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Corporate Sustainability and M&A Acquisition Premiums

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ABSTRACT

This research explores the relationship between Corporate Sustainability and acquisition premiums in Mergers and Acquisitions (M&A) processes, focusing on Environmental, Social, and Governance (ESG) performance. While environmental concerns have gained prominence, this study investigates the underexplored impact of target firms' ESG scores on M&A premiums. By examining 325 M&A transactions, the research uncovers a positive correlation between higher ESG scores and increased acquisition premiums, suggesting that target companies with strong sustainability profiles can command better negotiating power. The findings highlight that a high ESG rating enhances both the target's value and the acquiring firm's potential to realize synergies and improve economic performance. Additionally, the study examines whether the relationship between M&A premiums and ESG scores is stronger for acquirers with high Corporate Social Responsibility (CSR) standards.

1 | Introduction

An ecological transition is nowadays taking place, deemed as necessary to preserve the environment and to satisfy basic energy needs at a global level. It is in this context that the relationship between M&A and Corporate Sustainability becomes important. The growing environmental concerns are of course not the only reason for acquiring other companies; however, their recent relevance brings us to question whether these factors are considered and play a role in M&A processes.

The professional firm Herbert Smith Freehills, in its report titled "M&A in 2020—the new normal", argues how 83% of corporate finance professionals believes how companies' Corporate Social Performance has an influence on M&A's decisions processes. More precisely, the ESG performance of a target firm can impact three main phases of an acquisition process: the target selection phase, the due diligence, and the financing phase (Bauer and Hann 2010; Radhouane et al. 2018). This implies that shareholders and investors are interested in how companies perform from an economic, social, and governmental standpoint.

The research makes a significant contribution to the existing literature on Corporate Sustainability in the context of M&A by focusing on the relationship between target companies' social performance and the M&A premium. Despite the vast literature, this specific relationship has been underexplored, with few studies directly investigating it. While past research has laid some groundwork, there remains a need for further empirical investigation to confirm and understand the complex relationship between Corporate Sustainability and M&A premiums. This research seeks to contribute to this understanding by exploring the empirical evidence for a significant relationship between M&A premiums and target firms' Corporate Sustainability, under both an aggregate perspective as well as by analyzing the environmental, social, and governance pillars individually. To further extend the study of this relationship, an ancillary analysis is performed, to understand whether the correlation between M&A premium and target's ESG score is stronger for acquirers with high quality CSR or vice versa.

This paper thus fills the existing gap related to the lack of a commonly accepted consensus in the literature on the nature and

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strength of the relationship between firms' overall Corporate Sustainability, measured through ESG scoring, and acquisition premiums and it expands the understanding on the value-enhancing role that CSR has in the M&A market.

2 | Literature Review

2.1 | Theoretical Framework: Stakeholder Theory and Quadruple Bottom Line Sustainability

The Resource-Based View (RBV) posits that companies can gain competitive advantage through resources that are rare, valuable, non-imitable, and non-substitutable (Barney 1991; Barney 2001). Research on corporate responsibility (CR) suggests that stakeholder practices, operationalized through CR, do not lead to financial performance losses and may even yield slight gains (Margolis and Walsh 2001, 2003; Orlitzky et al. 2003). Studies also indicate that better stakeholder relationships can enhance corporate reputation and financial performance (Berman et al. 1999; Waddock and Graves 1997a, 1997b). This implies that improved stakeholder practices can serve as a strategic resource, meeting the RBV criteria. Stakeholders, defined as those who can affect or are affected by the firm's objectives, include primary groups such as investors, customers, employees, and suppliers, and secondary groups like government and community (Freeman 1984; Clarkson 1995; Waddock 2006). Stakeholder relationships matter because stakeholders make legitimate claims on companies, take risks, and wield influence based on power, urgency, or legitimacy (Hill and Jones 1992; Mitchell et al. 1997). Company practices related to stakeholders can impact stakeholders and the environment, potentially contributing to or detracting from the company's success. Good corporate citizenship is associated with progressive stakeholder practices (Waddock and Smith 2000). Proponents of instrumental stakeholder theory argue that companies adopt good stakeholder practices because it benefits their bottom line, while others view such practices as essential for building long-term relationships based on ethical considerations (Donaldson and Preston 1995; Freeman 1999). Regardless of the rationale, good stakeholder practices can serve as a valuable, rare, inimitable, and non-substitutable resource, aligning with the RBV framework. M&As can disrupt stakeholder-related practices, potentially leading to the elimination or modification of such practices as part of cost-reduction measures (Hitt et al. 1991; Hoskisson et al. 1994; Ahuja and Katila 2001). The net impact of M&A on stakeholder-related practices can influence the company's competitive advantage derived from these resources. Making profits through competitive entrepreneurial activity is fundamental for driving economic progress and fostering sustainable development. Corporate governance plays a critical role in enabling and promoting economic enterprise, recognizing entrepreneurship as a primary responsibility (Charkham 2005). Entrepreneurs drive progress by implementing new combinations that extend to all aspects of the triple bottom line: competitive productivity for profit, quality of life for people, and sustainability of the planet's resources (Schumpeter 1911/1934). However, traditional triple bottom line (TBL) accounting frameworks often fall short in emphasizing the foundations of sustainable prosperity. To address this gap, a quadruple bottom line (QBL) framework has been proposed, comprising environmental, social, governance, and economic performance as the corporate sustainability pillars. Past literature has investigated over the causal interrelations of the

aforementioned pillars. Budsaratragoon and Jitmaneroj (2019) demonstrated how corporations operating in developed European markets demonstrate the highest levels of corporate sustainability. Consistent with the social impact hypothesis, the performance in environmental, social, and governance aspects positively influences economic performance. Furthermore, their results suggest the existence of causal relationships and synergistic effects among all four pillars of corporate sustainability. As per the institutional theory, the patterns of causal directions and the significance of these pillars vary based on the levels of market development and geographical regions. Overall, the social and environmental pillars emerge as particularly significant drivers of corporate sustainability.

Recent literature reinforces these findings by focusing on the role of ESG (environmental, social, governance) disclosures in driving firm performance. For example, Ching and Gerab (2017) highlight that sustainability disclosures positively influence stakeholder perception, leading to improved profitability and long-term market value. Similarly, Alon and Vidovic (2015) emphasize that ESG ratings serve as an essential indicator of a company's sustainable efficiency, with higher ESG scores correlating with better financial outcomes.

There has been growing attention to the individual and collective impacts of ESG pillars on firm performance. Cek and Eyupoglu (2020) show that the social and governance pillars significantly enhance a firm's economic performance due to the long-term value they create for shareholders. Likewise, Paolone et al. (2022) find that the governance pillar exerts a stronger influence on market performance compared to the environmental and social pillars. However, ESG pillars are interconnected, and focusing exclusively on one can be reductive. Almeyda and Darmansya (2019) demonstrate that while the environmental pillar positively correlates with ROC and stock price in G7 countries, the social and governance pillars show no significant relationships. These findings underscore the need to consider the broader context, including geographical and sectoral variations.

In Italy, the literature indicates mixed outcomes. Studies like those of Nicolò et al. (2021) suggest that board diversity positively impacts ESG disclosure. However, findings diverge regarding financial performance. A study on newly listed Italian companies over seven years reveals a significant impact of ESG performance, particularly the environmental pillar, on ROA (Bollazzi and Risalvato 2018). On the contrary, analyses in specific sectors such as banking indicate that while overall ESG performance improves financial outcomes, individual pillars may have varying effects. For example, the social pillar negatively impacts ROA and ROE but positively affects Tobin's Q (Buallay 2019).

Emerging research also explores the operational aspects of ESG's impact, such as its influence on income statement figures and returns on investment. While ESG performance positively affects credit ratings (Devalle et al. 2017) and reduces the cost of debt (Raimo et al. 2021), these benefits vary based on disclosure quality and industry-specific factors. The assurance of ESG data quality and third-party auditing, as recommended by Del Giudice and Rigamonti (2020), could enhance the credibility and materiality of ESG disclosures.

2.2 | Corporate Sustainability and M&A Premia

Although the academic literature related to the concept of corporate social responsibility in the context of Mergers and Acquisitions is vast, research directly focusing on the relationship between target companies' sustainability and the M&A premium has been little investigated so far. The studies related to this domain are rare and conflicting, and a common answer has yet to be found by academia.

The most relevant and comprehensive study investigating the relationship between companies' CSR attributes and the value of the acquisition premium is the one by Malik (2014). Malik's study proves that there exists a robust and positive relationship between ESG performance and the acquisition premium paid by bidders. This work represents an important pillar within the literature, as not only it is the first one to question such type of relationship, but also because, after an in-depth analysis, the author concludes that target firm's environmental attribute has the strongest impact on acquisition premiums, while opposing and contrasting conclusions are found between the premium and the governance and social variables.

Choi et al. (2015) also contribute to the literature on this subject. The peculiar aspect that the authors discover a strong, significant, and negative relationship between the bid premium and Corporate Social Irresponsibility (CSiR). As a higher level of CSiR is correlated to greater information asymmetries, Choi et al. conclude that when the acquirer operates in more difficult contexts, such as in the case of cross-border acquisitions, the premium would be less pronounced, or otherwise the bidder would even require a discount to purchase the target firm.

Starting from these same hypotheses, Maung et al. (2020) also reach similar findings. The authors argue that the acquisition premium is negatively correlated with the socially irresponsible behavior (CSiR) of the target firm. Therefore, those firms which have reported a higher number of negative accidents from an ESG standpoint, would be recognized a lower acquisition premium compared to their better socially performing peers.

Although both Choi et al. and Malik find a positive and robust answer to the relationship between the acquisition premium and target firms' corporate sustainability, their studies are limited solely to US-based M&A deals. Differently from the two authors, Gomes and Marsat (2018) instead analyze a sample of 588 global M&A transactions. The two authors argue that acquisition premiums are positively correlated with overall ESG scores. Furthermore, they also study the correlation of bid premiums with the two social and environmental dimensions singularly, excluding though the governance one. Interestingly, the two authors find out how the social pillar is positively correlated with the bid premium only when target and acquirer belong to two different countries (the case of cross-border transactions). Their result implies that acquiring firms assign importance to the social dimension of ESG factors only when buying foreign targets, as cross-border transactions typically cause a higher level of asymmetric information. Therefore, to limit the amount of information asymmetry inherent to such transactions, bidding companies are willing to pay a greater price for those targets

that, through their enhanced social effort, can moderate the risk and the uncertainty of the deal.

To build on Gomes and Marsat's work, Qiao and Wu (2019) study the effect of target firm's corporate sustainability on its acquisition premium solely for cross-border deals. Qiao and Wu demonstrate how the effect of corporate sustainability on the acquisition premium varies depending on the institutional environments both the target and the acquirer are embedded in. For the same level of social responsibility, in those deals affected by greater institutional heterogeneity (intense difference between target' and acquirer's culture and institutions), the acquiring company is more hesitant to pay a higher premium to recognize the target enhanced social performance; vice versa, in contexts of low cultural and institutional distance between the two parties, acquirers are more willing to pay higher bidding premiums to recognize the greater ESG performance of target firms.

These findings were later corroborated by Hussaini et al. (2021), who explored the relationship between acquirers' CSR performance and M&A premiums. Their research, based on U.S. M&A transactions from 1992 to 2014, highlighted that acquirers with stronger CSR performance are more likely to pay higher premiums for target firms, suggesting that agency-related motivations drive these decisions. However, recent studies by Yen and André (2019) and Jost et al. (2022) present conflicting evidence. Yen and Andre, focusing on emerging markets, found no significant relationship between CSR and M&A premiums, although CSR was positively linked to long-term operational performance. Jost et al. (2022) demonstrated that when acquirers' CSR performance is factored into the equation, the relationship between target CSR and M&A premiums becomes insignificant. Therefore, the relationship between CSR and M&A premia cannot be fully explained by the shareholder or stakeholder theory alone.

Furthermore, the COVID-19 pandemic has introduced additional complexities. Tampakoudis et al. (2021) showed that during the pandemic, CSR performance had a negative association with acquirers' shareholder valuation, suggesting that the costs of CSR activities outweighed their perceived benefits in uncertain times. This finding underscores the evolving nature of the relationship between CSR and M&A premiums, particularly under crisis conditions.

A notable exception to the studies above-mentioned is the research conducted by Chen and Gavius (2015), who evaluate the relationship between target ESG scores and the per share offering price of 134 M&A deals occurred in Israel. More specifically, the two authors do not find any positive correlation between the two variables, implying that strategic buyers do not value positively the corporate sustainability of target companies, and hence do not pay more for socially responsible firms.

The rationale behind a positive relationship between a target firm's ESG performance and the acquisition premium is hence attributed by literature to the value-enhancing synergistic potential of target firms with higher ESG scores. The greater the social performance level of target firms, the lower is indeed the probability that such firms could face potential risks in their future, such as legal or reputational ones (Ajay and

Mmutle 2021), that could alter the value of the combined firm (Berchicci et al. 2012). Similarly, it has been demonstrated by Aktas et al. (2011) that the M&A operations which are the most synergic are those where the target exhibits greater ESG scores. It is therefore possible to assume that the ESG performance of a company which is about to be purchased is interpreted by the bidder as a signal (Connelly et al. 2011; Yasar et al. 2020) related to the target's overall general quality, and could justify the payment of a lower or higher acquisition premium.

Another factor explaining the rationale behind premium and ESG score is that higher corporate social responsibility levels are often paired with greater transparency (i.e., lower information asymmetry in a due diligence process) (Hubbard 1998; Ioannou and Serafeim 2012). Therefore, as acquirers are deeply interested in better understanding the future risks and benefits of the company targeted in the M&A process, they are going to reward those companies with better ESG scoring with an increased acquisition premium. The high ESG performance of the target indeed allows the bidder to better assess, compared to the market, the organizational characteristics and intrinsic value of the firm about to be acquired.

What follows on this research therefore tries to understand whether this rationale can be empirically explained, by looking, in a different way compared to the studies afore mentioned, for a positive and robust relationship between M&A premiums and target's level of CSR.

3 | Methodology

3.1 | Sample Selection

Three steps have been mainly followed to build the final sample used in the analysis: the identification of worldwide M&A transactions, the collection of target firms' ESG scores, and the retrieval of companies' financial data. Firstly, a sample of 555,717 global M&A transactions from 2010 to 2020 was retrieved through the *Refinitiv* database. In line with prior literature on the subject and standard practice, the original sample has been reduced to 325 worldwide transactions, following the steps explained in the Table 1.

Firstly, incomplete deals have been excluded from consideration, followed by non-public corporations due to the unavailability of information on these entities and their transactions. Transactions valued below 100 million US dollars have also been omitted, with the aim of directing attention towards larger transactions. Such larger deals are typically associated with more readily available data, thereby ensuring a more robust and representative sample size for meaningful analysis and enhancing the statistical validity of the findings. Additionally, larger transactions often wield a greater influence on financial markets and are subject to heightened scrutiny from investors and stakeholders. Consequently, deals with potentially significant impacts on corporate sustainability practices and financial performance are prioritized. Furthermore, the exclusion of financial sector targets serves to mitigate potential confounding factors associated with the distinct characteristics of financial services firms. These entities operate within unique regulatory

frameworks and face differing environmental and social considerations compared to companies in other industries. The most drastic cut in the creation of the sample derives from the exclusion of a big part of the deals due to the unavailability of the target's ESG information on the *Refinitiv* platform. This witnesses the fact that, despite ESG scoring practices have become more and more widespread recently, the actual number of companies that are subject to social, governance and environmental ratings is still quite limited. As a last step, the final sample was eventually merged with the Orbis database to obtain the necessary financial information for the control variables. The number of deals ranges from 10 in 2013 to 56 in 2019, and include transactions with specific characteristics, such as 115 cross-border deals or 195 cross-industry deals (buyer and target come from two different industries). The countries and industries involved in the sample appear in Tables 2 and 3, respectively. The US represents the largest proportion with 66% of targets and 55% of acquirers, followed by Canada. Overall, 29 countries are represented. Industries that are the most represented are Health Care, Energy and Technology.

3.2 | Measuring Corporate Sustainability

This research employs the combined ESG score to measure companies' corporate sustainability, which assesses firms' social, environmental, and governance performance. Moreover, this score also considers the company's involvement in controversies related to the above-mentioned areas. We hence attribute to each deal the latest ESG score available on *Refinitiv* before the M&A transaction announcement. The category weights and the meaning behind each scoring, which ranges from 0 to 100, are described by *Refinitiv* as Table 4 and Table 5 highlight.

3.3 | Computing Acquisition Premiums

Premiums are usually computed based on the Market Value Premium (Cheng and Chan 1995; Raad 2012):

$$MVPREM_i = \frac{p_i^*}{p_i} - 1$$

TABLE 1 | Sample Selection Process Summary.

Announced M&A: Transaction worldwide from 01/01/2010 until 31/12/2020	555,717
Less: Uncompleted deals	428,268
Less: Non-public acquirers and targets	3,518
Less: Deals below 100 million US dollars	2,100
Less: Buy backs and acquisitions of remaining interest	1,932
Less: Financial sector's targets	1,606
Less: Targets lacking ESG scores	372
Less: Deals missing key financial information	325

TABLE 2 | Distribution of M&A transactions based on target' and acquirer's home country.

Country	#Target	Proportion (%)	#Acquirer	Proportion (%)
USA	216	66.46	181	55.69
Canada	35	10.77	33	10.15
UK	4	1.23	17	5.23
Australia	32	9.85	16	4.92
France	3	0.92	14	4.31
Japan	4	1.23	12	3.69
Germany	1	0.31	9	2.77
India	4	1.23	5	1.54
China	—	0.00	4	1.23
Sweden	2	0.62	3	0.92
Switzerland	1	0.31	3	0.92
South Korea	2	0.62	3	0.92
South Africa	4	1.23	3	0.92
Other	17	5.23	22	6.77
Total	325	100	32.5	100

TABLE 3 | Distribution of M&A transactions based on target' and acquirer's industries.

Industry	#Target	Proportion (%)	#Acquirer	Proportion (%)
Health care	64	19.69	65	20.00
Technology	46	14.15	48	14.77
Energy	50	15.38	45	13.85
Basic materials	42	12.92	43	13.23
Industrials	41	12.62	37	11.38
Consumer discretionary	40	12.31	32	9.85
Consumer staples	13	4.00	16	4.92
Telecommunications	11	3.38	12	3.69
Utilities	11	3.38	10	3.08
Financials	0	0.00	9	2.77
Real Estate	7	2.15	8	2.46
Total	325	100	325	100

Where $MVPREM_i$ is the market value acquisition premium offered to firm i , defined as the effective offer price per share, p_i^* , as a percentage premium over the target firm's market share price, p_i , a specified amount of time prior to the takeover announcement.

When selecting a defined amount of time, it is crucial to compute the premium at a date which is far enough from the deal announcement to be unaffected by market dynamics linked to the transaction, but close enough so that it reflects a timely and more precise valuation. Before the official announcement date, we indeed often observe leaks of privileged information,

so-called rumors, that ultimately affect the target's stock price even before the publication of all the transaction details, leading the premium to be impacted by the abnormal returns that companies usually experience before going public.

Previous literature often picks stock prices one week, one month, or 42 days prior to the first announcement. However, if the date of the stock price selected is contaminated by one-off events occurring in the market or affecting the target firm on that specific day, undue influences would affect the share price selected. To minimize them, an average of the target's stock price within a time-window prior to the announcement

TABLE 4 | ESG Score category weights.

Pillar	Category	Category weights
Environmental	Emissions	0.15
	Resource use	0.15
	Innovation	0.13
Social	Community	0.09
	Human rights	0.05
	Product responsibility	0.04
	Workforce	0.13
Corporate governance	Shareholders	0.05
	CSR strategy	0.03
	Management	0.17

Source: Refinitiv

TABLE 5 | Definition of ESG Score range.

Score range	Quartile	Description
0 to 25	First	Scores within this range indicate poor relative ESG performance and insufficient degree of transparency in reporting material ESG data publicly
> 25 to 50	Second	Scores within this range indicate satisfactory relative ESG performance and moderate degree of transparency in reporting material ESG data publicly
> 50 to 75	Third	Scores within this range indicate good relative ESG performance and above average degree of transparency in reporting material ESG data publicly
> 75 to 100	Fourth	Scores within this range indicate excellent relative ESG performance and high degree of transparency in reporting material ESG data publicly

Source: Refinitiv

date was computed, corresponding to a range of 45 to 15 days. Hence, the dependent variable has been estimated as the acquisition price per share minus the 30-day average ($-45, -15$) of the target's stock price per share, deflated by the 30-day average of the target's stock price per share. The calculation of the premium with an average method is one of the key distinctive elements of this paper with respect to other authors' works on the same subject.

3.4 | Control Variables

Drawing from prior research in this field, a comprehensive array of control variables has been integrated into the analysis, each chosen for its theoretical relevance. *Size*, representing the natural logarithm of the target's total full-time employees at the previous year-end, is included to capture the company's scale and organizational complexity (Nguyen and Phan 2017; Alexandridis et al. 2012). It is expected to have a negative effect on the acquisition premium, indicating that larger firms may command lower premiums due to their perceived stability and reduced growth potential. Similarly, *PTB* (Price-to-Book Value) is incorporated to gauge the market's valuation of a firm relative to its accounting value, reflecting its financial health and growth prospects (Betton et al. 2009). It is anticipated to have a negative effect on the acquisition premium, as higher valuation ratios may suggest overvaluation, leading to lower premiums. *ROE* (Return on Equity) measures a firm's profitability relative to shareholders' equity, serving as an indicator of its efficiency in generating profits from shareholders' investments (Gomes and Marsat 2018). It is expected to have a negative effect on the acquisition premium, as higher returns may signal a higher price demanded by the target company. *Leverage*, represented by the ratio of target's current assets over current liabilities, offers insight into the extent of a firm's reliance on debt financing, thereby influencing its financial stability and risk profile (Dionne et al. 2015). It is anticipated to have a positive effect on the acquisition premium, as higher leverage may indicate greater financial risk and thus require higher premiums to compensate for the increased risk. The *Runup* variable, calculated as the difference between the target's share price on the day before the announcement and one month before the announcement, divided by the price of the previous month, captures market sentiment and anticipatory effects surrounding the deal announcement (Barai and Mohanty 2014). It is expected to have a positive effect on the acquisition premium, as higher market anticipation may lead to higher premiums. *Liquidity*, reflected by the current ratio, signifies a firm's ability to meet short-term financial obligations and can indicate its financial health and risk exposure (Ayers et al. 2003). It is expected to have a positive effect on the acquisition premium, as higher liquidity may signal financial strength and reduce perceived risk, leading to higher premiums. The *Hostile* variable, represented as a dummy variable equal to one in the case of a contested bid, accounts for the nature of the acquisition process and its potential impact on deal outcomes (Chen and Chen 2020). Similarly, the *Cash* dummy variable, equal to one if the transaction is fully paid in cash, captures the financing structure of the deal and its implications for both the acquirer and the target (Brown and Ryngaert 1991; Savor and Lu 2009). These variables are expected to have positive effects on the acquisition premium, as hostile bids and cash payments may indicate higher competition or stronger financial position, leading to higher premiums. *Cross Border*, indicated by a dummy variable equal to one if the target and acquirer come from different countries, acknowledges the additional complexities introduced by cross-border deals related to cultural, legal, and regulatory differences (Rossi and Volpin 2004). It is anticipated to have a positive effect on the acquisition premium, as cross-border deals may involve higher transaction

costs or synergies, leading to higher premiums. *Horizontal*, represented as a dummy variable equal to one if the target and acquirer belong to the same industry, considers the strategic rationale behind the acquisition and potential synergies or competitive implications (Poornima and Subhashini 2013). It should have a positive effect on the acquisition premium, as industry-related synergies may result in higher premiums. *Deal Length* refers to the time elapsed between the announcement date and the effective completion date of the deal, capturing the duration and complexity of the acquisition process (Thompson and Kim 2020). It is anticipated to have a positive effect on the acquisition premium, as longer deal durations may indicate higher complexity or negotiation difficulties, leading to higher premiums. Lastly, the *Post-Covid* variable, represented as a dummy variable equal to one if the deal occurred from the outbreak of the pandemic onwards, accounts for the potential influence of the pandemic on deal dynamics and outcomes. It is expected that Post-Covid would have a positive effect on the acquisition premium, as deals occurring during or after the pandemic may involve higher uncertainty or strategic considerations, leading to higher premiums.

Outliers are dealt with by winsorizing the top and bottom 1% of continuous variables. Few of the variables above-mentioned have then been excluded from our model after the first regression analysis had been carried out, applying a backward variable selection procedure aimed at eliminating those independent variables with the highest p-values, to avoid possible biases and to arrive at a model which exhibited the most significant results possible.

4 | Findings

4.1 | Summary Statistics

Table 6 represents the correlation among the model variables. Notably, Liquidity (0.35) has a strong positive correlation with Bid Premium, indicating that higher liquidity leads to higher bid premiums. Moderate positive correlations are also found with Post-Covid (0.24) and Leverage (0.23), suggesting these factors increase bid premiums. Conversely, Deal Length (−0.14) and Size (−0.12) show weak negative correlations, implying longer deals and larger firm sizes may slightly lower bid premiums. The ESG Combined Score is strongly correlated with Environmental Score (0.76), Social Score (0.77), and Governance Score (0.69), highlighting their interconnected nature. Size (0.29) and Deal Length (0.26) have weak positive correlations with the ESG Combined Score, indicating larger firms and slightly longer deals are associated with higher ESG scores. Very weak positive correlations are observed with Cross-Border (0.10), Run up (0.10), and Hostile (0.13). Other notable correlations include Liquidity's strong positive correlation with Bid Premium and its weak negative correlations with several ESG scores, suggesting that liquid firms might prioritize financial metrics over ESG concerns. Deal Length shows a weak positive correlation with ESG scores and a weak negative correlation with Bid Premium, indicating complex interactions between deal characteristics, ESG performance, and bid outcomes. Post-Covid exhibits a moderate positive correlation with Bid Premium but minimal correlation with other variables, emphasizing its specific impact on bid premiums.

Table 7 represents summary statistics. Despite the presence of few outliers, the distribution of the premium is highly concentrated around the mean value of 44%, which is consistent with M&A literature, placing the average offering price within a given transaction in the range of a 40% premium with respect to the target's market price. This confirms that the way in which the premium has been calculated in the paper is consistent with the trends we can witness in the market. The average of the combined ESG score is 31.5, with a standard deviation of 15.4.

Robustness specifications for multicollinearity, normality and heteroskedasticity were tested. The former was tested by using the variance-inflation factor (VIF), which for none of the variables exceeded the cut-off level of 10. It is therefore possible to conclude that multicollinearity is not an issue of concern in this study. Also, the other two assumptions passed the respective tests as well.

4.2 | ESG and Acquisition Premiums

After having completed the robustness analysis, the following regression was run:

$$\begin{aligned} \text{Acquisition Premium}_i = & \beta_0 + \beta_1 \text{ESG}_i + \beta_2 \text{Employees} + \beta_3 \text{ROE} + \\ & + \beta_4 \text{Leverage} + \beta_5 \text{Runup} + \beta_6 \text{Liquidity} + \\ & + \beta_7 \text{Post Covid} + \beta_8 \text{Cash} + \varepsilon_i \end{aligned}$$

Table 8 displays the results of the four regressions conducted. The results shown above reveal that target overall corporate sustainability is positively associated with acquisition premiums, as hypothesized, therefore implying that for each unit increase in the target firm's ESG Combined score, ceteris paribus, the bid premium increases on average by 0.7 percentage units. To complement these findings, the impact of CSR performance in each of the three underlying dimensions – environment, social and governance – was analyzed. Results are reported in columns 2, 3 and 4, and show that, overall, all the three pillars are positively related to bid premiums, which confirms that acquirers assign importance to targets' corporate sustainability, as hypothesized. More precisely, the regression coefficients imply that acquisition premiums increase on average by 0.4, 0.5, and 0.3 percentage points for each one unit-increase in environmental, social and governance scores, respectively. The slightly higher coefficient for the social score leads us to conclude that this factor, among the three, is the one which influences premiums the most. Therefore, corporate policies focused on enhancing the relationships with employees or with external institutions, promoting fundraising, scholarships, and investment in local projects, committing to diversity and human rights, or adopting fair labor practices are more positively related to higher bid premiums compared to those policies referring to the corporation effects on the planet (environmental) or on internal political functions (governmental). Anyhow, the overall Combined ESG score remains the strongest and most significant variable to positively contribute to the dimension of the M&A premium.

TABLE 6 | Variables' correlation in the model.

*	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1)	1																
(2)	0	1															
(3)	-0.02	0.76	1														
(4)	0.03	0.77	0.61	1													
(5)	-0.1	0.69	0.45	0.32	1												
(6)	-0.12	0.29	0.32	0.3	0.23	1											
(7)	0.04	-0.1	-0.14	-0.07	-0.07	-0.07	1										
(8)	0.1	-0.02	-0.06	0.04	-0.08	-0.04	0.02	1									
(9)	0.23	-0.14	-0.13	-0.14	-0.08	-0.1	0.11	0.16	1								
(10)	0.09	0.1	0.08	0.16	0.08	0.25	0.03	-0.01	0.02	1							
(11)	0.35	-0.14	-0.2	-0.02	-0.21	-0.18	-0.01	0.04	0.15	0.04	1						
(12)	-0.14	0.26	0.31	0.21	0.26	0.17	-0.09	-0.06	-0.08	0.22	-0.16	1					
(13)	0.03	0.03	0.07	-0.09	0.09	-0.19	0	-0.05	0.06	-0.07	-0.11	0	1				
(14)	0.01	0.1	0.09	0.09	0.04	-0.13	0.01	0.07	-0.03	-0.03	0.07	-0.03	0.08	1			
(15)	0.24	-0.04	-0.01	-0.05	-0.06	-0.13	-0.03	-0.02	-0.01	0.02	0.06	-0.16	0.07	-0.05	1		
(16)	0.18	0.04	0.06	0.03	-0.03	-0.15	0.13	0.11	-0.09	-0.05	0.23	-0.1	-0.02	0.28	0.03	1	
(17)	-0.03	0.13	0.07	0.1	0.1	-0.05	-0.04	-0.01	-0.1	-0.04	0.03	-0.01	0.02	0.09	-0.04	0.16	1

* (1) Bid Premium, (2) ESG Combined, (3) Env. Score, (4) Social Score, (5) Gov. Score, (6) Size, (7) Price to Book, (8) ROE, (9) Leverage, (10) Run up, (11) Liquidity, (12) Deal Length, (13) Horizontal, (14) Cross-Border, (15) Post-Covid, (16) Cash, (17) Hostile.

TABLE 7 | Summary of descriptive statistics of the variables in the model.

	N	Mean	Median	SD	Min	p25	p75	Max
Bid premium	325	0.44	0.33	0.64	(0.91)	0.14	0.55	6.55
ESG Combined	325	31.52	28.44	15.43	3.00	20.07	40.09	86.36
Env. score	325	19.82	11.90	22.62	0.00	0.00	33.49	95.78
Social score	325	36.40	33.57	18.43	2.12	22.64	48.27	86.20
Gov. score	325	40.93	38.93	21.98	3.37	22.12	59.48	87.24
Size	325	6983	2117	12,004	5	550	8852	115,000
Price to book	325	3.17	2.57	2.07	0.86	1.53	4.58	7.24
ROE	325	0.04	0.08	0.39	-1.61	-0.05	0.18	2.03
Leverage	325	0.34	0.28	0.25	0.00	0.16	0.47	0.97
Run up	325	0.04	0.02	0.15	-0.54	-0.03	0.09	0.86
Liquidity	325	2.40	1.88	1.64	0.78	1.19	3.07	6.02
Deal length	325	158.00	135.00	85.01	53.00	92.00	215.00	319.00
Horizontal	325	0.38	0.00	0.49	0.00	0.00	1.00	1.00
Cross-border	325	0.36	0.00	0.48	0.00	0.00	1.00	1.00
Post-Covid	325	0.10	0.00	0.30	0.00	0.00	0.00	1.00
Cash	325	0.18	0.00	0.39	0.00	0.00	0.00	1.00
Hostile	325	0.01	0.00	0.11	0.00	0.00	0.00	1.00

TABLE 8 | Regression analyses with ESG scores and bid premiums. Coefficient (*p*-value).

Bid premium	Overall	Env.	Social	Governance
(1) Combined score	0.007 (0.006)***			
(2) Environmental score		0.004 (0.018)**		
(3) Social score			0.005 (0.018)**	
(4) Governance score				0.003 (0.043)**
Control variables:				
Size	-0.015 (0.370)	-0.013 (0.448)	-0.014 (0.420)	-0.007 (0.688)
ROE	-0.196 (0.018)**	-0.200 (0.016)**	-0.191 (0.022)**	-0.195 (0.019)**
Leverage	0.460 (0.000)***	0.455 (0.000)***	0.459 (0.000)***	0.427 (0.001)***
Runup	1.521 (0.000)***	1.525 (0.000)***	1.493 (0.000)***	1.532 (0.000)***
Liquidity	0.069 (0.001)***	0.069 (0.001)***	0.061 (0.002)***	0.069 (0.001)***
Post-Covid	0.213 (0.041)**	0.207 (0.048)**	0.222 (0.034)**	0.225 (0.032)**
Cash	0.192 (0.020)**	0.216 (0.008)***	0.203 (0.013)**	0.210 (0.011)**
Constant	-0.101 (0.529)	0.033 (0.828)	-0.039 (0.801)	-0.052 (0.742)
R-squared	32.31%	31.90%	31.90%	31.54%
Adj. R-squared	30.60%	30.10%	30.10%	29.80%
Prob > F	0.000	0.000	0.000	0.000
N	325	325	325	325

****p* < 0.01.***p* < 0.05.**p* < 0.1.

Generally, the other control variables exhibit significant and coherent results with those of previous authors. An interesting and novel result which is though relevant to highlight from the regressions conducted is represented by the variable post-Covid, which so far has never been employed by literature. Our analysis reveals that on those deals that occurred from the pandemic onwards we have on average witnessed higher acquisition premiums, contrarily to what someone could expect. A possible explanation to what can seem an inconsistency with economic trends is linked to the fact that target shareholders, during periods of high market volatility such as 2020, do not adjust their price expectations (Tampakoudis et al. 2021). This implies that they are willing to implement business combinations only at a price which they consider appropriate, usually corresponding to pre-crisis valuation, fearing that they could obtain a sub-optimal offering price (The Boston Consulting Group 2009). Thus, even though the value of companies' shares might decrease due to the economic uncertainty of the market, the offering price stays equal, causing the acquisition premium to increase. This reasoning would also explain why in 2020 there has been a lower number of M&A transactions compared to the previous years. Only those acquiring firms willing to pay the requested price did ultimately perform an acquisition.

4.3 | Low vs. High ESG Acquirers

As up to now the relationship between the premium and corporate sustainability has been studied without making any

differentiation on the type of acquirer involved in the transaction, this part of the research investigates whether there exists any asymmetry in the way in which acquiring firms perceive the relationship between the premium and target's corporate sustainability, based on bidders' own level of corporate sustainability. The decision to analyze this asymmetry is rooted in the idea that acquirers with different levels of ESG performance are likely to exhibit heterogeneous motivations and capabilities in leveraging the target's corporate sustainability, which could have a direct impact on the acquisition premium. To analyze this novel approach, we have considered an additional dummy variable on whether the Acquirer's ESG is greater than or smaller than the median ESG score for acquirers and an interaction term between ESG score for the target and a dummy for when such score is greater than the 75th percentile. This interaction term is particularly interesting because it allows us to isolate the premium associated with acquiring the best-performing ESG companies while accounting for the distinct ESG score level of the targets. By focusing on this subset of high ESG performers, we aim to uncover whether their perceived value in transactions is amplified depending on the acquirer's sustainability stance. Moreover, to take into account other possible spillovers, we have included year fixed effects, as well as acquirer country and target industry fixed effects to rule out possible unobserved effects that may bias our results. These control variables are essential for ensuring that our findings reflect the specific dynamics of ESG-related asymmetries in acquisition premiums, rather than being confounded by temporal, geographic, or industry-specific factors.

TABLE 9 | Regression analyses with ESG scores and bid premiums, high- vs. low-ESG acquirers. Column (1) considers the entire sample of acquirers, column (2) considers high ESG scored acquirers only, while column (3) those with a low ESG score.

Bid premium	(1)	(2)	(3)
ESG combined score	-0.0003 (0.965)	-0.006 (0.506)	0.003 (0.653)
ESG Combined * high ESG	0.002 (0.055)*	0.005 (0.255)	0.007 (0.001)***
Control variables:			
Size	0.000 (0.586)	0.000 (0.962)	0.001 (0.898)
ROE	-0.004 (0.052)*	-0.217 (0.100)*	-0.005 (0.094)*
Leverage	0.466 (0.001)***	0.481 (0.040)**	0.334 (0.035)**
Runup	0.003 (0.100)*	0.023 (0.065)*	0.017 (0.000)***
Liquidity	0.053 (0.000)***	0.069 (0.001)***	0.045 (0.000)***
Post-Covid	0.367 (0.001)***	0.526 (0.002)***	0.128 (0.001)***
Cash	0.203 (0.022)**	0.333 (0.010)***	0.226 (0.056)*
Constant	0.001 (0.994)	0.185 (0.584)	0.066 (0.673)
R-squared	21.72%	24.95%	31.71%
Adj. R-squared	19.22%	20.50%	27.66%
Prob > F	0.000	0.000	0.000
N	325	163	162

*** $p < 0.01$.

** $p < 0.05$.

* $p < 0.1$.

The additional regression analyses tested is therefore the following, and results are shown in Table 9.

$$\begin{aligned} \text{Acquisition Premium} = & \beta_0 + \beta_1 \text{ESG Combined} + \beta_2 \text{Employees} \\ & + \beta_3 \text{ROE} + \beta_4 \text{Leverage} + \beta_5 \text{Runup} \\ & + \beta_6 \text{Liquidity} + \beta_7 \text{Post ESG Combined} \\ & * \text{High-ESG} + \beta_8 \text{Cash} \\ & + \beta_9 \text{High_ESG_Acq} + \alpha_c + \alpha_{\text{ind}} + \lambda_t + \varepsilon_i \end{aligned}$$

The results shown on Table 9 highlight interesting results with respect to the former analyses for what concerns the key control variables employed in the two models. In terms of the key relationship under study, the regression depicts a positive and strong correlation between target firms with high ESG scores and the bid premium. In column (1), the analysis considers the entire sample of acquirers, including both low and high ESG score companies, providing a comprehensive view of the general relationship between the target's ESG score and the acquisition premium. We see, from columns (2) and (3), that such results have actually different effects if we split the sample between buyers with high ESG scores (column (2)) and those with a low one (column (3)). Indeed, we see that now the coefficient on the interaction between ESG and high ESG score for the target is now significant only when we consider buyers with low ESG as in column (3).

Trying to interpret the results, it is therefore possible to argue that more poorly performing companies with regards to environmental, social and governance criteria are more likely to pay a greater acquisition premium to purchase targets with high ESG score, compared to their higher corporate sustainability acquirers' counterparts. This observation underscores the strategic motivation of lower-performing acquirers to offset their sustainability gaps by purchasing high-ESG targets, as they may perceive greater potential benefits in terms of reputation and operational synergies. Despite the benefits that good ESG acquiring firms can derive from the target's corporate sustainability capabilities, these benefits seem greater for lower performing bidding firms. A possible explanation to this phenomenon could be that low ESG score acquires believe they can exploit the better corporate sustainability of the target to counterbalance their existing corporate social disputes or to enhance their own ESG implementation capacity. As argued by Berchicci et al. (2012), if the acquirer has inferior CSR qualities, the acquisition of a high-CSR target would better facilitate the distribution of ESG capabilities within the new combined firm. Additionally, low corporate sustainability acquirers may have other capabilities, such as unused cash resources, that could be used to exploit the target firm's good ESG standing to gain greater benefits. In light of these dynamics, the inclusion of the acquirer's ESG score as both a dummy variable and an interaction term ensures that we capture not only the linear effect of the acquirer's sustainability performance but also the nuanced interplay between the acquirer's and target's ESG characteristics. Thus, the analysis above conducted ultimately leads us to argue that for targets with the same ESG score, low-quality CSR acquirers would pay a greater premium with respect to high-quality CSR ones.

5 | Conclusion

5.1 | Practical Implications

The empirical findings of this research confirm a positive relationship between higher levels of corporate sustainability, as measured through combined ESG scores, and acquisition premiums. These results have significant implications for businesses and their strategies, as well as for public policy. From a business perspective, the evidence underscores the importance of integrating sustainability into corporate strategy. A high ESG rating not only enhances a target company's bargaining power during M&A negotiations but also signals to acquirers that the company is well-positioned to contribute to future synergies and long-term economic performance. This suggests that firms with strong ESG profiles may be more attractive to investors, not merely as standalone entities but also as valuable components of a larger strategic vision. For acquiring firms, this implies that sustainability considerations should be a key factor in due diligence and acquisition planning, as they may directly influence the success of post-acquisition integration and value creation. Additionally, the findings suggest that ESG-driven M&A activities could shape broader business strategies, encouraging firms to proactively enhance their ESG performance to increase their market attractiveness. Acquirers may also view M&A as a mechanism to improve their own ESG profiles by integrating firms with superior sustainability practices. In this way, ESG performance becomes a strategic lever for both organic growth and inorganic expansion. From a public policy standpoint, the increasing relevance of ESG in M&A highlights the need for robust and transparent ESG disclosure frameworks. Regulators may consider incentivizing accurate and consistent ESG reporting across industries and regions to reduce variability in ESG scores and ensure that they serve as reliable proxies for corporate sustainability. Enhanced transparency could help investors and acquirers make informed decisions while fostering trust in the ESG ecosystem. Policymakers might also explore ways to encourage M&A activity as a means of spreading best practices in sustainability, particularly in sectors or regions lagging in ESG adoption. Therefore, ESG considerations are no longer peripheral in the M&A landscape; they are emerging as a critical factor influencing premiums, acquisition strategies, and corporate reputation. Firms and regulators alike must adapt to this evolving paradigm to fully harness the potential benefits of sustainability-driven value creation in M&A activities.

5.2 | Limitations

Despite having been prepared in highly detail and with the best data available, this paper still presents few limitations. The first issue is linked to the sample size. Indeed, even though considered an important problem nowadays, ESG reporting is anyhow a new subject of study, and not every company discloses this type of information. This led to consider only 325 M&A transactions from a total of 1606. Nevertheless, after a careful comparison, the results obtained still show a very realistic representation of the original sample initially downloaded from the Refinitiv database. One second limit refers to the acquisition premium. M&A transactions encompass a certain degree of irrationality in terms of the reasons why they occur, such as the obtainment of private benefits or other, more specific, and case-by-case motives. These factors could

impact and cause distortions to the implied value of the acquisition premium, which has though been computed in a novel format in this paper. Lastly, another limit refers to the considerations that have been made during the sample construction phase, discarding deals involving non-listed firms or uncompleted deals. This has brought to retrieve a more coherent result but at the same time has decreased the statistical power of the model.

5.3 | Potentials for Future Research

Further research could focus on answering the same research questions that were answered in this study but taking a more specific point of view, concentrating on different time periods or on a specific industry. Other authors can put effort in reducing the limitations of this study by including in the sample factors that have been omitted from the analysis, such as uncompleted or private deals, to increase the statistical power of the model. Another direction for future research can also be to establish which categories within each single ESG pillar (Environmental, Social and Governance) most significantly drive the dimension of the premium.

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Conflicts of Interest

The authors declare no conflicts of interest.

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