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THE ROLE OF ESG REPORTING IN MERGERS AND ACQUISITIONS

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Purpose: The aim of this article is to examine the importance of ESG *(Environmental, Social, Governance)* reporting in investor decisions during mergers and acquisitions.
Design/methodology/approach: The article employs a literature review and analysis of available data on ESG indicators. The analysis was conducted in two main stages: a review of scholarly literature on the impact of ESG indicators on M&A, and an analysis of financial data of companies involved in M&A processes, using data from reputable industry databases.
Findings: The analysis shows that companies with high levels of ESG reporting achieve better financial outcomes following M&A processes. These companies gain greater investor trust, resulting in improved financing terms and financial stability.
Research limitations/implications: The article does not account for potential differences arising from regional ESG regulations, which may be a subject of further research. Limitations also include a lack of data from certain economic sectors.
Practical implications: The study's findings indicate that integrating ESG into M&A strategy enables companies not only to build long-term value but also to reduce operational and regulatory risk, making them more attractive to investors.
Social implications: ESG reporting plays a significant role in promoting social responsibility and sustainable development. It also supports positive relationships with stakeholders, contributing to an improved quality of life and increased social awareness.
Originality/value: This article provides insight into the growing importance of ESG in M&A processes, particularly in terms of its impact on long-term financial outcomes and enterprise value.
Keywords: ESG, mergers and acquisitions, sustainable development, enterprise value, social responsibility.
Category of the paper: Research paper.

1. Introduction

Modern enterprises operating in a globalized economy face increasing pressure to conduct business in accordance with the principles of sustainable development and corporate social responsibility (CSR). Rising social awareness and new regulatory frameworks are prompting investors and management teams to increasingly incorporate ESG (Environmental, Social, Governance) factors in investment decisions, which serve as indicators of an organization's impact on the environment, society, and transparency of governance (Fatemi, Glaum, Kaiser, 2018; Kozłowska-Makóś, 2020). As noted by Friede, Busch, and Bassen (2015), integrating ESG into financial decisions not only helps minimize investment risk but also supports long-term enterprise value.

ESG reporting, as a tool for transparency and accountability, is gaining recognition as a critical criterion for evaluating companies, particularly in the context of mergers and acquisitions (M&A). Investors seeking responsible investment options expect companies to uphold high ESG standards, which can help mitigate risks associated with integration and future operations after the transaction is completed (Khan, Serafeim, Yoon, 2016; Eccles, Stroehle, 2018). ESG reports provide information on an organization's actions in environmental protection, ethical practices, and transparent governance, which can enhance a company's attractiveness to potential investors and decision-makers (Boffo, Patalano, 2020; Kozłowska-Makóś, 2023).

Studies indicate that high ESG scores can positively impact a company's financial performance post-M&A, making ESG a crucial element in evaluating integration processes (Clark, Feiner, Viehs, 2015; Gillan, Koch, Starks, 2021; Kozłowska-Makóś, 2018). As Wójcik and Ioannou (2020) observe, incorporating sustainable development into M&A strategy not only strengthens a company's market position but also contributes to creating added value.

This article aims to examine the role of ESG reporting in M&A processes and its impact on investment decisions. By analyzing ESG data from companies involved in M&A and investor opinions, this study addresses whether a high standard of ESG reporting truly influences transaction perception and value.

2. Methods

To achieve the stated research objective, a wide range of sources and available data were utilized to analyze the impact of ESG reporting on investment decisions in merger and acquisition processes. The analysis was conducted in two main stages: a literature review and an analysis of available data on ESG indicators.

The first step of the study was a review of scientific and industry literature, covering publications from the last five years on the impact of ESG indicators on M&A processes. To conduct the review analysis, reputable databases such as JSTOR, ScienceDirect, and Google Scholar were used, focusing on scientific articles, industry reports, and regulatory documents. The literature review enabled the identification of key themes and trends associated with the application of ESG in M&A, and highlighted the ESG indicators most frequently analyzed by investors. Additionally, industry reports and market analyses were used to obtain a fuller picture of current practices.

In the second stage, available data on ESG indicators and financial performance of companies involved in M&A processes in recent years were analyzed. These data were sourced from publicly available resources, such as ESG and financial reports published by companies, as well as industry databases, including Bloomberg and Thomson Reuters. The focus was on key ESG indicators, covering environmental performance (e.g., CO_2 emissions, resource management), social performance (e.g., working conditions, community engagement), and governance (e.g., management transparency, governance structure). The goal of this analysis was to identify correlations between ESG indicators and financial performance following the completion of M&A transactions.

In the qualitative analysis, content analysis was employed to identify key themes and trends related to ESG implementation in M&A processes. Additionally, basic statistical methods, such as correlation analysis, were used to illustrate general relationships between ESG indicators and financial outcomes.

3. Results

The results of the literature analysis and available data indicate a significant impact of ESG indicators on M&A processes as well as on the financial performance of companies after transaction completion. The findings are presented in three main areas: the impact of individual ESG indicators on M&A, the variation in financial outcomes depending on the level of ESG reporting, and the key motives and trends related to ESG in the M&A context.

3.1. The Impact of ESG indicators on M&A processes

A review of the literature shows that each of the key ESG indicators – Environmental, Social, and Governance – plays a significant role in investors' decisions, although their importance varies depending on the sector of activity (Fatemi, Glaum, Kaiser, 2018; Khan, Serafeim, Yoon, 2016; Kotsantonis, Pinney, Serafeim, 2016). Specifically:

- environmental ESG indicators – factors related to CO_2 emissions and energy efficiency are crucial in industrial and energy sectors, which are exposed to regulatory and reputational risks due to their environmental impact (Eccles, Stroehle, 2018; Schaltegger, Burritt, 2018);
- social ESG indicators – elements such as working conditions and relationships with local communities are particularly important in sectors with a high proportion of employees, such as the service sector. These indicators positively impact employee loyalty and customer perception (Kozłowska-Makóś, 2020; Turban, Greening, 1997);

- governance ESG indicators – transparency and quality of governance are valued by investors across all sectors, influencing the level of trust in the company and stability in the integration process following a merger or acquisition (Clark, Feiner, Viehs, 2015; Gillan, Koch, Starks, 2021).

In conclusion, each ESG indicator affects different aspects of the M&A process. Environmental indicators increase regulatory security, social indicators strengthen stakeholder relations and loyalty, and governance indicators enhance trust and transparency. This differentiation in the role of ESG indicators makes them essential for the long-term value and stability of M&A transactions (Table 1).

Table 1.
The importance of ESG indicators in various economic sectors in M&A processes

ESG Indicator	Sectors of particular importance	Key ESG indicators	Impact on M&A processes	Financial benefits
Environmental	industrial, energy	CO_2 emissions, energy usage	reduction in costs and regulatory risks	lower operating costs, regulatory compliance
Social	service	working conditions, equal opportunities	increased customer and employee loyalty	reduced employee turnover, positive public image
Governance	all sectors	transparency, governance structure	improved transparency and reputation	greater investor trust, lower financing costs

Source: own elaboration based on: Fatemi, Glaum, Kaiser (2018); Khan, Serafeim, Yoon (2016); Clark, Feiner, Viehs (2015); Turban, Greening (2017); Servaes, Tamayo (2013); Schaltegger, Burritt (2018); Grewatsch, Kleindienst (2017).

As shown by the presented data, ESG indicators – Environmental, Social, and Governance – play a significant role in M&A processes, with their importance varying depending on the sector of activity. This differentiation highlights the need for further analysis to determine how ESG integration affects the financial performance of companies following M&A transactions.

3.2. The importance of ESG reporting for financial performance in M&A processes

Available data suggest that companies with a high level of ESG reporting achieve better financial performance after completing M&A transactions compared to companies with low ESG scores. These outcomes include an increase in market value and improved operational results, which may be a result of enhanced reputation and greater investor trust (Clark, Feiner, Viehs, 2015; Gillan, Koch, Starks, 2021; Servaes, Tamayo, 2013). An analysis of industry reports indicates that, in particular, companies transparent in governance and those with strong environmental performance achieve higher ROI and lower financing costs (Boffo, Patalano, 2020; Eccles, Ioannou, Serafeim, 2014) (Figure 1).

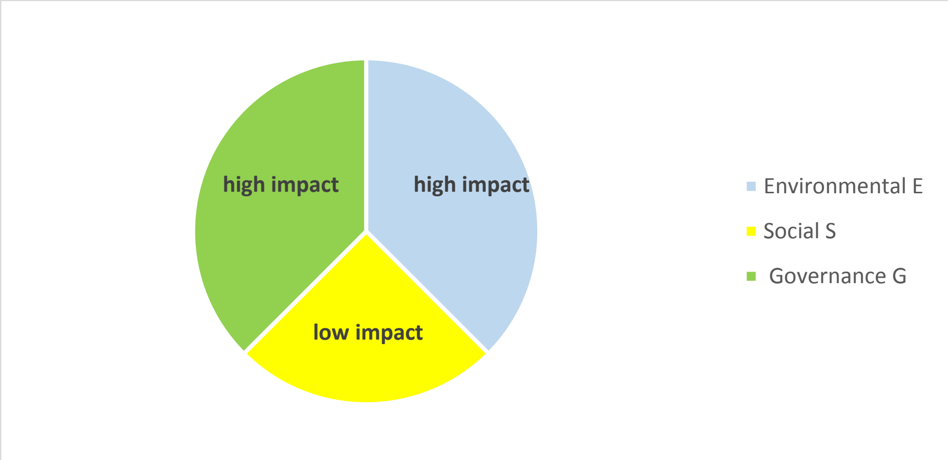

Figure 1. The Impact of ESG indicators on financial performance after M&A.

Source: own elaboration based on: Clark, Feiner, Viehs (2015); Servaes, Tamayo (2013); Boffo, Patalano (2020).

The analysis of the relationship between ESG indicators and financial performance suggests that each ESG factor brings unique value to the financial outcomes of companies post-M&A. Environmental, Social, and Governance indicators have varied significance depending on the sector of activity; however, collectively, they contribute to building sustainable market value and financial stability for the company.

Considering these findings, it is valuable to examine the key motives and trends that encourage companies to integrate ESG into their M&A strategy, as well as to assess the opportunities and challenges associated with this process.

3.3. Key motives and trends related to ESG in M&A processes

Qualitative analysis allowed for the identification of key motives and trends associated with implementing ESG in M&A processes. Investors are increasingly demanding ESG reporting as part of growth strategies, which can be observed in numerous M&A transactions where ESG becomes an integral part of assessing potential benefits (Wójcik, Ioannou, 2020; Friede, Busch, Bassen, 2015; Eccles et al., 2014). Additionally, there has been a rise in the number of mergers and acquisitions in which entities commit to eco-friendly investments to meet new regulatory requirements and stakeholder expectations (Grewatsch, Kleindienst, 2017).

The key motives for implementing ESG in an M&A strategy include:

- minimizing regulatory risk - companies become more proactive in adapting to changing environmental laws and regulations, helping them avoid potential sanctions and fines,
- building investor and stakeholder trust - transparency and adherence to ESG values attract investors seeking sustainable investments,
- increasing competitiveness and innovation - companies that integrate ESG gain an advantage through new technologies and eco-friendly solutions that can reduce costs and improve operational efficiency.

Despite numerous benefits, the process of implementing ESG also presents challenges, such as additional implementation costs and the need to adjust management structures. To better understand the impact of ESG on M&A, Table 2 presents a SWOT analysis that illustrates the strengths and weaknesses, as well as the opportunities and threats, associated with integrating ESG into company strategy in M&A processes.

Table 2.
SWOT analysis for ESG integration in M&A

Element	Description
Strengths	- increased investor and stakeholder trust - enhanced reputation and positive public image - improved operational efficiency through eco-friendly and social initiatives
Weaknesses	- potential costs of ESG implementation - integration challenges and adapting organizational culture post-M&A - long-term commitment required for monitoring and reporting ESG practices
Opportunities	- increase in market value and attractiveness for ESG-focused investors - opportunity for better risk management and regulatory compliance - development of innovations through investments in eco-friendly technologies
Threats	- rapid regulatory changes and rising formal requirements - high stakeholder expectations that may be challenging to meet - risk of greenwashing accusations, or being perceived as engaging in superficial ESG efforts

Source: own elaboration based on: Wójcik, Ioannou (2020); Grewatsch, Kleindienst (2017); Eccles et al. (2014).

The analysis indicates a strong correlation between ESG indicators and post-M&A financial performance, particularly in terms of reputation and regulatory compliance. Companies that implement high ESG standards enjoy greater investor trust, which translates into financial stability and improved performance following a merger or acquisition.

4. Discussion

The analysis results indicate significant benefits stemming from the integration of ESG indicators in M&A processes. Companies with a high level of ESG reporting achieve better financial outcomes, as evidenced by both the financial results of the analyzed companies and data from the literature (Clark, Feiner, Viehs, 2015; Servaes, Tamayo, 2013; Boffo, Patalano, 2020). The transparency provided by ESG reporting fosters increased investor trust, which, in turn, translates into reduced capital risk and better financing terms. These findings align with the research of Wójcik and Ioannou (2020), which suggests that companies with high ESG standards are more likely to achieve financial stability post-M&A.

At the same time, integrating ESG into M&A processes presents challenges, particularly in managing implementation costs and adapting organizational structures. As Grewatsch and Kleindienst (2017) highlight, high ESG requirements may generate additional costs; however, the benefits of implementing them—including improved reputation and increased market value—often outweigh these expenditures. These findings suggest that implementing ESG should be viewed as a strategic investment that allows companies to build long-term value and sustainable competitive advantage.

The SWOT analysis confirms that ESG integration is essential for building value post-M&A but requires management flexibility and the ability to respond to changing stakeholder expectations. Opportunities, such as improved reputation and increased market value, can be realized if the entity effectively manages challenges such as costs and the need to adapt to regulatory requirements.

In summary, implementing ESG in M&A processes is crucial for both investors and management, enabling financial stability and the creation of added value. ESG integration not only meets stakeholder expectations but also facilitates companies' adaptation to evolving regulatory and social conditions. These results suggest that future research should focus on a more detailed understanding of the mechanisms that enable companies to maximize value through ESG strategies, especially in the context of global challenges such as climate change and rising social inequalities.

5. Summary

This article highlights the growing role of ESG (Environmental, Social, Governance) indicators in M&A processes. The conducted analyses indicate that companies with high levels of ESG reporting achieve better financial results and gain greater investor trust, which can translate into long-term stability and increased market value. Including ESG indicators in M&A strategy helps to minimize operational and regulatory risk, which, in the context of dynamic changes in the legal and social environment, becomes an essential element of competitive advantage.

Both the results of the literature analysis and available data suggest that key ESG indicators—environmental, social, and governance—have varied significance depending on the sector of activity. In particular, environmental and governance indicators play an essential role in sectors requiring high regulatory compliance and operational transparency. Social indicators, although moderate in impact, support stakeholder loyalty and enhance the company's image, facilitating effective post-merger integration.

The SWOT analysis conducted in the article indicates that ESG integration presents both opportunities and challenges for companies. Increased investor trust, improved reputation, and better risk management represent ESG's strengths, while implementation costs, integration challenges, and the risk of greenwashing may pose obstacles for companies. However, with appropriate management of these factors, ESG can become a key growth strategy component that supports building long-term value and sustainable development.

In conclusion, implementing ESG in M&A processes is a step towards modern, responsible management that addresses the needs of the contemporary market and stakeholder expectations. The article suggests that further research on ESG practices should focus on a more detailed understanding of the mechanisms that enable entities to maximize market value and sustainable development in the long term.

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