the generalizability of interview results. As mentioned by Saunders et al. (2009), the flexibility of semi-structured interviews can introduce an interviewer bias. To mitigate this potential flaw, a standardized interview format was developed. This structure was made to ensure that questions were asked neutrally and consistently across all interviews. The authors of the paper conducted regular debriefings to reflect on potential biases that could influence data collection and their interpretation. Furthermore, the interviewees were carefully selected using conscious sampling to ensure a diverse sample representing a broad range of experiences and perspectives, as discussed by Yin (2014) and Saunders et al. (2009). This approach is intended to strengthen the validity of the study, avoiding a reliance on a homogeneous group of interviewees.

As discussed, a primary concern during the interview process was the validity and reliability of the data. As mentioned by Maxwell (2004), planning and rigorous analysis are required to ensure that the results are within the themes this paper seeks to explore with its research questions. Through the use of several data sources and the review of interview transcripts, the method of triangulation was used. This process confirmed that the findings from the interviews were not due to an isolated interpretation of one researcher. Furthermore, the interviews were often instantly followed by a review of the preliminary findings from the session, ensuring that the perspective and quotes from the participants were accurately described. The authors also documented any assumptions or reflections throughout the interview process, minimizing personal biases.

While the primary objective of qualitative research should not be generalizability, but this should nevertheless be considered. Saunders et al. (2009) and Yin (2015) argue that qualitative findings can be transferred, compared, and more widely used if detailed

descriptions of the interview settings and processes exist. With a complete information trail from the development of the interview guide to the interpretation and analysis of the results, this paper ensures that other researchers can understand the context and reasoning behind the decisions of the methodology. This is aimed at assisting researchers with assessing whether this paper's findings are applicable in other situations. Furthermore, this paper conducted a pilot interview to review the research framework and identify any questions regarding ambiguity or biases. This ensured that the interview process was robust and that the study's conclusions could reasonably be extended and compared to other contexts.

Additionally, ethical considerations were of great importance to the research design. The study followed principles of ensuring respect for interviewees and their integrity per Drenth in (2012). Interviewees were informed of their right to anonymity, voluntary participation, and the ability to withdraw from the study without any consequences. The data collected from the interviews was stored securely, with access restricted to the two researchers. Participants were also informed that the findings and data might be used in academic publications, but their names and firms' names remained anonymous.

4. Results

The results from the interviews are presented in the following section. The results are organized into subsections aligning with the research questions this paper seeks to address:

1. How does ESG inform M&A strategies, and what strategic rationales drive ESG-oriented deals?
2. How does ESG influence due diligence processes in M&A transactions, and how is this captured in the valuation of target companies?
3. What challenges do firms face when integrating ESG factors into their M&A processes?

Each section presents the views of corporate M&A professionals and executives, together with the perspectives of consultants acting as M&A and sustainability advisors in various ways. Three general categories of results emerged in the analysis of the interviews. These are 1) ESG considerations in M&A strategy formulation, 2) ESG as a key consideration in the due diligence and valuation, and 3) Challenges to ESG and M&A integration. At the end of each subsection, the key takeaways are concluded to emphasize the most significant insights, linking to the research questions and relevant literature.

4.1 ESG considerations in M&A strategy formulation

The interviews indicate that ESG is a key consideration in formulating corporate M&A strategy. While the depth and form of integration vary, ESG is presented as a key strategic driver across the M&A agendas of many interviewed firms. Two themes that guide how ESG is integrated into the strategic rationale of M&A deals have been identified in the interviews: (1) ESG as a source of competitive advantage and (2) aligning with sustainable megatrends.

4.1.1 ESG as a competitive advantage based on customer preferences

Across multiple firms' long-term strategic plans, ESG is not viewed as an external constraint, but rather as a strategic asset that aligns with commercial opportunities driven by customer preferences and regulatory demands. Several firms, such as a global automobile manufacturer and a global industrial manufacturer, exemplify this pattern by embedding ESG within their broader corporate strategy. An automobile manufacturer has articulated broad sustainability

goals, including full electrification and zero-emission production, which they perceive to be central to their future customer value proposition.

> "ESG is central. I'm talking about all the respective business areas and strategies" - M&A Strategy Director at a Global Automobile Firm

Interviewees emphasize that, e.g., products with sustainability-related certifications and high energy efficiency, resulting from production using sustainable materials and green manufacturing practices, are increasingly demanded by customers and therefore offer a significant competitive advantage for the firm. In this way, sustainable manufacturing practices and a sustainable service offering function as a dual imperative, aligning firms with customer expectations while securing competitive advantage in emerging industrial segments. A quote from an interviewee from a Nordic industrial firm explains how ESG aspects increase the attractiveness of M&A targets:

> "For the companies we buy [...] when they're in a procurement phase and can demonstrate their sustainability offering, which perhaps a competitor can't do in the same way, then there have been many cases where we've won the project at a higher price instead of a competitor who doesn't have the ability to offer the same." - M&A and Business Development Manager at a Nordic Industrial Firm

Furthermore, an interviewee from a global industrial firm explains how their main strategic focus points are electrification, automation, and digitalization. When evaluating companies within their deal pipeline, ESG considerations are already factored into target identification and pipeline management.

> "We believe that these types of businesses that lower CO2 emissions or increase workers' safety will be attractive to own in the long term. Then we might not [explicitly] talk about ESG at this early stage of target identification for M&A, but that is what it is definitely about." - Vice President M&A and Integration at a Global Industrial Firm

In this way, M&A becomes a tool for obtaining a "moat" of competitive advantage towards other non-ESG competitors, as certain ESG areas are perceived to help create commercially attractive offerings that tend to current customer demands. The same interviewee expands the point:

> "If you look at the way we look at sustainability, it's very much in line with what customers are asking for when it comes to efficiency, safety, carbon emissions. So it really goes very much hand in hand with what we're developing, what we acquire aligns well with what customers are asking for" - Vice President M&A and Integration at a Global Industrial Firm

As shown, firms increasingly position ESG as a strategic asset, embedding it into corporate strategy and M&A to gain competitive advantage. Deal rationales are found to be aligned with ESG topics such as product safety, decarbonization, and energy efficiency.

4.1.2 Entering ESG markets to align with sustainable megatrends and markets

Another recurring finding brought up by the interviewees on the topic of strategic rationales is the perception of certain ESG issues as the foundation of key megatrends, such as decarbonization, which corporate strategies aim to align with and capitalize on. For example, the acquisition strategy of a Nordic energy firm is described to be centered entirely on entering new renewable product technologies. The firm reserves the corporate M&A function to maintain and execute a strict acquisition focus on deals that support its transition towards more sustainable products and end-markets. The M&A professional explained how the energy firm's old assets, including non-sustainable product lines, are generating cash flows to invest in new, sustainable ventures. Little to no capex is spent on non-renewable assets.

> "We haven't done any M&A in the past 10 years unless it has something to do with renewables." - M&A and Investment Manager at a Nordic Energy Firm

Furthermore, a corporate finance manager from a global industrial firm expands on how they identify sustainability as a megatrend and want to position themselves accordingly.

> "The biggest sustainability mindset of all is that we often buy companies that are exposed to megatrends. Because that's where we see strong growth. And megatrends in themselves often have a sustainability mindset. That is, for example the energy transition, if we are to be a supplier that can help drive the energy transition, then we need to acquire companies in those fields. So in that way, we almost get a built-in sustainability mindset without actively pushing for sustainability." - Corporate Finance Manager at a Global Industrial Firm

This commercial rationale for ESG is also apparent in other firms. Several firms emphasize strategic alignment and consideration of sustainability megatrends such as electrification, energy efficiency, and green infrastructure in formulating their M&A strategies. These companies describe how they are actively embedding ESG into how they identify promising markets and build acquisition pipelines based on this:

> "We have three trends or changes that we try to capture. These are electrification, automation, and digitalization. So we've put a lot of effort into those three areas when it comes to both developing organically and also developing through acquisitions." - Vice President M&A and Integration at a Global Industrial Firm

Furthermore, a global automobile firm has structured its strategic roadmap and M&A themes around "zero emission [products]", exemplifying the treatment of decarbonization as a long-term economic imperative, rather than merely a legislative issue.

> "We have three pillars in our strategy, and one of them is zero-emission [products]. We're not doing this just because of regulation, it's where the market is heading and we need to be there." - M&A Strategy Director at a Global Automobile Firm

Thus, there is an unspoken strategic aspect to ESG. Many companies are indirectly integrating ESG into their M&A strategies and early-stage deal-making without explicitly stating it. To shift their business model towards a sustainable long-term direction, M&A becomes a tool for alignment with key megatrends.

In conclusion, ESG is described as a key logic in M&A strategies, rather than being treated as an external compliance requirement or a symbolic ethical gesture. This strategic logic informs how the firms anticipate growth and attractive market segments. The interviewees confirm what industry articles from McKinsey, PwC, or Deloitte discuss: that ESG is increasingly integrated in the M&A strategies of corporate dealmakers. This integration is viewed as mainly commercially motivated rather than normatively. Hence, the interviewed firms are aligning their M&A strategies with ESG because they see it as a profitable business case and economically necessary to remain competitive.

4.2 ESG as key consideration in due diligence and valuation

The interviews highlight that ESG plays a significant role in the pre-deal M&A phase, specifically as part of the due diligence and valuation process. Once a potential acquisition has passed strategic screening, ESG also acts as a formal component of the due diligence phase. The term ESG due diligence is used throughout all interviews as an umbrella term encompassing any kind of investigation into sustainability-related performance, compliance, and governance of target firms. In several cases, it was noted that ESG considerations are a substantial share of the overall diligence effort.

> "Considering ESG is part of every case. It is a major component of the due diligence; I would say that roughly 30% of each due diligence process is focused on ESG-related issues." - Corporate Finance Manager at a Global Industrial Firm

> "I think pre-COVID, it was not done very much or not as a single unit. It was probably more integrated into like commercial due diligence and how you assess potential ESG factors inside commercial due diligence. I think since 2022, 2023, we see more requests in terms of ESG, like please provide ESG documentation in due diligence and also more discussion around this. [...] Since post-COVID, you must have some slides [in the information memorandum] on ESG, what's your impact, what are your policies, what kind of UN goals you're trying to achieve, this kind of thing." - Assistant director M&A Transaction Services at a Global Consultant and Auditing Firm

From the interviewees' perspective, the purpose of ESG due diligence is mainly described as acting as a central evaluative mechanism that companies use to help assess the acquisition targets' alignment and risk profile. Several participants emphasized the role of ESG due diligence in identifying red flags. In such instances, the findings could affect the deal structure or lead to withdrawal from the transaction altogether. Simultaneously, most respondents believed that their current ESG due diligence processes do not focus on uncovering underappreciated strengths, such as certified processes or product innovations, that can improve post-deal value creation. Therefore, the direction of the ESG due diligence is mainly risk-focused. Furthermore, beyond red flags, several firms also evaluated the governance and regulatory maturity of potential targets. This extends ESG due diligence as a

tool that also serves to prepare the target firm for integration into a corporate environment that operates under extensive reporting and compliance requirements. An interviewed executive explains:

> "Partly, it's about understanding what kind of risk we have with this company. Is there something we might have to account for in the future? That whole part is something we need guarantees on. Are there any red flags that mean we can't work with this? That we can't continue in this way, and if we stop doing it, we destroy the margin and so on in the business. That's one. And the other part is also about identifying things for the future. What do we need to fix when we take over this company? So we can set up a list of things we need to work on, fix, and establish a plan for how to address them over one to two years depending on how critical they are. So really, those are the parts we're looking for [in the ESG due diligence]" - Director of Business Development at a Nordic Retail Firm

The following subsections will elaborate on these two key functions of the ESG due diligence: (1) Identifying red-flags in sustainability performance; and (2) Assessing ESG reporting readiness for effective post-deal integration. This is followed by a subsection where findings on how the ESG due diligence informs the valuation of targets.

4.2.1 Identifying red-flags in sustainability performance

A key insight from the interviews is that sustainability risks are systematically screened through the ESG due diligence process. Rather than functioning solely as an evaluative step within the transaction process, ESG due diligence is described to operate as a safeguarding and exclusionary mechanism. This enables acquirers to identify and eliminate targets whose ESG risk profiles are incompatible with ethical or regulatory thresholds. Across the interviews, interviewees emphasized ESG due diligence as an essential tool to validate whether a target firm is able to meet the acquiring firm's sustainability standards, whereby failure to meet minimum thresholds could either disqualify the target from the transaction entirely or necessitate remediation measures before the acquisition process could proceed. An interviewed sustainability manager expands:

> “So if there is any issue on that part, then it's a no-go. So any environmental aspect, if there is an issue that we find in the company, we can't even proceed to the next stage. It's a by default red flag. We are very intolerant towards lapses on the, at least on the environmental side when it comes to due diligence. So if, for example, if we find any contamination in the soil or in the water in the premises, then we won't even buy the company.” - Sustainability Manager at a Global Materials Firm

The interviews reveal that although the ESG due diligence’s function as a gatekeeper is consistent, the formalization, level of integration into other forms of due diligence, and focus vary. Some companies apply formal exclusion criteria as part of the ESG due diligence process, using predefined checklists and compliance standards to filter out unsuitable targets. A Nordic retail firm exemplifies this model. The firm integrates ESG considerations early in the screening and due diligence process, ensuring that critical sustainability risks are flagged before an acquisition advances, by employing ESG due diligence to systematically screen for practices such as the sale of red-listed products, child labor, corruption, and regulatory non-compliance. An interviewee described this process as explicitly exclusionary:

> “We cannot acquire companies that have a ‘dirty business model’. [...] If their profitability depends on unsustainable or non-compliant practices [...] then we cannot acquire the company” - Director of Business Development at a Nordic Retail Firm

This exclusionary stance is operationalized through a comprehensive ESG checklist covering issues such as red-listed products, child labor, corruption, and regulatory compliance. The interviewee elaborated that targets failing these checks would be automatically excluded, with no pathway for negotiation or post-deal remediation:

> “We ask key questions up front: Do they sell red-listed [products]? Do they follow the supply chain regulations? Is there any child labor involved? We check these things early on.” - Director of Business Development at a Nordic Retail Firm

Other firms adopt a more implicit approach, using ESG due diligence primarily to identify red flags that could jeopardize the transaction.

> "It's more about avoiding red flags than a clear ESG scorecard or something similar" - Director Corporate Finance at a Global Automobile Firm

The same global automobile firm exemplifies their due diligence model as ESG considerations are integrated into multidisciplinary due diligence teams, with different departments (e.g., HR, legal) contributing governance, labor practices, and compliance assessments. However, rather than applying ESG scoring to rank targets, the focus is on identifying critical ESG risks that could jeopardize the transaction. An interviewee described the process:

> "We do the ESG due diligence together with other departments. So we, for example, have HR looking at the people's topics and then they look into things like fair pay and these kinds of topics, for example. And then we have a legal team looking at the legal topic. So, I mean, then we work with the different departments and if needed also with external advisors." - Director Corporate Finance at a Global Automobile Firm

Here, ESG due diligence functions as a risk-identification mechanism rather than an exclusion filter. This use case is also exemplified by Swedish consumer staples' ESG due diligence, where targets with more than 10% revenue exposure to certain controversial sectors are scrutinized further and may be excluded unless a clear transformation plan is in place. ESG due diligence thus serves as a safeguard, preventing the acquisition of targets whose ESG risks exceed the acquirer's risk tolerance.

These findings demonstrate that ESG due diligence plays an important role in corporate M&A processes, enabling acquirers to screen out targets based on sustainability risks before final valuation or negotiation. Whether applied through formal exclusion criteria or red-flag detection, ESG due diligence functions as a gatekeeping mechanism that protects acquirers from ethical breaches, regulatory violations, reputational harm, and financially unviable sustainability turnarounds. By embedding ESG risk screening within due diligence, firms align acquisition decisions with compliance obligations and broader sustainability strategies and values. This integration showcases ESG as a core structural filter deciding what constitutes an acceptable acquisition target.

4.2.2. Assessing ESG reporting capabilities

The interviews highlight that another important function of ESG due diligence is to evaluate the level of sophistication in the target firm's ESG reporting capabilities. A recurring theme in the discussions was the importance of ESG reporting, regarding compliance with frameworks such as the CSRD and the overall capacity to report sustainability metrics. The findings suggest that the assessment of the target's structural readiness, their perceived ability to integrate into the acquiring firm's ESG reporting and governance systems, is sometimes prioritized over their actual ESG performance. For example, interviewees from a global material firm and a Nordic industrial firm point out that it is the structural capital and reporting capacity that are most highly valued, rather than the ESG performance itself:

> "I would say the availability of data, the transparency currently [...] is probably worth more than the actual performance." - Sustainability Manager at a Global Materials Firm

> "We don't really have any strict criteria [regarding ESG], but we do look at it more closely now […] since we are also subject to stricter requirements as a publicly listed company. […] So what we are very careful about when evaluating target companies is that they have a strong level of structural capital, that they have well-functioning systems and internal order. For example, a good system to collect data, since the companies, in turn, need to report data to us regarding their emissions, which we are required to report to the market. Therefore, we pay close attention to ensuring that the company is well organized so that, once integrated into [our group], they have the capacity to report the key figures we need to pass on." - M&A and Business Development Manager at a Nordic Industrial Firm

It is thus less about the actual sustainability outcomes being reported and more about the target's ability to be quickly absorbed into the group's reporting structure. Simultaneously, many interviewees noted that smaller target companies are often unlikely to meet the required level of ESG reporting, regardless of their ESG performance. In the absence of sufficient data and established structures, firms use ESG due diligence not only to identify the process and structures that are in place, but also as a tool to assess whether the target firm's values align with the acquirer's, as an indicator of how smoothly it will integrate

into the group's reporting structure. Consequently, many regard ESG due diligence as a key in planning for successful post-deal integration.

> "[The acquired companies] must fit into our framework and our values, and what we consider important. And that applies to everything, from emissions and energy use to morals and ethics." - Group CFO at a Global Industrial Firm

> "It is a very comprehensive process to report all these key figures, for example data for scope 1, 2, and 3. And we do encounter companies that are not prepared for this, and that's where we put in some extra effort. We are absolutely willing to invest in that. I wouldn't say it's a deal breaker if they don't currently have what's required when we evaluate the company. Instead, we say that this is something we can support them with. What's important is that there is an understanding and willingness from the entrepreneurs to join us on this journey." - M&A and Business Development Manager at a Nordic Industrial Firm

Taken together, the interviews suggest that ESG due diligence serves not only as a mechanism for risk identification but also as a diagnostic tool for assessing organizational readiness and alignment in values. Rather than demanding high ESG performance at the point of acquisition, some acquirers prioritize a target's capacity and capacity to align with existing reporting frameworks and sustainability governance structures. Ultimately, ESG due diligence emerges as both a practical evaluation of structural capital and an assessment of the target's adaptability to the acquirer's sustainability agenda.

4.2.3 ESG's impact on target valuation and deal pricing

Another theme uncovered in the interviews addresses how ESG factors are reflected in the valuation and pricing of M&A deals. Across firms, direct quantification of ESG into financial models remains limited but evolving. While most participants agreed that ESG issues are considered mainly hygiene factors, rarely directly priced into standard valuation frameworks (e.g., DCF, multiples), several noted exceptions, such as ESG risk or compliance costs, which can trigger financial adjustments. ESG findings from the due diligence phase can impact valuation, primarily in terms of 'negative synergies' (a concept reflecting investment needs post-acquisition). For example, several interviewees emphasized that negative ESG findings

identified during due diligence, such as environmental contamination, lack of compliance systems, or reputational exposure, can result in explicit valuation deductions, either through adjusted cash flow projections. An interviewee explains:

> "There are certain aspects these companies have not really paid too much attention to when it comes to safety, sustainability. So we do have to add in a certain amount of cost to make them reach a certain stage when it comes to that level. So then we do add in negative synergies, which does have an impact on the valuation." - Senior Manager, Strategy and M&A at a Global Material Firm

Other interviewees also noted that ESG risks can result in these valuation deductions, particularly through 'negative synergies' representing the need for future compliance investments. When target companies have neglected aspects such as safety or sustainability, the acquiring firm must account for the additional costs required to bring operations up to acceptable standards, directly lowering the valuation. Similarly, if due diligence discovers issues such as products the acquirer cannot ethically support or labor practices like unreasonable working hours, these risks are factored into the valuation and become part of price negotiations. Similar cases are identified during environmental due diligence, especially those that require unexpected remediation or corrective investments. Together, these examples illustrate how ESG risks are actively financialized in M&A through direct valuation adjustments tied to anticipated costs of risk mitigation, explained by two interviewees:

> "If we were to identify something that would require us to invest, absolutely, that would go into the valuation and lead to a price negotiation. […] It could certainly be something like discovering that they are selling products we cannot stand behind, and that we would not be able to replace without causing them to lose a significant portion of their sales. That is something that would affect the valuation of the company. Or if they operate with unreasonable working hours for example." - Director of Business Development at a Nordic Retail Firm

> "Especially the risks, I think, do affect the valuations. So typically we find within the due diligence some areas that we haven't incorporated in the plan before the due diligence, or some especially special risks or investments we have to do to cover those risks. Then that tends to affect the valuation by

> decreasing it. For example, in Sweden, we just actually acquired one [firm] where we noted during our environmental due diligence, there were some risks that might lead into environmental issues and that actually affected the valuation in that case." - M&A and Investment Manager at a Nordic Energy Firm

Aside from synergy valuations, M&A pricing is also based on the valuation of the target firm through financial valuation frameworks such as the DCF model and price multiples. Within the DCF framework, ESG considerations are described by the interviewees to induce adjustments of the discount rate (WACC) in some cases, to reflect that a sustainable firm is perceived to lower the risk and therefore the cost of capital. While these adjustments are often not framed explicitly as "ESG modeling", they reflect a perspective that firms with a sustainable business offering and practices positively influence the financial cost of capital.

> "I might also consider adjusting the WACC slightly; depending on whether it's a sustainable company that I truly believe in, I might dare to lower the WACC a bit compared to if it were just a regular, stand-alone, unexciting company." - Director of Business Development at a Nordic Retail Firm

> "If we think the business model is future-proof, aligned with where regulation and consumer demand are going, we're willing to price that in through a lower risk profile." - Corporate Finance Manager at a Global Industrial Firm

> "If you have a sustainability factor that is anticipated to generate increased revenue over time […] then perhaps I would actually value it the same way, meaning based on my cash flow, what I project. But then when you look at what we usually call a football field: where do we end up within the different ranges? And if it's a sustainable company, then that could justify landing in the higher range compared to otherwise." - Director of Business Development at a Nordic Retail Firm

The quantification of ESG within financial models remains, as demonstrated, relatively immature, largely confined to estimates of direct investment costs or adjustments to the cost of capital. However, some firms and advisors are beginning to push the ESG quantification further, reflecting a broader trend toward financialization of key ESG factors in the M&A setting. Advisory firms, including one interviewee, support clients by working with

specialized economists to model the financial impacts of various ESG elements, including CO_2 emissions, local environmental effects, and social factors, helping clients quantify these dimensions when relevant for the transaction. While these efforts are still emerging, they signal a growing recognition that non-financial ESG factors can be systematically quantified and translated into financial terms, rather than remaining peripheral or mainly qualitative considerations. An interviewed industrial firm and advisor explain their practices:

> "What we have done relatively recently is that we have set a price on carbon, for example. Previously, we had not included in our valuations the fact that if an operation emits a lot of carbon dioxide, we did not factor that in, at least not in the acquisition calculations. But that is something we introduced last year. So now we also take into account the potential price of carbon in the acquisition calculation. […] Some form of pricing based on what is expected, and the expectation is that the price of carbon emissions will increase. We have adopted an external price reference" - Vice President M&A and Integration at a Global Industrial Firm

> "We're working with economists who are specialists in modeling this kind of impact. And it can be CO2, local impact, social, this kind of thing. So when possible, we're trying to quantify, or of course you could spend a lot of time quantifying, but then it's on our client to decide, is it important or not?" - Assistant director M&A Transaction Services at a Global Consultant and Auditing Firm

While risks are sometimes quantified and a reason for valuation renegotiations, as showcased previously, identification of ESG-related value creation rarely leads to an explicit valuation increase. Interviewees indicate this is instead indirectly captured through qualitative influence on multiple pricing. Here, pricing decisions based on a range of applicable multiples are often skewed upwards through positive perceptions of business quality, governance, and long-term ESG positioning. In this way, ESG considerations influence where within the valuation range the price ultimately lands, what one interviewee described as "placing the company higher in the football field analysis." Some respondents framed this as a "best-in-class" logic, where well-governed, efficiently operated, and future-oriented

companies naturally merit a more optimistic valuation stance, even if this is not explicitly modeled.

> “We also increase the premium, I would say, the multiple from the start, when you know it's a sustainable product.” - Director of Business Development at a Nordic Retail Firm

> “If we believe a sustainable product will become a growth driver, it goes into the business case. We might use a more optimistic multiple, but only if we trust the logic.” - M&A and Business Development Manager at a Nordic Industrial Firm

In summary, the results of this section show findings of how ESG is implemented into due diligence processes, and how this is reflected in the valuation of target companies. The results show that dealmakers are conflicted concerning how ESG performance should be reflected in target firm valuation. The view of synergies being a driver of M&A and valuations, from Feldman & Hernandez (2022), is existent among interviewees, however ESG aspects are rather found to be deal breakers and red flags than sources of synergies. These aspects are instead reflected through ‘negative synergies’, which are explained to be necessary investments in ESG, affecting the transaction price. While financial quantification remains limited, ESG factors are becoming more systematically integrated into valuation adjustments, discount rates, and pricing logic, indicating a gradual shift toward their financialization in M&A practice.

4.3 Challenges in integrating ESG and M&A

Despite significant ambitions to integrate ESG in the M&A process, from strategy formulation to due diligence and valuation, the interview data reveal several challenges that are perceived to hinder this integration. These challenges aren't just technical or operational, they also involve mindsets and institutional habits, showing a tension between the traditional way of doing deals and the growing expectations around sustainability.

4.3.1 Lacking structures for ESG as a formalized evaluation domain

A recurring theme across several interviews is the organizational challenge of lacking systematic structures for managing ESG throughout the M&A process, including the lack of structures and standardization in ESG evaluation tools and methodologies. Firms suggest that ESG is often not systematically integrated into the M&A process, neither in strategic decision-making nor in financial modelling, but is instead incorporated in an ad hoc and sometimes opportunistic manner. In terms of ESG as a strategic consideration, for example, a global automobile firm explains that:

> "[...] it's not really embedded in the M&A strategy. Of course, it's there in the background, but we don't have a clear guideline like, 'here we should divest, here we should invest' because of ESG. It's more opportunistic and often driven by needs identified in the organization, not from the M&A team." - Director Corporate Finance in a Global Automobile Firm

While financial modelling follows a well-established logic with universal metrics and practices, ESG remains a fragmented and interpretive domain. Several firms noted that while they have developed internal ESG checklists or scoring systems, there is no consistent way to benchmark across sectors or integrate ESG performance into a unified valuation framework. Compared to more methodical approaches seen in private equity environments (Crifo et al, 2015), an interviewee acknowledge a relative absence of standardized ESG routines and checklists:

> "[...] within private equity [...] there is a clearer focus because investors request quite much when you're within private equity. So there is more structure there [...] and there are also several consulting companies now working with ESG for investment companies. [...] Here it's more of a overall strategic topic and everyone is looking at smaller things" - Director Corporate Finance in a Global Automotive Firm

A recurring factor identified in the interviews, as a limitation for the standardization of ESG frameworks, is the decentralized organizational structure through which many of the serial-acquiring firms operate. Several companies emphasize that decentralization creates significant challenges for establishing consistent ESG practices across the organization. In decentralized models ESG responsibilities are often fragmented across subsidiaries or

divisions, each operating with a high degree of autonomy. This dispersion makes it difficult to ensure group-level ESG standards, best practices, and expectations are systematically applied in M&A activities. As a result, firms face difficulties in coordinating ESG efforts during acquisitions and creating the kind of structured, group-wide ESG frameworks that support more standardized due diligence and valuation processes.

> "[...] in our internal [ESG] due diligence process, in how we work with integration and follow up on acquisitions, we try to approach it in a structured way [...] but that is a challenge in a decentralized organization: If I have one division that learns from their mistakes, how do you get another division to avoid making the same mistakes? There are both advantages and disadvantages with the decentralized organization." - Head of M&A at a Global Industrial Firm

> "If we take an acquisition process, when we conduct our own [ESG] due diligence, [...] just like in all decentralized organizations, the challenge is how to transfer the group's thinking into each individual business area, [...] that can be a challenge with a decentralized model, [...] how to implement best practices and similar things. [...] It becomes a bit unclear who is responsible." - Group CFO at a Global Industrial Firm

The volatility and complexity of the ESG regulatory landscape further deepen these challenges. An interviewee from a global materials firm highlights evolving regulations, such as the CSRD and taxonomy-related disclosures, which demand that ESG checkpoints must be constantly updated. This creates a moving target for acquirers, who must continuously reassess and adapt their due diligence practices to remain compliant and competitive.

> "[…] there are certain things that we need to bring in, and that is because the whole regulation and compliance side of things is evolving, and of course, then our checkpoints also need to evolve." - Sustainability Manager at a Global Materials Firm

4.3.2 Marginalization of ESG in financial valuations

Interviewees expressed that a central challenge in integrating ESG into M&A is the difficulty of quantifying and translating ESG factors into financial frameworks, referred to as 'financialization' (Schiehll et al., 2023). An M&A professional explained how ESG aspects are often challenging to quantify within the context of due diligence, making it difficult to assess their materiality and, thereby, any potential synergy value.

> “Translating the ESG risks into financial impact and into valuation [is a key challenge]. Quite often, if we identify some risks, if they're not properly quantifiable, then we just note them as an action for the integration or later part of owning the company. So we must change this item going forward, for example, but it doesn't necessarily affect the valuation. But of course, sometimes it is the case that we actually are able to quantify, but most of the time it's quite hard.” - M&A and Investment Manager at a Nordic Energy Firm

An assistant director of M&A Transaction Services of a global consulting and auditing firm pointed out that ESG is “rarely on the balance sheet because [...] there's, for example, no CO2 liability”. This illustrates a structural mismatch between the logic of ESG and financial reporting. While firms appear to have found ways to incorporate certain ESG aspects into valuation, such as anticipated costs related to underinvestment in environmental compliance, they appear to struggle to quantify and internalize non-financial risks. As a result, ESG due diligence seems to remain a largely parallel track, difficult to integrate meaningfully into financial modeling or deal valuation. This disconnect between ESG due diligence and the financial valuation is evident across several interviews: although ESG issues are often investigated and analyzed in depth, most aspects ultimately rarely influence the final pricing of a deal. These examples suggest that even rigorous ESG assessments often fail to shape the financial backbone of the transaction. When asked if they manage to quantify sustainability risks in any way during due diligence, an interviewee answered:

> “Not in financial terms. So it’s not like it’s going to affect any kind of DCF or Enterprise Value in the end. The quantified risks, well, they fall outside of that. So no, I’d say the answer is probably no.” - Corporate Finance Manager of a Global Industrial Firm

The sustainability and M&A advisors build on this perspective by providing examples of what types of ESG data are more and less challenging to financialize. An advisory interviewee argues that quantifying ESG data is particularly difficult for social dimensions, like community impact, diversity, and inclusion, because there is not yet enough standardized, critical mass of data available. Another advisor, from a global management consultant firm, further nuances this discussion by highlighting the varying degrees of quantifiability across different environmental factors.

> "For example, CO2 is among the most common things that get quantified, and there we're talking about CO2 equivalents. [...] the trickier things to quantify [...] like biodiversity and circularity." - Senior Consultant at a Global Management Consultant Firm

However, despite the ability to quantify CO2 in financial models through the relatively established concept of carbon pricing, only one of the interviewed firms has recently incorporated this in their valuation model:

> "Something we have done relatively recently is that we have started putting a price on carbon emissions, for example. Previously, we did not include in our valuations the fact that if a business had high carbon emissions, we didn't really factor that into the acquisition calculations. But that's something we introduced last year. So now we also take into account the potential cost of carbon emissions in the acquisition valuation." - Vice President M&A and Integration at a Global Industrial Firm

Several interviewees highlight that a significant challenge in integrating ESG into M&A processes lies in the difficulty of translating ESG factors into financial terms that can be incorporated into traditional valuation models. Most ESG factors, especially social aspects, remain difficult to measure and are often excluded from deal pricing. While CO2 emissions are possible to measure and assign a price to, their incorporation into the valuation is almost non-existent among the interviewed firms.

4.3.3 Data gaps and immaturity among targets

The final challenge identified by several interviewed companies is the differing regulatory contexts and varying levels of ESG maturity between acquiring and target firms. One of the most frequently mentioned challenges relates to this, as it concerns limited ESG structures and a lack of reliable data among potential acquisition targets. Acquirers noted that many targets do not have structured ESG governance, formal sustainability reporting, or sufficient awareness of emerging regulatory frameworks that have become critical considerations for acquiring firms. These gaps often manifest in incomplete or inconsistent sustainability data, stemming from underdeveloped reporting processes, weak compliance structures, and fragmented internal governance systems. As a result, even when acquiring firms apply rigorous ESG due diligence procedures, the insights gained are sometimes limited, constraining their ability to form a comprehensive assessment of the target's ESG profile.

> "[...] a lot of these companies that we've acquired were also really small [...] compared to [us]. [...] most of the questions they couldn't even answer. They don't even have the resources to answer some of the questions on the list or even understand what we're asking. [...] They don't really get the sustainability part of it." - Sustainability Manager at a Global Materials Firm

> "The truth is that small companies are generally very bad at this. And that does make it difficult. [...] it would certainly make things easier if more data were available from the start, and if they were as structured as we are required to be with our reporting." - Director of Business Development at a Nordic Retail Fim

> "We try to acquire companies that have a sustainability effort [...] especially when we acquire smaller companies, it can be difficult." - Corporate Finance Manager at a Global Industrial Firm

Another challenge highlighted in the interviews, resulting from the limited availability of quality ESG data, is the lack of comparability and benchmarking opportunities across potential acquisition targets. Firms, including a Nordic energy firm and a global consulting and auditing firm, note that benchmarking ESG performance is difficult when baseline data is missing or inconsistent, complicating the due diligence process. Without clear reference points to assess a target's ESG performance relative to industry peers, acquirers face

difficulties in evaluating the target's competitive positioning, future value potential, and strategic fit, ultimately increasing uncertainty in due diligence and pricing decisions.

> "[...] typically, quite many of the transactions we do are companies that are not that developed. And then there are definitely quite a lot of ESG data gaps, and some inconsistent reporting. That is definitely something that makes it a bit hard to assess how well they are actually managing the ESG-related topics. And that also makes it a bit hard to compare targets within the ESG topics [...]." - M&A and Investment Manager at a Nordic Energy Firm

> "So even for a [target firm] that has sustainability at core, it's a bit difficult for them because they don't know how they benchmark compared to others and how they can tell that their company is doing better when you have no underlying data proving this." - Assistant director of M&A Transaction Services at a Global Consultant and Auditing Firm

To summarize, a key challenge for acquiring firms is the limited ESG maturity and poor data quality among potential acquisition targets, particularly smaller and non-listed companies. In line with research from Christensen et al. (2021) and Berg et al. (2022), many targets lack formal ESG governance, structured reporting, and awareness of emerging regulatory requirements, restricting the quality of insights gained during due diligence. The absence of consistent and reliable ESG data also hampers comparability and benchmarking across targets, complicating valuations in transactional work.

5. Discussion

Through the lens of the theoretical framework and earlier research, the following section presents a discussion of the interview findings. The discussion will be structured around the three research questions:

1. How does ESG inform M&A strategies, and what strategic rationales drive ESG-oriented deals?
2. How does ESG influence due diligence processes in M&A transactions, and how is this captured in the valuation of target companies?
3. What challenges do firms face when integrating ESG factors into their M&A processes?

5.1 ESG considerations in M&A strategy formation

This study shows that ESG is not considered a compliance requirement or a reputational consideration but is integrated into corporate M&A strategies. The interviews found two main M&A rationales: Leveraging ESG as a source of competitive advantage driven by customer preferences and regulatory demands, and using M&A to align with sustainable megatrends such as electrification and decarbonization. Stakeholder theory (Freeman, 1984) provides a useful framework for analyzing ESG-driven M&A. The theory argues that firms are not only accountable to shareholders but also to a wider group of stakeholders, such as customers, regulators, and society. This broader obligation requires companies to manage stakeholder interest in strategic and operational decision-making. The interviewees confirm this development, as several respondents describe how ESG is central in their corporate strategy, with M&A being an important tool to drive ESG-related initiatives. Examples include deal rationals focusing on the outlined megatrends, electrification, automation, and digitalization.

The integration of ESG and M&A has several strategic purposes. Acquisitions are argued to strengthen market positions, respond to customer demand, and bring differentiated offerings. Assets such as low-emission products, sustainable service offerings, and other ESG-related competencies are seen as valuable resources that enhance firms' competitive

position. This reflects the resource-based view of the firm (Barney, 1991), where acquiring unique and valuable resources is a way to build and sustain a competitive advantage. The study also highlights how M&A strategy formulation is affected by macroeconomic and societal trends. Harvey & Lusch (1995) argue for this view, as due diligence efforts include macroeconomic screening and market positioning. The findings of this study indicate that both of these dimensions are important when ESG is included in an overall M&A strategy. Aligning with megatrends corresponds to macroeconomic screening, while leveraging ESG for customer-driven competitive advantage relates directly to market positioning.

The strategic rationale of ESG-themed M&A reflects the instrumental view of stakeholder theory outlined by Jones (1995). Through this perspective, stakeholder management is not pursued for ethical purposes but as a tool to achieve corporate objectives, such as improving firm performance, strategic stability, or gaining a competitive advantage. The findings reflect how firms approach ESG in M&A. While several interviewed firms publicly express sustainable values, the main drivers for ESG-related M&A are market growth, customer demand, or reputational benefits. The intrinsic ethical duties toward stakeholders are secondary. This contradicts the normative view of stakeholder theory (Freeman, 1984; Donaldson & Preston, 1995), which argues that firms should manage stakeholder objectives because it is the right thing to do, regardless of profitability. The evidence gathered in this study suggests that in practice, firms have a more pragmatic approach. ESG considerations are integrated in M&A strategies when they align with value-creating business objectives, not standalone ethical commitments. ESG rationales are often added to existing strategic goals rather than being the starting point for M&A initiatives.

5.2 ESG as a key consideration in the due diligence process

This section discusses the interview findings regarding ESG's influence on due diligence and valuation in corporate M&A transactions. Framed through the combined M&A process models of DePamphilis (2015) and Galpin & de Vibe (2024), alongside normative and instrumental perspectives of stakeholder theory (Freeman, 1984; Donaldson & Preston, 1995; Jones, 1995), the discussion is structured into two main pre-deal phases: (1) ESG screening and due diligence and (2) ESG in valuation and pricing.

5.2.1 ESG screening & due diligence

Traditional due diligence serves as a critical evaluation tool to help the acquiring party assess both the value and risks associated with the target company (Angwin, 2001) to ensure strategic fit and uncover hidden liabilities or synergies (Harvey & Lusch, 1995). ESG due diligence is also described as a crucial tool for investigating target firms' sustainability-related performance, compliance, and governance. The results are in line with research from Pozzoli et al. (2022) and Berg et al. (2022), showing that while ESG due diligence has become a formalized component of pre-deal assessments, methodologies remain inconsistent across firms. The requests for information and assessments performed during ESG due diligence can be understood as a way to mitigate key risks associated with the due diligence process. A main risk is failing to detect negative information about the target (Puranam et al., 2006), for example, due to insufficient disclosure from the disclosing party (De Cleyn & Braet, 2007). The findings consequently disagree with Puranam et al. (2006) as several firms describe instances where ESG red flags have been detected in time and in some cases aborted the acquisition. Through the process of ESG due diligence, acquirers are able to limit their potential exposure to hidden ESG-related liabilities. Firms are found to apply ESG due diligence primarily as a risk-oriented filter, focused on identifying such "red flags" that would disqualify a target or necessitate deal restructuring. This reflects Galpin & de Vibe's (2024) model, which positions ESG due diligence as essential for uncovering material risks, especially environmental and governance liabilities, that could jeopardize post-merger integration and firm value.

Furthermore, the instrumental stakeholder view (Jones, 1995; Atanassov, 2013) is evident here as firms incorporate ESG considerations not for ethical purposes per se, but to mitigate financial, reputational, and regulatory risks. Findings show that acquirers use predefined exclusion criteria (e.g., child labor, environmental contamination, corruption) as non-negotiable thresholds. This aligns with the financial materiality perspective (Baumüller & Sopp, 2021), where ESG risks are considered to the extent that they may impact future cash flows, compliance costs, or enterprise value. However, the dominance of a risk-averse approach contradicts literature suggesting ESG is increasingly viewed as a source of strategic synergies (Galpin & de Vibe, 2024; Binesh et al., 2021). Although companies often describe ESG as a strategic opportunity to drive innovation, strengthen stakeholder relations, and enhance long-term value, the interviews reveal that this ambition is not fully reflected in due diligence practices. Potential ESG-related synergies, such as certified production processes or

sustainable product innovations, are rarely examined in detail. Instead, the focus tends to remain on identifying compliance risks and addressing potential liabilities. This indicates a gap between the strategic positioning of ESG and its actual consideration in transaction analysis. The idea that high-ESG targets can enhance post-merger value, as suggested by Deng et al. (2013), appears not to be systematically incorporated into pre-deal evaluations.

A key finding from the results is that firms prioritise ESG reporting capabilities over actual ESG performance, as firms, to some extent, focus on evaluating a target's ability to integrate into the acquirer's reporting structures (e.g., CSRD compliance) more than their operational sustainability performance. This reflects the growing importance of regulatory-driven transparency (Christensen et al., 2021; European Commission, 2021). From a stakeholder theory perspective, this emphasizes instrumental motivations as acquirers seek to reduce post-deal frictions by ensuring targets can meet disclosure requirements, thereby safeguarding the firm's license to operate. This insight nuances Galpin & de Vibe's (2024) framework, suggesting that, beyond assessing target firms according to checklists to uncover crucial ESG risks, ESG due diligence is less about evaluating substantive ESG integration and more about ensuring a fit within regulatory reporting ecosystems. The normative stakeholder view, which emphasizes ethical obligations to broader society (Donaldson & Preston, 1995), remains underrepresented in these due diligence practices. Thus, ESG due diligence is seemingly skewed towards compliance readiness rather than value creation, disconnecting due diligence practices from the ESG-driven strategic rationales.

5.2.2 ESG in valuation & pricing

The findings highlight a cautious but evolving financialization of ESG aspects. However, the findings suggest that adaptation of valuation models to include ESG-induced adjustments aligns with Schramade (2016), showcasing that ESG introduces additional complexity into traditional valuation techniques. 'Negative synergies' were a common theme where ESG factors were identified during due diligence to influence target valuation, primarily via adjustments for anticipated compliance and remediation investments. While ESG is often treated as a hygiene factor, interviewees described cases where ESG risks, such as environmental liabilities, led to direct valuation deductions. This aligns with the instrumental stakeholder theory (Jones, 1995; Harrison et al., 2011; Atanassov, 2013), framing ESG risk management as financially material. The findings agree with industry reports (PwC, 2023; KPMG, 2024) reporting similar valuation adjustments due to ESG-related capital

expenditures. This practice is consistent with Feldman & Hernandez's (2022) emphasis on synergy-driven valuations but reflects a defensive application, i.e., deducting value to account for ESG liabilities rather than enhancing it through ESG-driven synergies. Additional cases where ESG risks are quantified include the introduction of carbon pricing into acquisition models, which represents a concrete step toward the financialization of ESG externalities. This practice aligns with Pastor et al.'s (2021) argument that market participants price ESG preferences into financial valuations. However, these approaches remain infant and inconsistently applied, reflecting ongoing challenges with ESG data comparability and valuation methodologies (Christensen et al., 2021; Berg et al., 2022). Nevertheless, introducing carbon pricing reflects an initial attempt to capture impact materiality by assigning financial value to environmental externalities, thereby acknowledging the firm's broader societal footprint beyond immediate financial risks.

Despite the dominance of risk-driven ESG adjustments in valuations, the findings also indicate early signs of ESG-driven valuation increases. For example, some firms adjust their WACC to consider a potentially lower risk profile of an acquisition target with strong ESG practices. These results agree with quantitative evidence from recent studies such as Ernst & Woithe (2024), which suggests low evidence for lower cost of capital for firms with strong ESG practices. Such adjustments to WACC are employed when a target's business model is perceived as "future-proof" or strategically aligned with sustainability trends. This finding supports previous research suggesting that acquirers are willing to pay ESG premiums (Deng et al., 2013; Binesh et al., 2021). However, the valuation methods and rationale behind these premiums are primarily qualitative and often lack robust support from ESG due diligence. They are typically loosely linked to an overarching ESG-driven strategic rationale, which is used to justify paying a higher multiple for a target in multiple-based valuations, rather than providing a quantifiable basis for explicit premium payments. Hence, in contrast to ESG-related valuation deductions grounded in tangible due diligence findings (e.g., compliance gaps or remediation costs), the justification for ESG-related premiums remains largely qualitative. This reflects an intuitive and narrative-driven valuation logic, where ESG's upside potential is recognized conceptually but rarely substantiated with rigorous financial modeling. This dynamic illustrates a gap between theory and practice, which partly reflects methodological challenges in ESG valuation (Schramade, 2016; Ernst & Woithe, 2024) and persistent issues with ESG data comparability and reliability (Christensen et al., 2021; Berg et al., 2022).

5.3 Challenges to ESG and M&A integration

Integrating ESG into M&A processes brings multiple challenges for firms. The results of this study highlight three recurring challenges: 1) a lack of formalized ESG evaluation structures, 2) marginalization of ESG in financial valuations, and 3) data gaps and immaturity among acquisition targets.

The first challenge concerns a lack of systematic structures and processes for integrating ESG considerations into M&A processes. Companies have ambitious strategies to align acquisitions with sustainability-driven megatrends or certain customer preferences, yet partly fail to connect ESG to the formal M&A workflow. The results show that ESG is often considered in an ad hoc manner, with inconsistent methods and a lack of accountability. This finding was especially significant in decentralized organizations, where the study found that the lack of standardization in ESG practices is increasingly complex within the interviewed firms' organizations. Practitioners highlighted a difficulty in implementing consistent ESG practices across divisions in the organization. Interviewees also highlighted insufficient knowledge sharing on ESG between divisions as a key barrier to further evolution of the methodologies employed. These findings resonate with prior research, which points out how companies struggle with fragmented ESG practices and inconsistent reporting (Christensen et al., 2021; Berg et al., 2022). Theoretically, this challenge reflects a disconnect between the normative and instrumental perspectives of stakeholder theory. From a normative viewpoint, firms are expected to integrate ESG considerations as part of their broader responsibility towards stakeholders and society (Freeman, 1984; Donaldson & Preston, 1995). In practice, however, firms tend to adopt an instrumental approach, focusing on ESG primarily when it aligns with financial or regulatory incentives (Jones, 1995). The absence of formal ESG structures in M&A processes suggests that ESG considerations have yet to be fully internalized as strategic priorities beyond the scope of financial materiality. Furthermore, Galpin and de Vibe (2024) propose a framework that emphasizes ESG integration across all phases of the M&A process. The findings of this study indicate a clear gap between this ideal and current practices. Addressing this challenge requires organizational changes, including clear governance structures, defined responsibilities, and standardized ESG assessment methodologies within the M&A function.

A second key challenge is the difficulty of reflecting ESG factors in financial valuations. The interviews highlight that while ESG-related risks and opportunities are assessed during due diligence, their influence in valuation models is limited. This observation is consistent with existing literature, which highlights the limitations of traditional valuation models in capturing ESG-related risks and opportunities (Schramade, 2016; Schiehll et al., 2023). Standard valuation methods, such as the DCF model and multiples-based approaches, are primarily designed to assess tangible financial metrics, making it challenging to integrate qualitative or non-financial ESG factors. Although certain environmental metrics, such as carbon pricing, are beginning to be incorporated, broader ESG dimensions remain difficult to quantify financially. The CSRD's principle of double materiality, requiring firms to consider both financial and societal impacts, aims to address this issue. However, the findings suggest that in practice, financial materiality continues to dominate valuation considerations.

The third challenge concerns the limited availability and quality of ESG data from target companies. The results showed that many acquisition targets lack formal ESG governance, reporting, or awareness of evolving regulations. This immaturity complicates due diligence efforts, limits target comparability, and increases uncertainty when addressing ESG-related risks. The findings are consistent with earlier research, emphasizing the ongoing challenge of data reliability and information asymmetry in ESG reporting (Christensen et al., 2021; Serafeim, 2020). As larger firms are increasingly subject to regulatory disclosure obligations such as CSRD, smaller companies often lack the resources or incentives to develop these ESG reporting frameworks. The gap brings significant challenges for acquiring firms seeking to conduct ESG due diligence. From a theoretical perspective, a lack of reliable ESG data hinders both normative and instrumental stakeholder objectives. From a normative stakeholder perspective, it reflects a failure to meet societal expectations for transparency and accountability. From an instrumental stakeholder perspective, it increases transactional risks and complicates financial evaluations, making it more difficult for firms to integrate ESG considerations into M&A decisions. Galpin and de Vibe (2024) highlight the potential for ESG due diligence to uncover potential risks and value-creation opportunities. However, the effectiveness of such due diligence is dependent on the availability of high-quality data.

6. Conclusion

The integration of ESG factors into corporate M&A has become increasingly relevant as firms navigate changing stakeholder expectations and regulatory developments. This study contributes to this emerging field by exploring how ESG considerations influence M&A processes. Using a qualitative method with 15 semi-structured interviews, this study explores (1) how ESG considerations inform M&A strategies, (2) how ESG affects due diligence and valuation practices, and (3) challenges firms face in integrating ESG into M&A activities.

The first research question explored how ESG considerations influence M&A strategy formation. Firstly, firms use M&A to gain a competitive advantage by acquiring ESG-related capabilities, such as electrification technologies, energy-efficient systems, and sustainable service offerings, that align with customer preferences and regulatory demands. Secondly, M&A is used to reposition companies toward sustainable megatrends like decarbonization and green infrastructure. Several firms have adopted ESG-aligned acquisition criteria to shift their business models toward these long-term growth markets. The findings show that ESG is integrated primarily for commercial and strategic reasons rather than any normative or ethical motivations. This reflects an instrumental stakeholder view where ESG is leveraged to enhance competitiveness, resilience, and long-term performance for firms.

The second research question addressed ESG due diligence and valuation adjustments. Results from the interviews showed an increased use of ESG due diligence, as well as its importance as a tool to identify red flags within compliance. The emergence of CSRD has led to the development of ESG checklists and scorecards, and interviews highlighted the use of ESG due diligence as a compliance filter with the capacity to terminate transactions in the case of substantial ESG risks. Furthermore, firms emphasize the importance of the target's reporting capabilities and ability to meet stricter group-level disclosure requirements, which is suggested to be as crucial as assessing the target's operational sustainability performance. Furthermore, the study provides insight into how ESG factors affect valuations of target companies, as informed by findings from the due diligence. The findings reveal an evolving financialization of ESG in M&A valuations, where ESG-related risks are occasionally reflected through valuation deductions based on due diligence findings, while ESG-driven premiums are applied more intuitively and qualitatively.

The third research question examined the challenges of integrating ESG into M&A processes. The study identified three main barriers: the absence of formal ESG evaluation structures, the marginalization of ESG in financial valuation models, and significant data gaps and immaturity among target companies. These obstacles create tensions between established M&A practices and broader ESG ambitions, limiting the depth and consistency of ESG integration in transactions. Difficulties in quantifying ESG impacts further widen the gap between strategic ESG rationales and their assessment in due diligence. As a result, ESG considerations often bypass formal financial analysis and instead influence valuations through qualitative adjustments, such as subjective beliefs in the long-term relevance of ESG-aligned strategies. This reflects a lack of commercial ESG due diligence capabilities within corporate M&A functions.

6.1 Limitations and future research

This section discusses potential limitations that can be addressed in future research. Firstly, while the qualitative approach provides rich insights, it also limits the generalizability of its findings. Additionally, since the interviews are limited to a relatively small sample size of Nordic-based firms, further constraints in the transferability of results to other geographies and industries appear. Additionally, the perspectives of additional stakeholders, such as acquisition targets, shareholders, suppliers, or customers, could be valuable to diversify the perspectives presented in this paper.

Furthermore, the research scope is confined to the pre-deal phase of M&A, examining strategy formation, due diligence, and valuation. Consequently, the study does not assess how ESG-driven rationales, such as integration success or financial performance, influence post-acquisition outcomes. Future research should therefore aim to quantitatively examine the link between ESG-related M&A strategies and post-deal financial outcomes, such as acquirer returns, market reactions, or long-term value creation.

Further studies could also investigate how ESG is considered in post-merger integration (PMI) processes, exploring the realization of ESG-oriented synergies. Additionally, the development of standardized models and frameworks for ESG valuation in M&A transactions represents a critical area for academic research, addressing the current methodological gaps observed.

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