

THE IMPACT OF ESG FACTORS
ON CORPORATE FINANCIAL PERFORMANCE:
STRATEGIES, INTEGRATION AND GREEN M&AS



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Strategies, Integration and Green M&As

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DECLARATION OF ORIGINALITY

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ABSTRACT

The Impact of ESG Factors on Corporate Financial Performance: Strategies, Integration and Green M&As

This thesis examines how Environmental, Social, and Governance (ESG) factors shape corporate financial performance and decision-making. As sustainability gains importance in financial markets and company policies, this research synthesizes insights from industry reports, case studies, and academic literature to evaluate ESG's financial implications. The study concentrates on five key areas: implementation of ESG in corporate governance; financial impacts on profitability and risk management; evolving investor expectations; sector-specific variations in ESG adoption; and cases of successful corporate transformations. Collectively, these areas highlight ESG's crucial role in shaping financial and strategic outcomes, as well as its connection to green mergers and acquisitions (M&As). Integrating ESG factors into core strategies and fostering a culture supportive of sustainability can lead to enhanced outcomes. Ørsted exemplifies successful ESG integration, while Shell illustrates challenges in balancing traditional operations with sustainable practices. Green M&As can further ESG adoption, but success largely depends on integrating organizational goals and cultures. This research contributes to the sustainable finance literature by providing insights into the influences of ESG factors on financial performance, offering guidance to managers, investors, and policymakers on how to balance environmental accountability with value creation. The study emphasizes ESG-linked pathways for growth and supports evidence-based decisions in corporate finance and sustainability.

ÖZET

ESG Faktörlerinin Kurumsal Finansal Performansa Etkisi:

Stratejiler, Entegrasyon ve Yeşil Birleşme & Satın Almalar

Bu tez, Çevresel, Sosyal ve Yönetişim (ESG) faktörlerinin kurumsal finansal performansı nasıl şekillendirdiğini ve karar alma süreçlerini nasıl etkilediğini detaylı biçimde incelemektedir. Sürdürülebilirlik kavramı, finansal piyasalar ve şirket politikaları perspektifinden önem kazandıkça, bu çalışma ESG'nin finansal etkilerini geniş bir çerçevede değerlendirmektedir. Araştırma, sektör raporları, vaka analizleri ve akademik literatürü temel alarak ESG'nin etkilerini beş ana alanda ele almaktadır: kurumsal yönetişimde ESG'nin rolü, kârlılık ve risk yönetimi üzerindeki finansal etkileri, yatırımcı beklentilerindeki değişim, sektöre özgü ESG uygulama farklılıkları ve başarılı kurumsal dönüşüm örnekleri. Bu alanların birleşimi, ESG'nin hem finansal hem de stratejik sonuçları nasıl şekillendirdiğini ve yeşil birleşme ve satın alma süreçleri ile olan bağlantısını vurgular. ESG faktörlerini ana stratejilere dahil etmek ve sürdürülebilirliği destekleyen bir kültür yaratmak, olumlu finansal sonuçlar elde edilmesine katkı sağlayabilir. Ørsted, başarılı bir ESG entegrasyon modeli sunarken, Shell'in durumu ise sürdürülebilirlik uygulamaları ile geleneksel operasyonlar arasındaki dengeyi sağlama zorluklarını sergiler. Bu araştırma, ESG faktörlerinin finansal performans üzerindeki etkilerini gözler önüne sererek sürdürülebilir finans literatürüne önemli katkılar sunmakta ve yöneticilere, yatırımcılara ve politika yapıcılara çevresel sorumluluk ile değer yaratma arasında denge kurma hususunda değerli bir rehberlik sağlamaktadır. Çalışma, büyüme için yeni ESG odaklı yolları öne çıkararak kurumsal finans ve sürdürülebilirlik alanında kanıta dayalı karar alma süreçlerine ışık tutmaktadır.

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CHAPTER 1

INTRODUCTION

Lately, many companies have started to focus on Environmental, Social, and Governance (ESG) principles in their strategies, drawing a lot of interest from researchers and professionals. As companies face pressure to integrate sustainability objectives into their operations, ESG has emerged as a critical factor in shaping corporate financial performance and strategic direction. The rising significance of ESG is evident across various industries, driven by evolving regulatory standards, stakeholder expectations, and the broader societal push towards sustainable development.

However, despite the perceived benefits of ESG adoption, the practical outcomes remain inconsistent. While some companies have successfully leveraged ESG initiatives to enhance profitability and stakeholder engagement, others struggle to achieve the anticipated financial returns. This disparity raises fundamental questions about how effectively ESG practices are integrated into corporate strategies and what factors determine their success or failure. One emerging trend within this context is the increasing use of Green Mergers and Acquisitions (Green M&A) as a strategic tool for sustainability transformation. While theoretically appealing, Green M&As often present practical challenges, particularly in integrating acquired assets into the existing corporate structure while preserving financial stability.

This thesis aims to address the challenges of ESG integration by critically examining its financial and strategic impacts. The core problem addressed is the apparent gap between theoretical expectations and real-world outcomes. While ESG

is widely promoted as a mechanism for reducing risks and enhancing long-term profitability, the empirical evidence suggests that success is highly context dependent. Additionally, the strategic role of Green M&A in facilitating ESG transformation is still a new topic which we have not sufficient research on, particularly regarding the challenges of post-merger integration.

In order to examine these topics, the research is guided by the following questions:

1. How does ESG integration impact corporate financial performance, and what factors influence its success across different industries?
2. What are the strategic challenges associated with incorporating ESG into business practices, particularly in capital-intensive sectors?
3. How do Green M&As enhance or hinder the achievement of ESG objectives, and what factors contribute to their success or failure?
4. What role do stakeholder perspectives and investor expectations play in shaping ESG strategies?

The relevance of this research emerges from its effort to bridge the gap between theoretical perspectives and real-world practices in ESG integration. Although numerous studies highlight the potential advantages of sustainability initiatives, there is still a notable gap in analyses that examine the factors influencing their outcomes across different settings. By drawing on real-world case studies and industry reports, this thesis seeks to offer detailed insights into how companies adopt ESG practices with strategic intent and organizational coherence.

Practically, the findings of this research are expected to be valuable for corporate managers, investors, and policymakers. Understanding how ESG factors reshape corporate behavior and investment strategies is vital as sustainability

considerations move to the forefront of financial decision-making. Additionally, examining the role of Green M&A as part of ESG strategy can guide companies seeking to leverage acquisitions for sustainable transformation.

This thesis is structured to provide a comprehensive analysis of ESG integration and its financial and strategic implications, ensuring a thorough exploration of the research questions raised. The structure is designed to systematically build from theoretical foundations to practical applications and critical reflections, thereby offering a cohesive narrative throughout the study.

The first substantive chapter, the Literature Review, synthesizes existing research on ESG frameworks, corporate financial performance, and the strategic role of Green M&A. It critically evaluates the prevailing academic discourse, identifying key themes and gaps that the current study aims to address. This chapter serves as a foundation, providing context for understanding the relationship between ESG integration and financial outcomes.

The subsequent chapter, Research Methodology, outlines the analytical approach adopted to address the research questions. This section details research design, data collection methods, and the criteria used for selecting case studies and industry reports. It also discusses the methodological considerations involved in analyzing qualitative and quantitative data.

The core of the thesis lies in the Findings & Analysis section, which presents the key insights derived from empirical data. This chapter systematically analyzes the impact of ESG practices on financial performance, the strategic integration of ESG principles, and the role of Green M&A. The analysis is presented thematically, addressing each research question while integrating both theoretical perspectives and real-world evidence. The insights are drawn from a range of industry reports, case

studies, and real-world examples, allowing for a detailed discussion of sectoral and regional differences.

Following the empirical analysis, the Discussion chapter interprets the findings considering the theoretical framework established in the literature review. This section critically examines the implications of the results, reflecting on the challenges of ESG integration and the practical considerations for corporate strategy. The discussion also highlights the strategic importance of stakeholder engagement and investor influence in shaping sustainable business practices.

Finally, the Conclusion and Recommendations chapter synthesizes the key insights of the study, drawing implications for corporate managers, investors, and policymakers. It not only summarizes the primary findings but also offers strategic recommendations and identifies areas for future research. This chapter highlights the significance of adopting a comprehensive and context-sensitive approach to ESG integration, particularly in capital-intensive and carbon-intensive industries.

This thesis examines how ESG strategies are linked to financial performance and company actions, helping us understand how businesses today include sustainability. Each chapter builds on the previous one, leading to a clear and well-supported conclusion.

CHAPTER 2

LITERATURE REVIEW

Environmental, Social, and Governance (ESG) factors have become significant in corporate decision-making, significantly influencing investment strategies, risk management practices, and regulatory compliance. As businesses face criticism from investors, policymakers, and consumers to integrate sustainability principles, ESG considerations are evolving from voluntary initiatives into core elements of corporate strategy. Research on ESG has expanded rapidly, highlighting its potential impact on financial performance, industry-specific challenges, and corporate transactions, including mergers and acquisitions (M&A). Despite the increasing importance of ESG, significant challenges persist in measuring and standardizing ESG performance, understanding sectoral variations, and assessing long-term financial implications.

Given these challenges, this literature review consolidates existing research on ESG and its relationship with corporate financial performance. It provides a detailed examination of ESG measurements, the financial implications of ESG adoption, sector-specific ESG strategies, the role of ESG in emerging markets, and the increasing relevance of Green M&A as a strategic mechanism for corporate sustainability. By synthesizing these key themes, this review aims to establish a comprehensive understanding of ESG's role in financial markets and corporate decision-making. Each section examines relevant theoretical and empirical studies, highlighting areas where ESG integration is generating financial value, while also identifying unresolved research gaps that require further investigation.

A major challenge in ESG research is the absence of a globally standardized measurement. While multiple ESG reporting standards exist, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD), inconsistencies between these frameworks complicate cross-industry comparisons and investment decisions. This fragmentation in ESG assessment methodologies has contributed to concerns about greenwashing, where firms selectively disclose sustainability metrics to appear more ESG-compliant without substantive operational improvements. Intentional greenwashing occurs when companies actively manipulate ESG disclosures to improve ratings, whereas unintentional greenwashing arises due to inconsistencies in reporting methodologies. For instance, firms in the technology sector often receive high ESG scores due to their low carbon footprints, despite their supply chain emissions being underreported. Standardizing ESG disclosure practices could enhance transparency, but regulatory enforcement remains a key challenge.

Empirical research suggests that ESG integration can positively influence corporate financial performance. Studies indicate that ESG-driven firms tend to experience reduced capital costs and greater resilience during financial downturns. However, the relationship between ESG and financial performance varies across financial metrics, industries, and market conditions. Some studies highlight diminishing financial returns from excessive ESG investments, suggesting that firms must balance sustainability commitments with financial efficiency.

In emerging markets, ESG adoption comes with its own set of difficulties and potential benefits. While developed economies have well-established regulatory approaches supporting ESG integration, emerging markets often face institutional

voids, weaker enforcement mechanisms, and financial constraints that obstruct ESG adoption. However, companies in these markets are gradually acknowledging the long-term value of sustainability, especially as global investors emphasize ESG compliance in their investment decisions. Case studies from emerging markets illustrate how ESG adoption can enhance corporate competitiveness and attract foreign investment, despite challenges related to regulatory uncertainty and limited access to green finance.

ESG's impact also varies significantly across industries, with sectoral characteristics influencing sustainability priorities and financial outcomes. Industries with higher environmental risks, such as energy, manufacturing, and transportation, face greater regulatory monitoring and investor expectations regarding ESG performance. In contrast, industries which have lower direct harm to the environment, such as financial services and technology, tend to focus more on governance-related ESG factors, including transparency, ethical business practices, and diversity in leadership. Understanding these sectoral variations is essential for developing industry-specific ESG strategies that coordinate with both financial and sustainability objectives.

The role of ESG in corporate transactions is evident in the rise of Green M&A, where companies pursue acquisitions to enhance their sustainability capabilities. Green M&A transactions allow firms to accelerate their ESG transformation by acquiring businesses with established environmental expertise, reducing the need for internal development of green initiatives. While Green M&A presents opportunities for long-term value creation, challenges related to post-merger integration, ESG due diligence, and financial performance measurement remain

significant. Research on Green M&A is still in its early stages, and further investigation is needed to assess its long-term financial and environmental impact.

While ESG literature continues to expand, important gaps still exist. In particular, the absence of a common measurement standard complicates decisions for firms and investors, underscoring the need for research on consistent metrics and regulatory frameworks. Additionally, while many studies link ESG to financial performance, the long-term implications of ESG investments, particularly during recessionary periods, remain limited in empirical attention. Industry-specific ESG strategies require further examination to understand how firms optimize sustainability initiatives based on unique sectoral risks and opportunities. The role of ESG in emerging markets also warrants deeper investigation, particularly in relation to regulatory adaptation and capital access. Finally, Green M&A's financial and strategic implications are not yet fully understood, highlighting the need for empirical research on its success factors and long-term sustainability impact.

By synthesizing existing research across these key dimensions, this literature review establishes a foundation for understanding the evolving role of ESG in corporate finance. It highlights the areas where ESG strategies create value while also identifying unresolved challenges that require further academic and practical investigation. As sustainability continues to shape financial markets and corporate strategies, refining ESG assessment methodologies, strengthening regulatory compliance, and optimizing industry-specific ESG adoption will be crucial for future research and policy development.

2.1 ESG frameworks

ESG factors have rapidly evolved from voluntary initiatives into core components of corporate strategy, influencing investment, risk management, and regulatory compliance. The rising significance of ESG is largely driven by stakeholder demands for greater transparency and long-term value creation. This trend has fueled a surge in ESG-related research, as academics and professionals aim to explore its effects on financial outcomes, sector-specific dynamics, and strategic activities like mergers and acquisitions (M&A). However, despite the rising importance of ESG, significant challenges persist in measuring and standardizing ESG performance. These challenges include the lack of a unified global framework, sectoral variations in ESG integration, and difficulties in assessing the long-term financial impacts of sustainability practices (McKinsey & Company, 2022). Addressing these challenges requires a comprehensive approach that consolidates insights from various studies, identifying patterns and divergences in how ESG frameworks are conceptualized and applied.

Several organizations have developed ESG measurement frameworks aimed at standardizing reporting practices and enhancing comparability across industries and geographies. However, these frameworks differ significantly in methodology, scope, and target audiences, resulting in discrepancies when evaluating ESG performance (Edmans, 2023). To address these inconsistencies, it is essential to analyze how each framework approaches ESG assessment and the implications for corporate sustainability practices. Among the various frameworks, MSCI ESG Ratings are widely used for assessing companies' exposure to ESG risks and their ability to manage these risks effectively, rating companies from AAA (leader) to CCC (laggard) based on industry-specific benchmarks. In contrast, the Sustainability

Accounting Standards Board (SASB) focuses on financially material ESG factors, offering sector-specific guidance to facilitate the disclosure of sustainability data that could directly affect financial performance. Another prominent framework, the Global Reporting Initiative (GRI), emphasizes broad stakeholder engagement and transparency, providing a comprehensive structure for reporting across economic, environmental, and social dimensions. The Task Force on Climate-Related Financial Disclosures (TCFD) specifically addresses climate risk, guiding companies in evaluating their exposure to climate-related risks and opportunities while integrating these considerations into financial decision-making. Additionally, the European Union has established regulatory frameworks such as the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR) to mandate ESG disclosures and counteract greenwashing practices (McKinsey & Company, 2022). Despite their collective goal of promoting standardized ESG practices, these frameworks' diverse approaches pose challenges in achieving consistent and comparable ESG evaluations.

While these frameworks provide guidance for ESG disclosure, the differences in their methodologies create challenges for companies seeking to comply with multiple reporting requirements. ESG frameworks significantly influence corporate strategies and investor decisions. Over 90% of S&P 500 companies and 70% of Russell 1000 firms now publish ESG reports, driven by investor expectations and regulatory requirements (McKinsey & Company, 2022). The increased adoption of ESG frameworks has encouraged firms to integrate sustainability into their business models, influencing risk management, investor relations, regulatory compliance, and corporate strategy (Aouadi & Marsat, 2016). Through ESG reporting, firms can identify environmental and social threats that may influence their financial

performance and brand. Such disclosures also support investor confidence and help attract funding from ESG-oriented capital sources. The EU Taxonomy and similar regulations enforce clearer rules to ensure transparent and responsible sustainability reporting (Saygili et al., 2021).

Despite these benefits, ESG frameworks have limitations that hinder their effectiveness in capturing true corporate sustainability performance. While they offer standardization and comparability, inconsistencies in ESG ratings create difficulties in assessing corporate sustainability. ESG ratings often vary across agencies due to different methodologies. ESG scores show only a 54% correlation across providers, compared to 99% for credit ratings, highlighting the inconsistency in ESG measurement (McKinsey & Company, 2022). These discrepancies raise concerns about greenwashing, where companies may selectively disclose ESG data to appear more sustainable rather than making substantive operational changes (Aouadi & Marsat, 2016). Some frameworks favor certain industries over others; for instance, technology firms often receive high ESG scores due to low carbon footprints, while manufacturing and energy companies struggle despite making meaningful ESG improvements (Edmans, 2023). Aouadi and Marsat (2016) highlight the inconsistencies in ESG ratings and how these discrepancies impact firm valuation. The reliance on different weighting systems and subjective metrics can lead to misleading assessments. ESG rating providers often emphasize specific criteria over others, leading to rating disparities between institutions such as MSCI, Sustainalytics, and S&P. Moreover, greenwashing remains a critical concern. Some companies manipulate ESG disclosures to improve ratings without implementing substantive sustainability initiatives. For example, firms may highlight carbon offset purchases while continuing high-emission operations. This issue emphasizes the

need for regulatory enforcement and standardization to enhance ESG reporting credibility.

2.2 ESG on corporate finance

The relationship between Environmental, Social, and Governance (ESG) factors and corporate financial performance has been extensively analyzed in academic literature. Over the past twenty years, ESG has grown from a limited investment topic into a major part of financial decisions. Researchers have sought to determine whether ESG commitments enhance or undermine corporate profitability, cost of capital, and risk exposure. The empirical findings remain mixed, with studies highlighting both positive and negative impacts of ESG on corporate financial outcomes (Friede, Busch, & Bassen, 2015). This section examines the role of ESG in corporate finance by evaluating key financial metrics, investor sentiment, and strategic decision-making.

Empirical research indicates a generally positive association between ESG and financial performance, though the strength of this relationship varies across industries and financial metrics. A meta-analysis by Friede, Busch, and Bassen (2015), which reviewed more than 2,200 empirical studies, revealed that around 90% of the findings show either a positive or neutral link between ESG factors and corporate financial performance. The study also emphasizes that ESG's influence tends to be more significant in long-term financial results than in short-term earnings. Moreover, the impact of ESG is not consistent across all financial metrics. While accounting-based indicators like Return on Assets (ROA) and Return on Equity (ROE) tend to reflect a stronger association with ESG practices, market-based indicators such as stock returns or Tobin's Q present more varied outcomes. Studies

have also emphasized the importance of firm size, industry context, and regulatory environment in determining the extent to which ESG contributes to financial performance (Bruna et al., 2022).

The impact of ESG on financial performance is typically evaluated through profitability, cost of capital, and risk exposure. Wang and Sarkis (2017) argue that ESG influences financial outcomes through corporate governance structures, operational efficiencies, and stakeholder relationships. Firms that integrate ESG principles into their business models tend to experience enhanced financial stability, as evidenced by improvements in liquidity and solvency ratios. Xie et al. (2018) support this claim, finding that ESG activities improve financial performance through efficiency gains, particularly in governance-related disclosures. They measured how efficiently companies operate using Data Envelopment Analysis (DEA) and found that financial outcomes are most strongly linked to how well companies report on governance, then social, and lastly environmental issues. However, their research also suggests that excessive ESG disclosure can have diminishing financial benefits, reinforcing the argument that a moderate approach to ESG reporting is optimal. Cost of capital is another critical factor influenced by ESG considerations. Strong ESG practices are linked to lower capital costs, as investors associate them with reduced risk. Alkaraan et al. (2022) emphasize that firms adopting Industry 4.0 technologies benefit from this trend due to better risk mitigation and operational transparency. This is important for firms in capital-intensive industries, where sustainability concerns can impact debt financing conditions.

Investor perception of ESG-integrated firms has evolved significantly, shifting from skepticism to active preference. Van Duuren, Plantinga, and Scholtens

(2015) conducted an international survey on institutional investors, finding that ESG considerations are increasingly incorporated into mainstream investment strategies. The study categorizes ESG integration into three primary approaches: negative screening, best-in-class investing, and active ownership. While some investors use ESG as a risk-management tool, others view it as an opportunity for long-term value creation. Despite the important investor demand for ESG transparency, Bruna et al. (2022) caution that the financial benefits of ESG integration are contingent upon firm-specific factors. Their study found that mid-sized firms achieve the greatest financial advantage from ESG adoption, while smaller firms struggle to realize significant gains due to resource constraints. ESG tends to offer greater financial advantages in industries with strict regulations, such as energy and manufacturing, while companies facing fewer ESG risks may not gain as much.

Recent research suggests that the relationship between ESG and financial performance is nonlinear, meaning that beyond a certain threshold, ESG commitments may yield diminishing or even negative financial returns. Bruna et al. (2022) find that firms with excessive ESG expenditures may face profitability challenges due to increased compliance costs and operational inefficiencies. This matches with the findings of Xie et al. (2018), who report that while ESG engagement enhances financial performance up to a certain point, excessive ESG disclosure can be counterproductive. The regulatory environment is also in charge of shaping ESG's financial effects. The implementation of mandatory ESG disclosure requirements, such as the EU Directive 2014/95, has strengthened the financial case for ESG by enhancing transparency and accountability (Bruna et al., 2022). Firms operating under such regulatory methodologies tend to experience stronger financial benefits from ESG integration compared to firms under voluntary disclosure regimes.

This regulatory influence extends beyond Europe, with similar initiatives being introduced in North America and Asia, where sustainability reporting is gradually becoming an industry standard.

ESG's contribution to financial performance is not uniform across all sectors. Alkaraan et al. (2022) highlight that firms in industries that rely heavily on digital transformation and automation—such as technology and manufacturing—derive the most significant financial benefits from ESG integration. These firms often coordinate sustainability initiatives with technological advancements, creating synergies that enhance profitability and market valuation. Moreover, businesses operating in industries which are dependent on strict environmental regulations, such as energy and heavy manufacturing, benefit from strategic ESG measures, which help mitigate compliance risks and avoid financial penalties. By comparison, businesses in less environmentally intensive sectors, such as retail and financial services, may not realize significant short-term financial advantages from their ESG initiatives. Instead, the primary advantage in these sectors lies in reputational enhancement and risk mitigation. As Bruna et al. (2022) highlight, ESG efforts lead to the biggest cost benefits in industries like energy and materials, mainly through increased efficiency and reduced waste. Additionally, studies indicate that consumer-oriented industries, including retail and hospitality, leverage ESG strategies to enhance brand loyalty and customer engagement, which indirectly supports financial performance.

2.3 ESG in emerging markets

Emerging markets have seen growing attention to ESG adoption, as both investors and companies begin to acknowledge sustainability as a key strategic priority. While ESG frameworks are well established in developed economies, emerging markets present unique challenges and opportunities in integrating these principles. This section explores the trends in ESG adoption, regulatory frameworks, case studies of ESG leadership, and key barriers to ESG growth in developing economies.

The application of ESG in emerging markets has been shaped by global sustainability initiatives, changing regulatory frameworks, and investor expectations. Compared to developed markets, ESG adoption in emerging economies has historically been slower due to weaker institutional models and inconsistent reporting standards (Ting et al., 2019). In the last years, investments in environmental, social, and governance (ESG) criteria have significantly increased. This trend is primarily driven by global investors seeking greater transparency and a commitment to sustainability (Mobius & Ali, 2021). According to Mazzioni et al. (2024), more firms in emerging economies are using ESG practices to attract foreign investment and build long-term stability.

The regulatory environment is one of the primary factors influencing ESG adoption in emerging markets. Unlike developed markets, where mandatory ESG disclosure requirements are widely enforced, emerging economies exhibit significant disparities in regulatory oversight. For instance, implementing ESG policies in Turkey remains voluntary mainly, with limited enforcement mechanisms, leading to inconsistent corporate sustainability reporting (Saygili et al., 2021). Similarly, ESG disclosure requirements in India have been gradually expanding, yet corporate compliance varies significantly depending on sectoral regulations and firm size

(Dutta et al., 2024). Studies highlight that the lack of standardized ESG reporting standards impedes ESG integration in developing economies (Gidage & Bhide, 2024). Despite the challenges, certain emerging economies have demonstrated leadership in ESG adoption. Brazil, Russia, India, China, and South Africa (BRICS) are key examples where ESG implementation has gained momentum. A recent study analyzing ESG performance in BRICS countries found that firms in economies with greater regulatory transparency tend to perform better in ESG rankings (Mazzioni et al., 2024). China, for instance, has introduced policies aimed at green financing, incentivizing corporate sustainability, and conforming ESG goals with national economic policies (Liang et al., 2022). Similarly, India's focus on decarbonization and sustainable infrastructure has positioned the country as a regional leader in ESG adoption (Das & Ghosh, 2023).

While progress has been made, several structural barriers still hinder the adoption of ESG (Environmental, Social, and Governance) practices in emerging markets. One major challenge is the lack of transparency and reliability in ESG disclosures. Many firms in developing economies do not have the resources to conduct thorough ESG reporting, which raises concerns about data integrity and the risk of greenwashing (Gidage & Bhide, 2024). A key challenge lies in the lack of strong enforcement. In the absence of effective regulatory oversight, firms may focus on immediate profits rather than long-term sustainability, reducing the effectiveness of ESG efforts (Saygili et al., 2021).

Capital constraints significantly hinder the adoption of Environmental, Social, and Governance (ESG) practices. Unlike companies in developed markets with access to sustainable finance options, firms in emerging economies often face difficulties securing funding for ESG-driven initiatives (Faruq & Chowdhury, 2025).

This funding gap limits investment in clean technologies, sustainable supply chains, and improvements in governance. Furthermore, investor sentiment in emerging markets remains mixed, as many institutional investors perceive ESG investments as high-risk due to regulatory uncertainties and volatile market conditions (Dutta et al., 2024).

2.4 Sectoral insights

Environmental, Social, and Governance (ESG) factors influence corporate financial performance in sector-specific ways, with industry characteristics playing a critical role in determining the effectiveness and adoption of ESG strategies. Companies in sectors like energy, chemicals, and heavy manufacturing usually deal with more strict regulations and higher sustainability standards than those in industries with lower environmental impact (Garcia, Mendes-Da-Silva, & Orsato, 2017). Industries with significant stakeholder engagement, like transportation and consumer services, should focus on implementing ESG (Environmental, Social, and Governance) strategies. This approach can enhance brand reputation and meet customer expectations. This section examines the differences in ESG performance across various sectors, highlighting the unique sustainability challenges and opportunities different industries face.

Firms operating in environmentally sensitive sectors are often subject to strict regulations and heightened investor monitoring. Research suggests that industries with higher environmental and social risks tend to demonstrate better ESG performance due to external pressure from regulators, consumers, and financial markets (Garcia et al., 2017). Energy and industrial companies, for example, have increasingly adopted ESG measures to mitigate climate risks, improve operational

efficiencies, and attract investment from sustainability-focused funds. Despite their relatively high carbon footprints, firms in these sectors that strategically integrate ESG initiatives can achieve competitive advantages by reducing regulatory risks and enhancing long-term profitability. Regulation has emerged as a key factor influencing ESG progress across different sectors. Industries like oil and gas, mining, and manufacturing are required to follow strict environmental rules, which often leads them to invest in clean energy and improve their production methods. Garcia et al. (2017) highlight that firms in these sectors that fail to meet ESG expectations often experience higher capital costs and investor divestment, further reinforcing the financial importance of sustainability integration.

The airline industry provides a compelling example of how ESG factors shape financial performance in a highly competitive and resource-intensive sector. Airlines are significant contributors to carbon emissions and face pressure from regulators and environmentally conscious consumers to reduce their environmental impact. Abdi, Li, and Càmara-Turull (2021) analyze ESG practices in the airline sector and find that firms with strong ESG disclosures experience higher firm valuation and investor confidence. ESG implementation in the airline industry primarily focuses on fuel efficiency, carbon offset programs, and customer-centric sustainability initiatives. Full-service airlines, which serve a broad consumer base and operate extensive international routes, tend to invest more in ESG-driven strategies compared to low-cost carriers. These investments often include fleet modernization, sustainable aviation fuels, and carbon credit purchases. However, the financial benefits of ESG integration in the airline industry vary, with some studies indicating that excessive ESG spending without clear efficiency gains can lead to diminishing financial returns. Abdi et al. (2021) highlights that while ESG adoption

contributes to risk mitigation and regulatory compliance, the financial performance outcomes are influenced by macroeconomic factors such as fuel prices, government subsidies, and changing consumer demand. As environmental expectations increase, airlines that successfully integrate ESG priorities without compromising efficiency are more likely to maintain financial stability over time.

Chang and Lee's (2022) study highlights that the financial results of ESG practices are not uniform across industries, as they depend on elements like competition, regulatory frameworks, and market structure. In highly competitive industries, such as consumer goods and technology, ESG initiatives can distinguish companies by boosting brand loyalty and stakeholder trust. On the other hand, in sectors with less competition, like utilities and heavy manufacturing, ESG efforts are often motivated more by the need to comply with regulations than by competitive forces. The study by Chang and Lee (2022) also finds that high capital intensive firms, such as industrial manufacturing and transportation, face unique ESG challenges due to the need for substantial investments in sustainability initiatives. Firms in these sectors that integrate ESG considerations into their long-term strategies benefit from reduced regulatory risks and improved investor relations. While their environmental impact is relatively limited, sectors like finance and consulting typically direct ESG efforts toward governance factors such as ethical behavior, transparency, and diverse leadership.

2.5 Green mergers and acquisitions (Green M&As)

Green Mergers and Acquisitions (Green M&A) refer to corporate transactions in which acquiring firms integrate environmental sustainability into their strategic objectives. While conventional M&A focuses on economic efficiencies and expansion, Green M&A emphasizes sustainability goals, including emission reduction and cleaner operational models (Niemczyk et al., 2022). This approach is viewed as a means for firms to synchronize with Environmental, Social, and Governance (ESG) principles, comply with regulatory mandates, and enhance long-term financial resilience. For companies pursuing faster sustainability progress, Green M&A offers a practical and strategic pathway. Instead of developing green capabilities internally, which can be resource-intensive and time-consuming, companies acquire businesses with established environmental expertise, technologies, and market positioning. This method allows firms to meet ESG commitments while also gaining competitive advantages in an evolving regulatory environment (Yang & Chi, 2023). The success of Green M&A is evident in areas like renewable power, electric mobility, and eco-friendly agriculture, where businesses use it to quickly acquire sustainable capabilities (Zhang et al., 2023).

The role of ESG in driving M&A decisions has expanded notably in the past ten years. Acquiring firms assess target companies based on sustainability performance, environmental risks, and potential for green innovation (Zhao & Jia, 2022). Several studies highlight that ESG-conscious acquirers demonstrate higher post-merger financial performance due to improved stakeholder trust, reduced regulatory risks, and enhanced brand reputation (Yang & Chi, 2023). However, challenges exist in evaluating ESG-related factors during due diligence. Without consistent ESG disclosure standards, sustainability assessments may lack

comparability, making it harder for acquirers to gauge the future value of green assets (Niemczyk et al., 2022). Additionally, integration risks emerge when firms attempt to integrate sustainability cultures and operational practices across merged entities. Successful Green M&A transactions often require a well-defined sustainability roadmap and strong post-merger governance to realize long-term synergies (Zhang et al., 2023).

The prevalence of Green M&A varies across industries and geographic regions. In developed economies, such as those in Western Europe and North America, Green M&A activity is driven by strict regulatory policies, investor activism, and consumer demand for sustainable products. The energy sector, in particular, has witnessed a surge in Green M&A, with major utility companies acquiring renewable energy firms to meet decarbonization targets (Niemczyk et al., 2022). Green M&A activity in emerging markets is still in its early stages, but it is gradually accelerating in response to growing environmental pressures and supportive government policies. In China, for example, Green M&A has been instrumental in transforming heavily polluting industries. Case studies, such as the Gezhouba Group's acquisition of environmental technology firms, illustrate how Green M&A facilitates industrial transformation and regulatory compliance (Zhang et al., 2023). Similarly, in India and Brazil, Green M&A transactions are being leveraged to improve access to renewable energy and sustainable infrastructure.

Despite the strategic benefits, measuring the financial and environmental impact of Green M&A presents significant challenges. Unlike traditional M&A, where financial synergies are quantifiable through cost reductions and revenue growth, the benefits of Green M&A often manifest in intangible ways, such as regulatory goodwill and brand equity (Yang & Chi, 2023). Additionally, the long

payback periods associated with green investments make it difficult to assess immediate financial returns (Zhao & Jia, 2022). A common challenge is the tension between short-term financial priorities and long-term sustainability goals. When firms acquiring others focus mainly on quick returns, environmental promises may be sidelined, increasing the risk of greenwashing. To reduce this risk, regulatory agencies and investors support stricter ESG reporting and follow-up assessments after mergers (Niemczyk et al., 2022). Realizing the full value of Green M&A requires clear sustainability reporting and strong alignment with long-term business strategy.

Empirical evidence suggests that well-executed Green M&A transactions can deliver both financial and environmental benefits. For instance, research on the energy sector in Europe indicates that firms engaging in Green M&A experience higher stock price appreciation post-merger, driven by investor confidence in sustainability initiatives (Niemczyk et al., 2022). Additionally, case studies in China's manufacturing sector reveal that Green M&A has led to improved environmental compliance, resource efficiency, and financial stability (Zhang et al., 2023). However, not all Green M&A deals succeed. Instances of failed Green M&A transactions highlight the importance of strategic alignment and well-founded integration planning. Poorly executed acquisitions, where ESG commitments are not fully integrated into the corporate strategy, often result in operational inefficiencies and stakeholder distrust (Zhao & Jia, 2022). Lessons from such cases emphasize the need for clear sustainability objectives, effective governance structures, and long-term commitment to ESG principles.

2.6 Conclusion and research gaps

The literature on Environmental, Social, and Governance (ESG) factors and corporate financial performance provides extensive insights into the mechanisms through which sustainability considerations influence financial decision-making. ESG is now widely acknowledged as a significant factor influencing financial outcomes, strategic planning, and investment choices across multiple areas. However, despite the many new research, challenges persist in measuring ESG effectiveness, understanding its sectoral impacts, and assessing its role in corporate transactions such as mergers and acquisitions (M&A).

A critical examination of ESG frameworks reveals that while multiple global reporting standards exist, including the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and the Task Force on Climate-related Financial Disclosures (TCFD), inconsistencies in methodologies create obstacles for comparability. These discrepancies contribute to variations in ESG ratings and raise concerns about greenwashing, where firms selectively disclose sustainability-related metrics without substantive operational improvements. Despite these challenges, ESG frameworks have played a crucial role in improving corporate transparency, encouraging sustainability-oriented financial strategies, and strengthening investor confidence in ESG-driven firms.

Evidence from empirical research suggests that ESG integration positively affects financial performance, primarily through stronger profitability, decreased capital costs, and more effective risk mitigation. However, the extent of this impact varies across financial metrics, with accounting-based measures such as Return on Assets (ROA) and Return on Equity (ROE) exhibiting stronger correlations with ESG practices than market-based indicators such as stock price performance.

Moreover, while ESG investments tend to yield long-term benefits, they may not always generate immediate financial returns, requiring firms to balance sustainability commitments with economic efficiency.

The role of ESG in emerging markets remains a challenging issue shaped by regulatory disparities, capital constraints, and varying degrees of institutional maturity. Firms operating in developed economies benefit from well-established ESG disclosure mandates, while those in emerging markets often encounter enforcement challenges and limited access to green financing. Nonetheless, case studies from countries such as China, India, and Brazil demonstrate that strategic ESG adoption can enhance corporate competitiveness.

Sectoral differences in ESG performance highlight the varying degrees of sustainability integration across industries. Firms in high-risk environmental sectors such as energy, manufacturing, and transportation exhibit stronger ESG adoption due to regulatory pressures and investor expectations. On the other hand, sectors like finance and technology, which have less direct impact on the environment, focus more on governance aspects of ESG, such as ethical business conduct, openness, and diverse leadership in companies. Understanding these sector-specific ESG strategies is critical to developing targeted sustainability policies that support both financial and environmental objectives.

The review of Green M&A highlights its growing importance as a sustainability-driven corporate expansion strategy. Acquiring firms increasingly view Green M&A as a mechanism to accelerate their ESG transformation by integrating environmentally responsible businesses. While such transactions offer potential synergies and value creation opportunities, challenges persist in post-merger integration, ESG due diligence, and measuring the financial performance of

sustainability-focused acquisitions. The long-term implications of Green M&A require further empirical research, particularly regarding its strategic effectiveness across different industries and regulatory environments.

Despite the extensive research on ESG, several gaps remain in the literature. The lack of a universally accepted ESG measurement framework continues to create inconsistencies in evaluating corporate sustainability performance. Further studies are required to explore the potential for standardizing ESG disclosure regulations and assessing their impact on financial markets. While the positive relationship between ESG and financial performance is well documented, the long-term impact of ESG investments during periods of economic stress remains insufficiently explored. Assessing the ability of ESG-driven firms to withstand economic disruptions could deepen our understanding of how sustainability influences financial performance over time.

Moreover, industry-specific ESG strategies require further investigation, particularly regarding the optimization of sustainability initiatives based on sectoral risks, regulatory frameworks, and competitive situations. The role of ESG in emerging markets needs further analysis of how firms in these regions overcome regulatory barriers, attract sustainability-focused investments, and manage evolving global ESG standards. Lastly, while Green M&A has emerged as an essential strategy for corporate sustainability, additional research is needed to determine its long-term financial and environmental impacts, as well as its influence on stakeholder perceptions and regulatory compliance.

This research supports the conversation around ESG and financial performance by bringing together previous studies, pointing out what is still missing, and examining how sustainability is becoming a key part of business strategy. This

study examines the role of ESG in shaping business and investment decisions by assessing its frameworks, financial relevance, sectoral patterns, and the growing trend of Green M&A. Furthermore, by addressing key research gaps, this thesis provides valuable insights for corporate managers, investors, and policymakers seeking to enhance ESG integration in financial markets. As ESG continues to reshape corporate finance, future research should focus on refining assessment methodologies, improving regulatory compliance, and finding innovative strategies for integrating sustainability into corporate governance.



CHAPTER 3

RESEARCH METHODOLOGY

Using a qualitative research method, this study examines how ESG elements affect corporate financial results, with special attention to Green M&A. With sustainability gaining importance in business decisions, this research explores how ESG integration impacts financial performance and strategic outcomes, using insights from academic literature, real-world examples, and industry analyses.

3.1 Research design

The research follows a meta-analytic approach, which is particularly suited for examining rapidly evolving financial phenomena such as ESG integration and Green M&A. Unlike primary qualitative methods that rely on firsthand data collection, this study synthesizes insights from existing secondary data sources, including industry reports, real-world case studies, and academic literature. This approach enables a comprehensively grounded examination of ESG's financial impact, drawing on a wide range of documented experiences and empirical studies.

The decision to adopt a meta-analytic approach is grounded in the nature of the research questions. ESG's financial performance implications are influenced by multiple factors, including regulatory changes, investor sentiment, sector-specific risks, and corporate governance structures. By combining evidence from diverse sources, a meta-analysis offers a structured way to understand how firms incorporate sustainability into both financial performance and strategic direction.

Furthermore, the study is designed to assess ESG and Green M&A from both theoretical and practical perspectives. The theoretical dimension is supported by an

extensive review of peer-reviewed academic literature, while the practical dimension is reinforced by synthesizing insights from case studies and industry reports. This dual approach establishes that findings are grounded in both academic theory and real-world corporate practices, enhancing the relevance and applicability of the research.

3.2 Data collection and sources

The study relies on secondary data sources, selected based on relevance, credibility, and applicability to the research objectives. These sources include industry reports, case studies, regulatory documents, and academic literature, providing a multi-dimensional perspective on ESG's role in corporate finance.

In line with a meta-analytic approach, industry reports serve as a primary source of empirical data, offering insights into ESG trends, regulatory developments, financial performance metrics, and strategic considerations in Green M&A. Reports from globally recognized institutions and financial research firms provide comprehensive evidence on corporate ESG adoption, risk management, and investment strategies. These reports are particularly valuable for assessing how firms construct ESG initiatives, measure financial outcomes, and integrate sustainability into M&A transactions.

The study also incorporates case study analysis, focusing on real-world examples of ESG-driven financial strategies and Green M&A transactions. These case studies offer empirical evidence of how sustainability considerations influence corporate restructuring, investment decision-making, and post-merger performance. The selected cases provide a diverse perspective, covering different industries, geographical regions, and regulatory environments. This comparative examination

matches with the comprehensive analysis objective of synthesizing insights from multiple sources.

To complement industry reports and case studies, the study integrates academic literature to establish a theoretical foundation for ESG's financial implications. Peer-reviewed journal articles, books, and conference papers on ESG measurement frameworks, financial performance impacts, and corporate sustainability strategies are systematically reviewed. Synthesis of empirical studies allows bridging theoretical perspectives with empirical observations, reinforcing the study's analytical approach.

3.3 Data analysis method

The study employs an integrated content analysis, an effective method in finance and business research for systematically analyzing textual data from diverse sources. This approach enables the identification of key themes, recurring patterns, and strategic insights, ensuring a comprehensive and structured examination of ESG frameworks, financial impacts, and corporate sustainability strategies.

The analysis process follows a structured three-step approach, beginning with the identification of key themes related to ESG frameworks, financial performance, Green M&A, and sector-specific sustainability trends. In this initial stage, reports, case studies, and academic sources are systematically reviewed to extract core financial indicators, strategic motivations, and regulatory drivers associated with ESG adoption. Following this, a comparative analysis is conducted across multiple data sources, including industry reports, case studies, and academic literature, to identify consistencies, differences, and gaps in the current understanding of ESG's financial role. This comparative approach enhances the study's validity by cross-

referencing key findings and identifying emerging trends in ESG adoption. In the final stage, insights are synthesized within existing ESG and corporate finance theories, facilitating an academic positioning of findings. By combining theory and practice, this research contributes to financial management literature and offers a broad perspective on how ESG shapes strategic and financial choices in corporations.

3.4 Limitations of the study

Despite employing a structured meta-analytic methodology, certain limitations persist. First, the reliance on secondary data may introduce challenges related to data availability, comparability, and inherent biases in ESG reporting. As ESG measurement lacks global standardization, variations in reporting methodologies could affect the consistency and comparability of findings.

Second, evaluating the long-term financial effects of ESG initiatives is challenging due to delayed impact. Although short-term performance data is easily accessible, the benefits of ESG often emerge over time, making it difficult to establish a clear causal relationship.

Third, while case studies offer valuable insights into ESG strategies and Green M&A practices, their findings may not be universally applicable across all industries and markets. ESG adoption and Green M&A outcomes can vary significantly based on sectoral characteristics, regulatory contexts, and firm-specific factors. Although efforts have been made to select diverse cases to enhance representativeness, the inherent specificity of case studies limits their generalizability.

To address these limitations, the study employs a comprehensive synthesis, cross-referencing insights from industry reports, case studies, and academic

literature. By incorporating various sources of data, the study improves the accuracy of its findings and minimizes bias, enhancing the validity of its methodological approach.

3.5 Conclusion

The methodology used in this research aims to deliver a thorough and organized assessment of ESG's financial implications, emphasizing Green M&A as a key component of sustainable corporate strategy. By utilizing a meta-analytic approach, the study transcends traditional qualitative analysis, synthesizing insights from industry reports, case studies, and academic literature. By combining theoretical grounding with empirical analysis, the methodology enhances the reliability of the results and supports a comprehensive view of ESG's role in shaping financial and strategic outcomes.

The content analysis method, adapted for empirical consolidation, allows for a thorough examination of recurring themes, patterns, and strategic implications across multiple data sources. This approach not only highlights key financial metrics associated with ESG adoption but also locates the findings within the broader outlook of corporate governance and sustainable finance.

Acknowledging the inherent limitations of secondary data, the study strategically incorporates cross-referencing techniques to enhance data reliability and minimize biases. Challenges related to data standardization, long-term financial implications, and sector-specific variability are addressed through a comprehensive synthesis of diverse data points, thereby ensuring a balanced and credible analysis.

By linking ESG practices to financial results and Green M&A, this research delivers relevant findings for executives, policymakers, and investment

professionals. As sustainability continues to reshape financial markets and governance practices, the findings presented in this study contribute to the understanding of ESG's strategic and financial implications.



CHAPTER 4

FINDINGS & ANALYSIS

The Findings & Analysis section of this thesis aims to systematically explore the practical applications of Environmental, Social, and Governance (ESG) integration on corporate financial performance. Drawing from industry analyses, case studies, and practical examples, this section investigates how firms strategically implement ESG principles, evaluates the financial outcomes of such efforts, and explores Green M&A as a catalyst for sustainable transformation.

This section is structured to address key themes identified in literature and empirical data. First, it explores how companies integrate ESG into their corporate strategies, highlighting both successful implementations and common challenges. And it focuses on the financial impacts of ESG, focusing on profitability, cost of capital, and risk management, with a comparative analysis of pre- and post-integration financial metrics. The analysis then shifts to understanding the strategic use of Green M&A, evaluating both the financial and operational synergies that arise from sustainability-driven acquisitions.

Furthermore, the section addresses sectoral and regional differences in ESG adoption, with particular attention to the disparities between developed and emerging markets. The perspectives of investors and stakeholders are also analyzed, as their expectations and responses significantly influence corporate strategies.

By synthesizing the findings from diverse sources, this section aims to offer comprehensive insights into how ESG integration influences corporate value creation and financial sustainability. The analysis provides insight into both effective ESG

practices and the contextual challenges that organizations face during implementation.

4.1 ESG integration and corporate strategies

The incorporation of ESG elements into strategic planning is increasingly viewed as fundamental to modern corporate management. Companies face growing demands from investors, regulators, and the public. ESG integration has shifted from being a minor activity to a fundamental strategic effort that greatly affects financial outcomes, risk management, and long-term sustainability.

One of the primary drivers of ESG integration is the growing pressure from institutional investors who recognize that sustainable practices can enhance long-term profitability. As part of their risk assessment, investors now give preference to businesses that show strong environmental and social responsibility. For instance, the McKinsey ESG Report (2023) highlights that firms with structured ESG frameworks tend to achieve higher financial stability and lower volatility. Additionally, the report emphasizes the growing trend of linking executive compensation to ESG performance, which has been particularly prominent in industries like energy and manufacturing where stakeholder pressure is high.

Regulations are an important force pushing companies to incorporate ESG into their operations. Governments worldwide are tightening environmental and social regulations, forcing companies to adapt or risk financial penalties. The European Union's climate policies, including the Carbon Border Adjustment Mechanism (CBAM), have compelled energy-intensive sectors to reduce carbon emissions or face strict fines. This regulatory push has prompted companies like Ørsted to completely reposition their business models from fossil fuels to renewable

energy, transforming into a global leader in offshore wind power. Ørsted's transition represented more than regulatory compliance; it was a strategic move aimed at leveraging the growing demand for renewable energy (McKinsey & Company, 2023).

Additionally, reputation management is now viewed as a critical component of corporate strategy. Companies with weak ESG practices often face reactions from both the public and stakeholders, leading to financial repercussions. Social media activism has amplified the impact of public perception on corporate reputation, making ESG strategies vital. Companies such as Engine No. 1 have capitalized on this shift by pushing for climate-responsible practices at ExxonMobil, demonstrating that shareholder activism can significantly influence corporate strategy. Engine No. 1's success in securing board seats at Exxon highlights how sustainability advocacy can reshape governance structures in large corporations (Wharton School, 2023).

Operational efficiency also serves as a significant driver for ESG integration. Sustainable practices, such as optimizing resource use and minimizing waste, directly contribute to cost reduction. This is particularly evident in the case of AllianceBernstein, which emphasizes improving rather than excluding companies with poor ESG performance. By guiding companies through ESG improvements rather than immediately divesting, AllianceBernstein secures financial returns while building long-term sustainability (Wharton School, 2023). This approach matches with the broader industry trend of engaging with high-carbon companies to facilitate gradual but impactful transformations.

Challenges to successful ESG integration remain significant. One prominent issue is data inconsistency, where varying reporting standards make it difficult to assess true ESG performance. This inconsistency often leads to accusations of

greenwashing when companies overstate their environmental achievements. The BCG report on ESG due diligence notes that the lack of standardized metrics can hinder transparent reporting and make stakeholder engagement more challenging (BCG, 2024). Furthermore, emerging markets present additional difficulties due to weaker regulatory frameworks and limited access to green finance. Companies in these regions may struggle to conform to global ESG standards, making local adaptation crucial (BCG, 2023).

The effectiveness of ESG integration varies significantly across sectors. Energy companies like Shell must balance the transition to low-carbon models while maintaining profitability, often using intermediate solutions like LNG to mitigate immediate financial impacts. On the other hand, financial services firms, such as AllianceBernstein, prioritize identifying potential ESG improvers rather than outright excluding fossil fuel companies. This approach allows for gradual transformation rather than abrupt divestment, providing financial stability with sustainable growth.

In summary, effective ESG integration into corporate strategy demands a well-defined vision, strategic planning, and sustained dedication to long-term objectives. Businesses that take sustainability seriously often benefit from improved financial results and stronger stakeholder relations. Conversely, treating ESG as a checkbox exercise can lead to reputational and economic risks. With thoughtful and forward-looking ESG strategies, firms can meet regulatory standards while positioning themselves for long-term success in a shifting market landscape.

4.2 Financial impact of ESG initiatives

The integration of Environmental, Social, and Governance (ESG) factors into corporate strategies has become a fundamental aspect of sustainable business

practices, directly influencing financial performance. As companies increasingly adopt ESG frameworks, the financial implications, ranging from profitability and risk management to cost of capital, have garnered substantial attention from both academics and practitioners.

4.2.1 Profitability impact

The profitability impact of ESG initiatives varies across industries and regions, but research consistently shows that consistent ESG practices enhance long-term profitability. Friede, Busch, and Bassen (2015) conducted an extensive review of the literature and found that nearly 90% of the studies analyzed report a neutral or positive link between ESG integration and financial outcomes. Accounting measures like Return on Assets (ROA) and Return on Equity (ROE) show a positive association with ESG-related practices.

Ørsted, a leading offshore wind firm, provides a strong example of how ESG efforts can enhance financial performance. The company transitioned from fossil fuels to renewables, reaching 86% renewable output far ahead of schedule. As a result, its market value rose to £51 billion by late 2020, overtaking BP despite having a smaller energy output (McKinsey & Company, 2023).

Similarly, Shell, despite facing challenges related to environmental practices, maintained strong profitability metrics through its diversified energy portfolio. In 2017, the company reported diluted earnings per share (EPS) of \$1.56 and distributed an annual dividend of \$1.88 per US-listed A share (Royal Dutch Shell, 2018).

AllianceBernstein's distinctive ESG strategy focused on companies with unrealized financial and ESG potential rather than investing solely in high-ESG performers. This approach yielded competitive financial performance, particularly

when market conditions favored companies showing ESG improvements rather than those already achieving high scores (Wharton School, 2023).

The profitability impact of ESG initiatives varies across industries and regions, but research consistently shows that well-founded ESG practices enhance long-term profitability. In a large-scale review, Friede, Busch, and Bassen (2015) concluded that ESG integration is associated with nonnegative financial outcomes in about 90% of the cases examined. This trend is particularly evident in accounting-based indicators, including ROA and ROE, which frequently display positive correlations with ESG efforts. For instance, Ørsted, after transitioning from fossil fuels to renewable energy, reported a dramatic increase in ROE within three years, showcasing how strategic ESG integration can directly impact financial metrics (McKinsey & Company, 2023).

4.2.2 Cost of capital

A key financial advantage of ESG integration is the reduction in capital costs. Firms with strong ESG ratings typically benefit from lower borrowing costs and more attractive financing terms, especially those making measurable progress in environmental performance.

Firms with strong ESG performance are frequently viewed as lower risk by investors, which contributes to reduced capital costs. As noted by BCG (2024), companies that prioritize sustainability initiatives can decrease their weighted average cost of capital (WACC) by as much as 1.5 percentage points. This benefit largely stems from improved creditworthiness and enhanced investor confidence. Financial institutions are increasingly incorporating ESG metrics into lending criteria. According to BCG (2024), firms that align their business models with ESG

standards tend to achieve greater financial stability, as evidenced by stronger performance in liquidity and solvency metrics.

4.2.3 Risk management

Integrating ESG considerations into business operations significantly strengthens risk management practices. Companies that really address environmental and social risks tend to face fewer regulatory fines and maintain stronger stakeholder relationships. As noted in McKinsey & Company's ESG Report (2023), Ørsted's commitment to renewable energy reduced its carbon footprint and protected it from fossil fuel market volatility, resulting in more stable financial outcomes.

Financial risk management is also impacted by ESG strategies. Companies that strategically manage ESG risks are perceived as less risky by investors and lenders, which positively influences their credit ratings and investment attractiveness. The BCG report (2024) notes that firms with comprehensive ESG frameworks have a 30% lower probability of facing regulatory penalties compared to those without structured ESG strategies (McKinsey & Company, 2023).

- 30% lower risk of regulatory penalties with structured ESG frameworks (BCG, 2024)
- 40% reduction in operational risk through improved environmental practices (McKinsey & Company, 2023)
- Enhanced resilience during market volatility through sustainable resource management (McKinsey & Company, 2023)

4.2.4 Long-term versus short-term financial outcomes

The financial impact of ESG integration is not uniformly positive, particularly in the short term. High initial costs related to adopting sustainable technologies, revamping supply chains, or training employees can strain profitability metrics. Although companies may face early challenges, they often gain more in the long run through better operations, higher stakeholder trust, and cheaper access to capital (BCG, 2024).

A comparative analysis of short-term and long-term outcomes indicates that companies that invest heavily in ESG practices may experience a temporary dip in profitability but recover over time as the benefits of sustainable operations become evident. For example, Ørsted's significant investment in offshore wind infrastructure initially led to higher expenses, but the long-term reduction in operational costs and increased investor confidence resulted in improved financial performance (McKinsey & Company, 2023).

In conclusion, ESG integration presents both challenges and opportunities. Despite the high initial costs, companies that adopt sustainability strategically tend to benefit from stronger financial performance, including higher profits, lower risk, and improved investor relationships. Evidence suggests that managing short-term challenges in pursuit of long-term value is key to achieving lasting success (BCG, 2024).

4.3 Green M&A as a strategic tool

The expansion of ESG considerations has played a key role in shaping corporate strategic planning, particularly within the context of mergers and acquisitions. Green M&A has become a key strategic approach for firms seeking to advance

sustainability goals alongside financial and operational synergies. Green M&A involves acquiring or merging firms that possess sustainable technologies, renewable energy assets, or other environmentally friendly attributes, thereby supporting the acquirer's ESG goals.

4.3.1 Strategic motives behind green M&A

The primary driver behind Green M&A is the pursuit of sustainable transformation while gaining a competitive edge. Companies leverage Green M&A to fast-track their transition to low-carbon business models, diversify their portfolios with green technologies, and meet evolving regulatory requirements. Additionally, this strategy addresses the growing demand from investors who prioritize ESG-integrated companies.

One prominent example is Ørsted's acquisition of renewable energy assets, which strategically shifted the company's focus from fossil fuels to offshore wind power. This not only enhanced Ørsted's ESG profile but also improved its financial metrics, as evidenced by a marked increase in shareholder value and market capitalization (McKinsey & Company, 2023).

4.3.2 Financial implications of green M&A

Green M&A involves both strategic intent and notable financial impact. Despite short-term acquisition costs, companies frequently gain long-term stability and increased investor confidence. According to BCG (2024), firms pursuing Green M&A typically experience reduced costs of capital due to better risk management and improved credit ratings.

However, challenges persist. Integrating newly acquired green technologies can be financially and operationally demanding. For instance, the Ørsted case highlighted significant capital expenditures in transforming legacy operations. Yet, the long-term financial outcomes were favorable as the company solidified its position as a leader in offshore wind (McKinsey & Company, 2023).

4.3.3 Challenges and risks in green M&As

Despite the strategic advantages, Green M&A poses several risks. One primary challenge is the valuation issue due to the emerging nature of sustainable technologies. Additionally, integrating disparate corporate cultures, particularly when sustainability is not ingrained in the acquired firm, can result in strategic divergence.

Moreover, not all Green M&As yield financial success. Companies that fail to effectively integrate sustainable practices may face negative reactions from stakeholders and miss financial targets. The BCG report (2024) warns that inadequate due diligence in evaluating the sustainability of acquired assets can lead to financial and reputational risks.

Ørsted's strategy exemplifies successful Green M&A. The company's strategic switch from fossil fuels to renewable energy through strategic acquisitions allowed it to become a global leader in offshore wind energy. Initially facing high capital investments, Ørsted eventually reaped significant financial benefits, including a surge in market valuation and increased shareholder support (McKinsey & Company, 2023).

Similarly, Engine No. 1's campaign at ExxonMobil demonstrates how M&A with a green agenda can drive governance changes. By advocating for climate

responsibility, Engine No. 1 successfully secured board positions, pushing ExxonMobil towards more sustainable practices (Wharton School, 2023).

Green M&A, as a strategic tool, coordinates with both corporate sustainability goals and long-term financial performance. Companies that effectively manage integration challenges and leverage acquired green technologies tend to outperform peers in financial stability and investor appeal. Yet, caution must be exercised to assess the actual sustainability value of potential acquisitions. Firms must undertake comprehensive due diligence to mitigate risks associated with overvalued green assets or inadequate integration planning.

In conclusion, while Green M&A offers substantial strategic advantages, its successful execution requires meticulous planning, stakeholder engagement, and long-term vision. Achieving the intended outcomes of Green M&A requires firms to manage early financial difficulties without losing sight of long-term environmental and strategic objectives.

4.4 Sectoral and regional differences

How companies apply ESG practices can vary greatly between sectors and parts of the world. While some sectors inherently match sustainability goals due to their operational nature, others face considerable challenges in ESG adoption.

Additionally, regional differences, particularly between developed and emerging markets, influence how companies implement and benefit from ESG strategies.

4.4.1 Sectoral differences in ESG adoption

Sectoral differences significantly impact ESG adoption across industries, with finance and technology sectors often advancing faster due to regulatory pressures and

stakeholder demands. On the other hand, industries like manufacturing and agriculture may take longer to implement ESG due to their heavy use of resources and traditional methods. This shows why ESG strategies must be adapted to fit the specific realities of each sector.

4.4.1.1 ESG adoption in energy sector

The energy sector, particularly fossil fuel-based companies, often faces monitoring regarding sustainability practices. Transitioning to renewable energy sources involves substantial financial investment and long-term strategic shifts. Companies like Ørsted exemplify successful ESG integration, transitioned from oil and gas to become a global leader in offshore wind energy. The transformation significantly increased Ørsted's market valuation and investor appeal (McKinsey & Company, 2023).

In contrast, traditional energy companies like Shell face challenges balancing profitability with sustainability. Despite initiatives to integrate solar and wind energy, Shell continues to grapple with its carbon-intensive legacy, highlighting the challenges of ESG transformation in high-emission industries (AllianceBernstein, 2023).

4.4.1.2 ESG adoption in financial services

Investor demand for sustainable portfolios is pushing financial institutions to integrate ESG factors into their investment decisions. AllianceBernstein's approach of identifying firms with unrealized ESG potential rather than merely focusing on high-ESG performers allows for gradual improvements and long-term financial stability (Wharton School, 2023). However, this sector still faces challenges in

standardizing ESG metrics and evaluating the long-term viability of green investments.

4.4.1.3 ESG adoption in technology sector

The technology sector often leads ESG adoption, focusing on energy efficiency, data security, and social responsibility. Companies in this sector benefit from relatively lower carbon footprints, allowing for more direct integration of governance and social practices. For instance, large tech firms are increasingly committing to carbon neutrality and have begun investing in renewable data center operations.

4.4.2 Regional differences in ESG implementation

Regional ESG implementation differs because of variations in regulations, cultural beliefs, and economic focus. Regions with strict regulations and strong public awareness, such as the European Union, often demonstrate advanced ESG integration. In contrast, areas with developing regulatory frameworks may implement ESG measures more gradually. The variation in ESG practices across regions emphasizes the need for flexible, locally informed approaches to ensure successful implementation in diverse settings.

4.4.2.1 ESG implementation in developed markets

In developed economies, ESG practices are increasingly mandatory due to strict regulations. The European Union, for instance, has enforced the Carbon Border Adjustment Mechanism (CBAM), compelling companies to reduce carbon emissions or face fines. Such policies have driven major corporations to adopt ESG strategies as part of compliance and long-term risk management (BCG, 2024).

Furthermore, investor pressure in developed markets pushes companies toward sustainable practices. Engine No. 1's campaign at ExxonMobil exemplifies how activist investors in developed economies can significantly influence corporate governance (Wharton School, 2023).

4.4.2.2 ESG implementation in emerging markets

Challenges such as insufficient financial resources and weaker enforcement mechanisms make ESG implementation more difficult in emerging economies. Companies in these regions often focus on social and governance improvements rather than environmental aspects, partly due to economic development priorities.

According to BCG (2024), firms in emerging markets that comply with global ESG standards often attract international investment, despite facing barriers like weak enforcement and inconsistent reporting practices. Moreover, the integration of ESG principles in emerging markets is frequently driven by external factors such as multinational supply chain requirements rather than internal corporate strategies.

4.4.3 Strategic implications of sectoral and regional variations

Understanding sectoral and regional differences is essential for tailoring ESG strategies effectively. Companies operating in high-emission industries, such as energy, must prioritize long-term transformation plans, whereas technology firms can focus more on social governance without facing the same level of regulatory monitoring. Similarly, businesses in emerging markets may need to adopt a gradual approach, balancing economic development with sustainability commitments.

Moreover, cross-sector collaborations can facilitate better ESG outcomes. Financial institutions hold significant influence by directing capital toward industries with strong potential for ESG advancement, especially in areas with constrained local investment capacity.

In conclusion, recognizing the sectoral and regional ESG adoption is crucial for companies seeking sustainable growth. By adopting strategies with both industry-specific challenges and regional regulatory environments, businesses can optimize their ESG performance while building resilience in an evolving economic environment.

4.5 Investor and stakeholder perspectives

Corporate sustainability is evolving, and investors along with other stakeholders are playing a larger role in shaping ESG policies. With rising pressure for openness and responsibility, companies are adjusting their strategies to match stakeholder expectations and enhance their reputation and market success.

4.5.1 Investor expectations and financial impact

Investors are seeing ESG performance as a critical factor in risk management and long-term value creation. Firms with strong ESG scores typically outperform competitors financially, as they are seen as less risky and better equipped to handle emerging challenges. BCG (2024) reports that nearly 70% of institutional investors now include ESG performance in their decision-making, highlighting the growing importance of sustainable investing.

One significant case demonstrating this trend is Engine No. 1's campaign at ExxonMobil. The activist hedge fund secured board seats by emphasizing the

financial risks associated with ignoring climate change, thereby driving ExxonMobil towards more sustainable governance practices. This event highlights how investor activism can directly influence corporate strategy and governance (Wharton School, 2023).

The analysis identifies four core factors that shape investor evaluations of ESG strategies, highlighting how sustainability contributes to financial security and market reputation.

- Long-term value creation
- Risk mitigation
- Regulatory compliance
- Corporate reputation

4.5.2 Stakeholder activism and corporate response

The impact of stakeholder activism is changing corporate priorities. Social and environmental issues have become critical parts of a company's strategic planning, rather than being seen as secondary concerns. Activist groups, employee coalitions, and consumers increasingly hold companies accountable for their ESG practices. As a result, many companies are engaging with stakeholders to adjust their business practices with public expectations.

For instance, Shell faced significant criticism due to its continued investment in fossil fuels despite public commitments to sustainability. In response, the company increased its transparency efforts and outlined a more concrete plan for reducing carbon emissions, highlighting how stakeholder pressure can prompt strategic adjustments (AllianceBernstein, 2023).

4.5.3 Balancing financial returns and stakeholder demands

While positioning with stakeholder expectations offers reputational and strategic benefits, it also presents challenges. Balancing financial performance with sustainable practices is not straightforward, particularly when immediate profitability conflicts with long-term sustainability goals. Companies that strategically integrate stakeholder feedback into their strategies often experience increased investor confidence yet face short-term financial pressures due to higher operational costs.

The Wharton School (2023) highlights that companies with transparent stakeholder engagement tend to experience more consistent financial performance. By addressing both investor and public concerns, companies can mitigate risks associated with ESG controversies while maintaining shareholder value.

4.5.4 Strategic implications for investors and stakeholders

Investor and stakeholder perspectives are now important to strategic decision-making in the context of ESG. Failing to meet stakeholder demands can result in economic setbacks, including falling market value and eroded investor confidence. Conversely, embracing these perspectives can support long-term success and sustainability.

The strategic coordination of corporate goals with stakeholder demands requires transparency, consistent communication, and a willingness to adapt. As ESG continues to shape investment strategies, companies must remain agile and responsive to evolving expectations, ensuring that sustainability initiatives are both credible and impactful.

In conclusion, investor and stakeholder perspectives significantly influence corporate ESG strategies. Achieving long-term corporate success in today's landscape of responsible investing and heightened social accountability requires

frequent stakeholder engagement, open communication, and a strategic balance between profitability and sustainability.

4.6 Synthesis and critical analysis

Bringing ESG into business strategy affects how well companies perform financially, how they connect with stakeholders, and how they position themselves in the market. Through the preceding sections, we have examined ESG integration from various perspectives, including strategic adoption, financial implications, investor influence, sectoral and regional variations, and the strategic role of Green M&A. This section reviews the findings in comparison with earlier studies, pointing out where they match, where they differ, and what new ideas they offer.

4.6.1 Linking literature with findings

Researchers have studied how ESG affects a company's financial success. A well-known study by Friede, Busch, and Bassen (2015) shows that companies with solid ESG practices usually do better financially over time. This finding supports our analysis, where companies like Ørsted demonstrated substantial improvements in profitability metrics after shifting to renewable energy (McKinsey & Company, 2023). However, not all findings uniformly support literature's optimistic view. For instance, while the literature often suggests that ESG integration reduces the cost of capital, the case of Shell reveals a different reality. Despite substantial investments in green initiatives, Shell continues to face high capital costs, primarily due to its ongoing dependence on fossil fuels (AllianceBernstein, 2023).

4.6.2 Financial performance and cost of capital

ESG integration into business strategy remains complex, with results influenced by sector and location. While studies such as Bruna et al. (2022) and Alkaraan et al. (2022) point to financial gains, our findings indicate that ESG's effect on reducing capital costs is not always consistent. In high-investment industries like energy, initial spending on green infrastructure can delay financial benefits. Shell, for example, still relies heavily on fossil fuels despite its sustainability efforts, illustrating this tension (BCG, 2024).

4.6.3 Green M&A as a strategic tool: Literature versus practice

Green M&A is theoretically positioned as a transformative strategy, enabling companies to enhance their ESG profiles while achieving financial synergies. According to BCG (2024), successful Green M&A should ideally reduce operational risks and improve long-term value. However, practical outcomes reveal that success heavily relies on the strategic integration of the acquired assets and cultural harmony between merging entities.

For instance, Ørsted's approach to integrating renewable energy assets contrasts sharply with Shell's partial adoption of green technologies while maintaining its traditional fossil fuel portfolio. This contrast highlights the importance of positioning acquisition strategies with the core corporate mission (McKinsey & Company, 2023).

Green M&A is considered a strategic approach to integrating sustainable practices within corporate structures. However, its success is highly contingent on both financial and cultural dimensions. From a financial stability perspective, theoretical models suggest that acquiring green assets stabilizes long-term

profitability. However, this positive impact is not universal, especially in industries with high legacy costs and capital expenditure requirements. For instance, in the energy sector, companies like Shell face significant financial challenges despite integrating renewable energy projects, as their core operations still heavily rely on fossil fuels (Alkaraan et al., 2022).

Equally important is the dimension of cultural compatibility. Successful integration in Green M&A hinges on merging organizational cultures that are integrated in their sustainability goals. In cases where corporate cultures clash, the merger may lead to strategic conflicts and hinder the intended transformation. This phenomenon is evident in Shell's partial adoption of green initiatives while maintaining a traditional fossil fuel-driven culture, leading to inconsistencies in strategic implementation (AllianceBernstein, 2023).

4.6.4 Strategic implications from critical analysis

To maximize the positive impact of ESG integration, companies must consider corporate culture, investor expectations, and sector-specific challenges. Transitioning to renewable energy requires energy firms to adopt tailored strategies that safeguard financial stability. The core issue involves balancing short-term capital outlays with long-term sustainability ambitions (Bruna et al., 2022).

The long-term success of Green M&A initiatives is determined more by how well ESG values are integrated after the merger than by the deal itself. Embedding sustainability into corporate culture is vital, as illustrated by Ørsted's achievement in aligning financial growth with stakeholder engagement (McKinsey & Company, 2023).

The synthesis of literature and empirical findings reveals that ESG integration and Green M&A present both opportunities and challenges. While theoretical perspectives highlight potential financial benefits and risk mitigation, practical outcomes vary significantly depending on industry context, corporate culture, and stakeholder engagement. The variability in outcomes calls for a different approach, recognizing that ESG strategies cannot be uniformly applied across all sectors.

4.7 Concluding insights

The Findings & Analysis section of this thesis has systematically explored the nature of ESG integration within corporate strategies. By examining strategic adoption, financial impacts, investor influence, sectoral and regional variations, and the role of Green M&A, we have presented a comprehensive understanding of how ESG principles shape modern business practices. This conclusion will summarize the key insights and reflect on their strategic implications while considering the critical role of stakeholders and investors.

One of the fundamental insights gained from the analysis is the positive yet variable influence of ESG integration on financial results. While academic literature highlights the long-term financial consistency benefits of ESG practices (Friede, Busch, and Bassen, 2015), our findings indicate that this positive impact is significantly influenced by sectoral and regional contexts. Ørsted's move to renewable energy has proven financially rewarding, supporting the theoretical link between sustainability and lasting profitability (McKinsey & Company, 2023). In contrast, Shell's partial adoption of green technologies, while maintaining its traditional energy operations, demonstrates the obstacles of balancing legacy business models with ESG-driven transformation (AllianceBernstein, 2023).

Another critical finding relates to the cost of capital. Theoretically, companies with strong ESG credentials are expected to benefit from lower financing costs due to perceived lower risk (Bruna et al., 2022). However, our analysis shows that this relationship is not consistent across industries. In capital-intensive sectors like energy, high CAPEX requirements may offset the cost benefits of integrating ESG, as evidenced by Shell's financial challenges despite its green initiatives (BCG, 2024).

The strategic adoption of Green M&A also presents a detailed picture. Green M&A is widely viewed as a transformative approach to driving both sustainability and profitability (BCG, 2024), but its success largely depends on the specific corporate and industry context. Ørsted's integration of renewable assets shows how strategic alignment fosters positive results, while Shell's difficulties reflect the risks of merging green goals with traditional fossil-fuel operations (AllianceBernstein, 2023). From a strategic perspective, the adoption of ESG principles is rapidly becoming a critical component of long-term corporate success. Firms that prioritize sustainability within their main strategic framework tend to perform better financially and maintain stronger investor trust. The cases examined highlight that the most successful ESG adopters are those that match their environmental and social commitments with their overarching business models, as seen in Ørsted's strategic transformation. Green M&A serves as a vital mechanism for accelerating ESG adoption, particularly in industries transitioning from traditional to sustainable practices. However, achieving strategic coherence between the acquirer and the acquired company remains a fundamental challenge. The variability in financial outcomes observed in our analysis highlights the need for thorough due diligence and strategic incorporation prior to pursuing Green M&A.

Moreover, regional disparities in stakeholder engagement present additional challenges. In developed economies, investors and regulators are demanding comprehensive ESG reporting and commitment, while emerging markets often face slower adoption due to financial and regulatory constraints (BCG, 2024). This disparity emphasizes the need for a context-specific approach when devising ESG strategies, considering the local investment climate and stakeholder priorities.

As stakeholder and investor demands evolve, they are playing a bigger role in influencing ESG efforts. Engine No. 1's impact on ExxonMobil is a clear example of how activist investors can promote better governance and sustainability (Wharton School, 2023). However, meeting investor expectations while maintaining financial stability is not straightforward, especially when short-term costs of ESG integration overshadow long-term benefits.

The integration of ESG principles into corporate strategies is not a uniform process but rather a detailed interaction of financial, strategic, and stakeholder-related factors. While theoretical models offer a promising outlook on the financial and strategic benefits of ESG adoption, real-world cases reveal the difficulty of practical implementation. ESG integration and Green M&A performance are influenced by a combination of sector-specific factors, regional frameworks, investor pressures, and company culture. To successfully manage this situation, companies must adopt flexible and context-aware strategies. Emphasizing long-term planning, matching sustainability goals with core business strategies, and enabling transparent stakeholder engagement are essential for achieving sustainable success. Further research should explore the factors that mediate the relationship between ESG integration and financial performance, particularly in diverse industrial and regional contexts.

CHAPTER 5

DISCUSSION

By examining the results from the previous chapter, the Discussion section explores their broader strategic meaning and the practical difficulties of applying them. The objective is to critically assess how ESG integration and Green M&A contribute to corporate sustainability and financial performance while identifying obstacles that hinder successful implementation. By synthesizing the key insights, this section aims to bridge the gap between theoretical perspectives and empirical observations.

5.1 Interpretation of findings

The evaluation of ESG integration indicates that although theoretical frameworks generally emphasize its beneficial effect on financial performance, empirical evidence reveals substantial variation depending on industry-specific factors and the degree of strategic coordination.

For instance, literature consistently supports the notion that strong ESG practices enhance profitability (Friede, Busch, and Bassen, 2015), but practical observations indicate that the success of such integration is different. Companies like Ørsted, which have fully embraced renewable energy strategies, demonstrate substantial improvements in financial metrics (McKinsey & Company, 2023). In contrast, firms with partial or inconsistent ESG commitments, such as Shell, face challenges in balancing sustainability with legacy operations (AllianceBernstein, 2023).

In addition, the impact of ESG on the cost of capital is more complicated than often suggested. While Bruna et al. (2022) report cost reductions tied to ESG due to

lower perceived risk, our analysis finds this relationship inconsistent, particularly in industries with high capital requirements. Shell's experience highlights that without a comprehensive commitment to sustainability, the anticipated reduction in capital costs may not materialize, particularly when substantial investments in green infrastructure are required (BCG, 2024).

The evolving role of stakeholder influence is another critical dimension. The case of Engine No. 1 at ExxonMobil illustrates how activist investors can directly affect corporate governance, pushing for more sustainable practices even when these may not match short-term financial goals (Wharton School, 2023). It shows that investors are now playing a more direct role in shaping company strategies, not just providing funds.

5.2 Implications for corporate strategy

Integrating ESG into a corporate strategy is essential for long-term financial sustainability and stakeholder harmony. Companies that realize the strongest ESG-related financial performance are typically those that incorporate sustainability throughout their operations. Ørsted's fully integrated renewable energy strategy exemplifies how strategic cohesion can enhance both impact and profitability.

One strategic implication is that companies must assess their industry-specific challenges before committing to ESG integration. In sectors with high CAPEX requirements, like energy, incremental adoption coupled with transparent reporting may be more sustainable than abrupt transformations. Furthermore, maintaining investor confidence through healthy stakeholder communication is critical, as seen in the positive reception of Ørsted's long-term strategy.

Corporate leaders should also consider building internal frameworks to support ESG initiatives, as fragmented or inconsistent policies can lead to reputational risks and financial instability. A clear, long-term vision that positions business strategy with ESG goals facilitates resilience and investor trust.

5.3 Green M&As as part of ESG strategy

Green M&As are now widely seen as useful strategies for helping companies move more quickly toward sustainability goals. However, the findings reveal that success in Green M&A is not solely determined by the acquisition of sustainable assets but by the integration of these assets within the existing corporate structure. Ørsted's successful acquisitions reflect a clear incorporation between acquired assets and the company's long-term renewable strategy (McKinsey & Company, 2023).

In contrast, mergers where the sustainability goals of the acquired company clash with the core operations of the acquirer, as observed in some of Shell's acquisitions, may result in strategic conflicts and diluted financial outcomes (AllianceBernstein, 2023). Therefore, maintaining M&A strategies parallelly with broader corporate objectives is crucial for achieving the intended ESG benefits.

A strategic priority in Green M&A is to perform in-depth due diligence, ensuring both the target's financial stability and its synergy with the acquirer's culture and sustainability goals.

5.4 Challenges in ESG integration

While ESG integration brings important advantages, it also creates challenges, especially in sectors with well-established systems. One primary obstacle is the high cost of transitioning from traditional to sustainable practices, as observed in the

energy sector. Additionally, inconsistencies in regulatory standards across regions complicate the development of uniform ESG strategies. Another challenge is managing stakeholder expectations, especially when short-term financial sacrifices are necessary to achieve long-term sustainability. Companies like ExxonMobil face pressure from activist investors to adopt more sustainable practices, yet the financial implications of rapid transitions can deter broader strategic commitments. Addressing these challenges requires a balanced approach, combining incremental progress with transparent stakeholder communication. Building adaptable strategies that consider both sectoral challenges and investor demands can enhance the likelihood of successful ESG adoption.

The section explores how ESG integration connects to both strategy and financial results. While theory promotes its benefits, practical execution can be difficult, especially in industries facing legacy constraints or divided stakeholder interests. Green M&A can serve as a catalyst for sustainable transformation, but its success depends on strategic and cultural coherence. To handle the challenges of ESG integration, companies must develop context-sensitive strategies that balance long-term sustainability with short-term financial viability. Enhancing internal coherence, maintaining transparent communication, and carefully conducting M&A activities with broader strategic goals are essential for leveraging ESG as a value-creating mechanism.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

As sustainability becomes increasingly important, ESG integration has emerged as a fundamental aspect of business strategy, aimed at enhancing financial performance, strengthening stakeholder relationships, and ensuring long-term value creation. This study explored how ESG integration influences financial results and strategic decisions, with special attention to the rising role of Green M&A. The findings deliver insights into both conceptual frameworks and real-world applications, revealing industry- and region-specific obstacles to ESG adoption.

6.1 Summary of findings

The study confirms that while ESG integration can positively impact financial performance, the outcomes are highly context dependent. The literature broadly supports the notion that well-developed ESG practices enhance profitability and reduce financial risks (Friede, Busch, and Bassen, 2015), but our analysis revealed that success varies across sectors. For instance, companies like Ørsted have successfully leveraged ESG strategies to transition from traditional energy to renewable sources, thereby improving their financial metrics and investor appeal (McKinsey & Company, 2023). In contrast, companies like Shell, which maintain fossil fuel dependencies while attempting green initiatives, face strategic inconsistencies that hinder the expected financial benefits (AllianceBernstein, 2023).

Green M&A has been identified as a strategic tool to enhance ESG performance, but its success is not guaranteed. The theoretical premise that Green M&A creates synergies through sustainable asset acquisition is valid when strategic

and cultural incorporation exist (BCG, 2024). However, the real-world outcomes, as seen in the contrasting cases of Ørsted and Shell, demonstrate that without integrating acquired practices within the acquirer's broader ESG strategy, the financial and sustainability goals may not be successful.

In addition, stakeholders, and investors in particular, have a strong influence on how ESG strategies are shaped. Activist investors like Engine No. 1 have shown how shareholder engagement can drive corporate governance changes, pushing firms like ExxonMobil towards more sustainable practices (Wharton School, 2023). However, maintaining stakeholder confidence while pursuing long-term ESG goals remains a challenge, especially when short-term financial sacrifices are required.

6.2 Theoretical and practical contributions

Contributing to the literature on ESG and corporate finance, this study critically explores how ESG practices affect financial performance. Rather than assuming universal benefits, it emphasizes the role of industry, geography, and company culture in shaping outcomes.

The findings offer practical value by informing the strategic planning processes of both executives and investors. Companies aiming to integrate ESG must focus on integrating their sustainability goals into core business strategies to avoid fragmented implementations. Furthermore, Green M&A should not be pursued solely for its potential reputational benefits but should be strategically integrated to promote long-term value creation.

6.3 Recommendations for corporate managers, investors, and policymakers

Business leaders can gain advantages by integrating ESG more fully, making sustainability practices a core part of their main strategies instead of treating them as extra tasks. Effective implementation often involves conducting thorough due diligence during Green M&A processes, with a particular focus on the cultural and strategic compatibility of the acquired company. This can help mitigate potential post-merger conflicts. Additionally, building an internal capacity to continuously assess ESG performance and adapt strategies to evolving market conditions contributes to maintaining strategic coherence and long-term success.

Instead of just looking at short-term financial data, investors should consider whether a company's ESG actions support its long-term goals to make better-informed decisions. Ensuring the credibility of ESG initiatives requires active stakeholder involvement to confirm that sustainability goals are appropriately integrated into a company's operations. Equally important is the demand for transparent and consistent ESG reporting, which holds firms accountable and encourages meaningful progress.

Policymakers have an important role in shaping ESG by developing standardized guidelines for ESG reporting. Standardization can help reduce inconsistencies and increase comparability across industries. Encouraging public-private collaborations may facilitate sustainable transitions, particularly in carbon-intensive sectors. Providing benefits like tax incentives or subsidies to companies that show clear sustainability progress through Green M&A could help drive long-term environmental and social commitment.

6.4 Future research directions

Despite offering a comprehensive perspective on ESG integration and the strategic use of Green M&A, this study identifies several areas in need of further exploration. Chief among them is the inconsistency in ESG metrics, which complicates industry-wide comparisons and limits strategic decision-making. Future research should focus on creating standardized evaluation frameworks.

Moreover, the long-term financial impacts of Green M&A have not sufficient findings. While initial outcomes appear promising in some cases, the sustainability of these financial gains over extended periods warrants deeper investigation. Future research could also investigate how regulatory environments influence the effectiveness of Green M&A, especially in emerging economies where sustainability-related policies are still developing.

Finally, how a company's culture affects its ESG efforts should be studied more closely. This thesis shows that when two merging firms do not share the same values or mindset, their ESG goals often do not work out as planned. The analysis of case studies, such as Shell and Ørsted, clearly demonstrates that even constructive sustainability efforts may fall short when there is a disconnect between the acquiring company's strategic vision and the acquired entity's cultural practices. Cultural integration challenges can lead to strategic inconsistencies, diluted sustainability goals, and, ultimately, weaker financial performance.

Furthermore, existing literature often underestimates the difficulty of merging organizational cultures during Green M&A. Studies primarily focus on financial and strategic synergies without adequately addressing how cultural aspects impact the post-merger integration process. This gap is especially important because the success of Green M&A depends not only on acquiring sustainable assets but also on aligning

environmental and social values between the firms involved. Future research should explore how corporate governance and organizational culture interact to affect the long-term effectiveness of ESG integration. By developing approaches that assess cultural compatibility as part of the ESG integration strategy, researchers and practitioners could provide more comprehensive guidance for corporate decision-makers.

Filling these research gaps can help clarify how ESG integration affects business outcomes and long-term value. Understanding the links between culture, governance, and sustainability is key to creating strategies that lead to both successful ESG adoption and lasting impact.

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