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# **The Impact of Corporate Social Responsibility on M&A Premiums**

Evidence from the European M&A market

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**ABSTRACT:**

This thesis examines the relationship between corporate social responsibility (CSR) performance and M&A premiums in the European mergers and acquisitions (M&A) market, focusing on the perspective of target companies. It investigates whether the CSR performance of the target company influences the premiums paid by acquiring firms and whether different CSR dimensions, environmental and social, have distinct effects on valuation. The study also explores how the valuation of CSR differs between domestic and cross-border M&A transactions, addressing gaps in existing literature that mainly focus on the acquirer's perspective or specific geographic regions.

Using a dataset of 205 M&A transactions involving publicly traded target companies in the Eurozone between 2012 and 2024, this study employs a multivariate OLS regression model to analyze the impact of CSR performance on acquisition premiums. The CSR performance is measured through ESG scores, focusing on environmental and social factors, while controlling for firm-specific and deal-specific characteristics.

The findings reveal that the target company's CSR performance does not have a significant impact on the premium paid in M&A transactions, meaning that European target companies are not rewarded for their CSR investments when acquired. A similar result is observed even in higher-risk cross-border deals. These findings suggest that, in Europe, companies generally maintain a high level of CSR due to EU policies and regulations. As a result, a target company's CSR performance does not significantly influence bid premiums.

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**KEYWORDS:** Corporate social responsibility, M&A, corporate strategy

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**TIIVISTELMÄ:**

Tämä tutkielma tarkastelee yritysvastuun (CSR) ja yritysostojen (M&A) preemioiden välistä suhdetta Euroopan markkina-alueella keskittyen ostettavan yrityksen näkökulmaan. Tutkielman päätavoitteena on selvittää, vaikuttaako kohdeyrityksen CSR-suorituskyky ostajan maksamaan preemioon. Lisäksi tutkimuksessa tarkastellaan erikseen ympäristö- ja sosiaalielementtien vaikutusta kohdeyrityksen arvostukseen sekä syvennyttään tarkastelemaan eroja kotimaisten ja kansainvälisten yrityskauppojen välillä. Aikaisempi kirjallisuus on keskittynyt pääasiassa ostajan näkökulmaan tai tiettyihin maantieteellisiin alueisiin ja tämän tutkielman tarkoituksena on laajentaa kirjallisuutta keskittymällä ostettavan yrityksen näkökulmaan Euroopan markkina-alueella.

Tutkimuksessa hyödynnetään aineistoa, joka koostuu 205 julkisesti noteeratun kohdeyrityksen yrityskaupasta Euroalueella vuosien 2012–2024 välillä. CSR-suorituskyvyn vaikutusta yritysostojen preemioihin analysoidaan käyttäen apuna monimuuttujaista OLS-regressiomallia. CSR-suorituskykyä mitataan hyödyntämällä ESG-ratingin ympäristö- ja sosiaalitekijöitä. Lisäksi regressiomallissa hyödynnetään useista yrityskohtaisia ja transaktiokohtaisia kontrolli muuttujia.

Tulokset osoittavat, että kohdeyrityksen CSR-suorituskyvyllä ei ole merkittävää vaikutusta yrityskaupassa maksettuun preemioon, kun ostettava yritys on eurooppalainen. Tämä tarkoittaa sitä, että eurooppalaisia kohdeyrityksiä ei palkita CSR-investoinneista yrityskaupassa korkeammalla preemiolla. Sama tulos havaitaan myös korkeampiriskisissä kansainvälisissä yritysostoissa. Havainnot viittaavat siihen, että Euroopassa yritysten CSR-suorituskyky on yleisesti korkea EU:n säädösten vuoksi.

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**AVAINSANAT:** Yritysvastuu, yrityskauppa, yritys strategia

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## 1 Introduction

Corporate Social Responsibility (CSR) has gained increasing attention in recent years as companies try to address their social and environmental impacts. CSR refers to a company's commitment to behave ethically and contribute to sustainable economic development while also improving the quality of life of its employees and their families, the local community, and society at large (Gillan et al., 2021). The concept of CSR has evolved from an ethical and moral obligation to an essential business strategy that creates value for shareholders, stakeholders, and society.

One aspect of CSR that has received considerable attention from academics and practitioners alike is its impact on mergers and acquisition (M&A) transactions. M&A is one of the major corporate investment decisions that offers companies one effective way to expand into new markets, accelerate revenue growth, or improve their competitive position (DePamphilis, 2019). Previous academic literature on CSR performance and M&A transactions mainly deals with this acquirer perspective. For example, Aktas et al. (2011) and Deng et al. (2013) studied how the target company's CSR performance affects the acquirer's post-acquisition performance. Interest in the target company perspective has recently increased despite the viewpoint of most of the earlier academic literature. Gomes and Marsat (2018) found by exploiting an international sample, that the target company's CSR performance positively impacts bid premiums in M&A transactions. Jost et al. (2021) showed that neither the acquirer nor the target company's CSR performance alone has a significant impact on M&A premium, while Odzemir et al. (2022) found a positive link between the target company's CSR performance and the deal premium in the M&A transaction.

Overall, these previous studies tend to suggest a positive relationship between CSR performance and M&A premiums, although the core CSR literature offers two different perspectives that have opposite outcomes. The stakeholder value maximization view (Freeman, 1984) suggests that high-CSR firms should have better acquisition premiums than low-CSR firms in the M&A transaction, and on the other hand, the shareholder expense

view (Friedmann, 1962) suggests that high-CSR firms should have a lower acquisition premium than low-CSR firms in the M&A transaction. In addition to the fact that the previous literature is inconsistent with the shareholder expense view, there are also some gaps in the existing literature. Most prior studies focus on a specific sector, country, or region, limiting the generalizability of the findings. Some of the studies have utilized international samples, but this does not remove the fact that there is a lack of studies specifically examining the impact of CSR performance on M&A premiums in the second-largest economy in the world, the Eurozone. This research aims to fill these gaps by conducting a study about CSR performance and M&A transactions in the European market area.

The concentration is to determine how the target company's CSR performance is valued in M&A transactions with the use of premiums paid by acquiring firms. Premium is the difference between the purchase price of a target company and its market value before the transaction. The premium is affected by various factors, including the target company's financial performance, market position, and growth prospects (Laamanen, 2007). In addition, CSR performance is an emerging factor that has been suggested to impact M&A premiums. The argument is that CSR performance can enhance a target company's reputation and reduce the risk of negative externalities, such as environmental and social controversies. This, in turn, can increase the target company's attractiveness to potential acquirers, leading to a higher premium.

Overall, this study aims to advance our understanding of the impact of CSR performance on M&A premiums in the European market area, contributing to the growing body of research on CSR and M&A. In addition, this work extends the previous literature by examining not only the overall effects of the target company's CSR performance but also the relative importance of environmental and social factors within CSR. Furthermore, it investigates how the valuation of CSR performance differs in cross-border versus domestic M&A transactions. By exploring these relationships, the aim is to provide valuable

insights for academic and practical stakeholders, with implications for corporate strategy and investment decision-making.

### **1.1 Purpose of the study**

The purpose of this study is to examine the relationship between corporate social responsibility and premiums paid in M&A transactions. The aim is to determine if a company and its shareholders benefit from CSR investments when the company is sold. This study focuses on the central question: Does the CSR performance of the target company impact the premium paid by acquiring firms in the European merger and acquisition market? The main focus of this study is on the target company perspective.

As M&A transactions continue to be a popular strategic choice for businesses looking to expand and diversify, understanding the role of CSR performance can provide valuable insights for corporate management and shareholders. In addition, with an increased focus on sustainability and responsible business practices, stakeholders, such as consumers and partners, are also interested in how CSR is really considered in financial markets. This study focuses on the target company perspective, but this can be still beneficial also for acquiring companies. Acquirer companies can receive valuable insight from this study related to M&A target choice and how to value target CSR in the transaction. The target company, in turn, will gain information from this research about how their CSR performance is viewed in an M&A transaction situation. This knowledge can help companies when they make decisions about CSR investments.

By examining the relationship between CSR performance and M&A premiums, this study aims to fill the research gaps. Although existing literature has examined the broader relationship between CSR, financial performance, and firm value, there is a notable lack of research focusing on the link between CSR and M&A transactions, especially from the target company perspective. In addition, most of the previous findings are limited to specific geographic regions or the global context. This study is motivated by the need for

region-specific insights, particularly in Europe, where unique market dynamics, regulatory frameworks, and cultural factors may influence the relationship differently.

By focusing on these, the study contributes to a deeper understanding of how social responsibility influences financial outcomes in the corporate world. This research holds practical significance for various stakeholders, particularly companies that are looking to be acquired or are planning to acquire a company. Driven by both academic and practical motivations, this study provides insights to corporations, investors, several other stakeholders, and society at large.

## **1.2 Hypotheses of the study**

This section introduces three hypotheses that will serve as guidelines in this research. As mentioned, CSR refers to a company's commitment to behave ethically and contribute to sustainable economic development. It is often part of companies' strategies as it covers a wide range of environmental, social, and governance (ESG) concepts that are the foundation for an organization's dedication to ethical, socially responsible, and sustainable business practices (UNEP, 2010). As corporations increasingly recognize the importance of CSR, this study aims to identify its role in the context of M&A transactions. Findings of prior literature are mixed, but several studies have established a positive relationship between CSR and firm valuation in M&A transactions, as CSR initiatives can signal reduced risk, better reputation, and future financial performance (Cheng et al., 2014).

The first hypothesis examines how much the target companies' investments in CSR initiatives affect the premium paid by acquiring firms. The hypothesis explores whether investments in social and environmental efforts enhance the perceived value of the target, resulting in a higher premium. Driven by prior literature, the first hypothesis expects a positive relationship between the target company's CSR performance and the premium paid in M&A transactions.

*H<sub>1</sub>: Target company CSR performance positively correlates with the M&A deal premium.*

In addition to researching the direct impact of CSR performance on M&A, this study breaks down CSR into its environmental and social dimensions and investigates their individual effects on M&A premiums. The second hypothesis focuses on this question and states that environmental factors have a stronger impact on M&A deal premiums than social factors. This expectation is based on the growing global trend of environmental sustainability which is driven by regulatory pressures, investor demand, and consumer preferences. The goal of the second hypothesis is to provide an understanding of how specific CSR elements impact valuation in the M&A context.

*H<sub>2</sub>: Investments in environmental factors are more valued in M&A deals than social factors*

To expand, this study also explores the relationship between CSR performance and M&A premiums by focusing on cross-border transactions. Cross-border deals often involve higher levels of risk and uncertainty due to cultural, regulatory, and market differences. Also, according to Shimizu et al. (2004), a company's ability to handle acquisitions is often judged based on its social performance. The third hypothesis aims to determine whether CSR acts as a risk-reducing and trust-building mechanism, resulting in higher premiums for cross-border transactions compared to domestic deals. High CSR performance can be seen as a risk-reducing factor, meaning that strong CSR target companies might be more valuable to foreign acquirers than low CSR targets. As target companies with strong CSR performance are more appealing acquisition targets they may command a higher premium. Driven by prior literature, this hypothesis expects that target company CSR performance correlates more positively with transaction premiums in cross-border deals than domestic deals.

*H<sub>3</sub>: High CSR performance is more valued in cross-border M&A deals than in domestic transactions*

This study aims to clarify the relationship between corporate social responsibility (CSR) and mergers and acquisitions (M&A) financial outcomes by conducting empirical analysis and a comprehensive examination of data. Using the above-mentioned hypotheses, the study aims to determine how CSR performance and its social and environmental elements impact M&A premiums. In addition, by focusing on cross-border deals, this study aims to expand understanding of how the impact of CSR performance differs between cross-border and domestic deals.

### **1.3 Structure of the study**

The first chapter presented the topic and focused on the purpose of the study. Also, the hypotheses, contribution, and motivation of the study were handled in detail. The next chapter contains the relevant underlying theoretical background of corporate social responsibility, corporate financial performance, and mergers and acquisitions. After that chapter three reviews prior literature related to the impact of CSR on M&A transactions. Then, chapter four introduces the data and methodology and explains the details of the used research variables. This is followed by the empirical result chapter, which contains a review of the research results in a systematic form. Finally, chapter six contains the conclusions and suggestions for future research.

## **2 Theoretical background**

The purpose of this chapter is to provide an overview of the main theories related to the research topic. These foundational theories are corporate social responsibility (CSR), corporate financial performance (CFP), and mergers and acquisitions (M&A). First, there is an introduction chapter of CSR where the history, overall meaning, and background of CSR are discussed. Then, the two main competing CSR theories shareholder theory and stakeholder theory are addressed in depth. After that, corporate financial performance and firm value are discussed. Then last the chapter focuses on M&A transactions, the motivation for implementing them, and the basics of M&A valuations. The main goal of this chapter is to draw together these three components CSR, CFP, and M&A to provide a comprehensive foundation for understanding this research.

### **2.1 Corporate social responsibility**

Corporate social responsibility is nowadays a well-known concept that has received an increasing amount of interest in recent years. Despite the recent interest, the concept has existed for a long time, and its roots can be identified from several centuries back (Carroll, 2015). CSR got its current modern form in the middle of the 20th century, and today's discussions and opinions are strongly based on findings from this time. Partly due to the long history and conflicting opinions, describing the term CSR is not that simple, as there are dozens if not hundreds of different descriptions for the term. Generally, CSR can be described as being an overall term for discussion about business and society relationships (Carroll, 2015).

The difficulty in describing CSR more accurately comes from the debate about what is the main goal of the companies when it comes to social responsibility. This leads to shareholder and stakeholder theories that offer two opposite perspectives on how companies should utilize social responsibility in their actions. According to shareholder theory, the main objective of companies is to create wealth for stakeholders, and operations that are not lining up with this can be seen as unnecessary (Friedman, 1962). This brings

investments and actions to promote social responsibility to a bad light because these cannot be always seen at least directly generating wealth for shareholders. Stakeholder theory on the other hand suggests that organizations are not only accountable to their shareholders but also to a broader array of stakeholders who have a vested interest in the company's actions and outcomes (Freeman, 1984).

Despite the debate between these two theories, a more modern and neutral way to describe CSR is to combine both of these views. According to this idea companies' main goal is to maximize the creation of shareholder value but at the same time ensure benefits for other direct stakeholders (European Commission, 2011). Maximizing the creation of shareholder value means in this context creating returns on investments for shareholders and ensuring benefits for other stakeholders means utilizing good social and environmental practices in the company's actions.

This perspective is also backed up by companies' actual actions in recent years. CSR reporting has increased significantly worldwide and according to Gillan et al. (2021), sustainability or corporate responsibility reporting has increased from 11% in 2011 to 86% in 2018 among S&P500 companies. The same trend is noticeable in Europe and possibly even stronger in recent years due to the European Commission's (2022) Corporate Sustainability Reporting Directive (CSRD) which entered into force in January 2023 and expanded the scope of reporting requirements to include a broader range of companies. In addition to regulation, most of the world's largest institutional investors have also announced sustainability and CSR standards which guide companies to take real actions towards better corporate social responsibility.

CSR can still be considered a growing megatrend, and according to CSR reporting, companies invest significant resources in CSR initiatives. The overall tendency seems to be that companies recognize the value of CSR not only in fostering goodwill but also in meeting the expectations of their stakeholders. Despite the risen amounts of CSR

investments and reporting, the impact cannot be found to be positive from the shareholder perspective only based on the increase in reporting.

### **2.1.1 Shareholder theory**

The shareholder theory also known as the shareholder expense view became well known after Nobel Prize Winner Milton Friedman published the book *Capitalism and Freedom* in 1962, which handles the role of economic capitalism in liberal society. Friedman (1962) discusses the importance of a free market and emphasizes that in order for the market to function effectively companies should focus on maximizing profits and creating positive net present value to their investments. This then leads to the shareholders getting the maximum financial benefit for their investments. According to Friedman (1962), the companies' investments in CSR do not mean profit maximization, and therefore investments in CSR are an inefficient use of resources. Inefficient use of resources, on the other hand, ultimately leads to inefficient markets.

CSR as a term combines corporate responsibility and social responsibility. Friedman (1962) emphasizes the difference between these two things and sees companies acting responsibly when they aim to maximize profits ethically while following the laws. In the long term, profit maximization is also in the interest of other stakeholders, as shareholders often try to invest their profits back into the market. According to shareholder theory, corporate responsibility means that companies maximize the profits of the shareholders while also following laws and ethical rules. Companies are not responsible for promoting wider social or environmental goals unless they simultaneously produce value for shareholders (Friedman, 1962). The primary mission of companies is financial success, and when companies focus on maximizing profit, they indirectly promote the well-being of society as a whole through market mechanisms. For this reason, according to shareholder theory, companies should focus and invest in social responsibility only when the investment yields positive net present value.

Despite shareholder theory's early roots, it can be still seen as a relevant theory today. Companies have to utilize this perspective in decision-making because markets are still working with the same principles that Friedman (1962) used to explain the shareholder theory view. The theory has, however, received over the years both significant support and criticism. According to Borghesi et al. (2014), many CSR investments are not in line with shareholder interests and these investment decisions have been often made by managers who see themselves personally benefiting from the investment. In addition, the study found that companies that had significant institutional ownership were less likely to invest in CSR. Often companies owned by institutional investors have to prioritize shareholder interests more and due to that this observation supports utilization of shareholder theory.

Most of the criticisms that shareholder theory receives come from the support of the competing stakeholder theory that suggests companies should create value for all stakeholders, not just shareholders (Freeman, 1984). Also, stakeholder theory has been extensively researched and several studies have found evidence that supports the theory. Deng et al. (2013) found that CSR investments that take into account various stakeholders' interests enhance long-term profitability and increase shareholder wealth. This observation clearly contradicts the shareholder theory.

### **2.1.2 Stakeholder theory**

Stakeholder theory emphasizes that companies should consider the interests of all their stakeholders in their operations, not just the owners or shareholders. The framework was introduced by Freeman (1984) and it challenges the traditional shareholder-centered thought model called shareholder theory. Stakeholder theory suggests that organizations are not only accountable to their shareholders but also to a broader array of stakeholders, including employees, customers, suppliers, communities, and other entities whose welfare is interconnected with the organization (Freeman, 1984).

According to Freeman (1984), a company that pays attention not only to shareholders but also to other stakeholders' interests will benefit financially in the long term. If companies are benefitting financially by conducting stakeholder theory, it should mean that investments in CSR also have a positive impact on shareholder wealth. The results of the study conducted by Deng et al. (2013) support the argument as they found that considering the interests of different stakeholders increases their support for the company, which in turn improves the company's financial performance and eventually increases shareholder wealth. More precisely, mutually trusting and cooperative stakeholder relationships can be seen to improve the company's reputation, which is believed to enhance customer loyalty, employee commitment, and supplier cooperation (Dunfee, 2008). These factors have a clear positive effect on the company's risk management and ultimately, these things can lead to a more predictable, cost-effective, and sustainable business, which also produces financial benefits for the shareholders.

To conduct stakeholder theory, companies are utilizing CSR practices, and it has been recognized that the primary reason why companies invest in CSR activities is stakeholder theory (Huang, 2021). However, due to competing theories, the benefits of CSR investments from the shareholder's point of view are still constantly questioned, even though the academic literature mostly supports the benefits of responsible operations. Flammer's (2013) study provides evidence that CSR has a positive effect on shareholder wealth. By utilizing stock market data, Flammer (2013) found that CSR is nowadays a norm, and breaking the norm is reflected negatively in companies' share prices. According to these results, shareholders can also be seen to expect that businesses will behave socially responsibly and integrate CSR efforts into their long-term business plans.

Stakeholder theory essentially offers one theoretical perspective on how the interplay between corporate strategy and CSR can be analyzed. The theory highlights the importance of considering not only shareholders but a broader array of stakeholders in shaping corporate actions.

### 2.1.3 CSR disclosure and ESG reporting

One major aspect of corporate social responsibility is CSR disclosure, a reporting format where businesses publicly communicate their efforts, policies, and initiatives related to sustainable development, ethical business practices, and social responsibility (Gray et al., 1995). CSR reporting has evolved from including corporate environmental and social policies in annual reports to stand-alone reports with social and environmental information (Cho et al., 2015). How widely or in which format companies publish CSR information may depend on whether CSR reporting is voluntary or mandatory. CSR reporting can be mandatory for a company due to the regulations of different countries or stock exchanges. In addition, in the euro area the European Commission's (2022) Corporate Sustainability Reporting Directive (CSRD), obliges all large companies, most small and medium-sized enterprises (SMEs) with operations or securities in Europe, and all Non-EU parent companies with cumulative group turnover in the EU greater than €150 million to report on sustainability.

Often when dealing with corporate social responsibility reporting, in addition to CSR disclosure, another term ESG reporting also comes up. ESG is another well-known concept that refers to corporate environmental, social, and governance practices. The major difference between CSR and ESG is that CSR focuses specifically on environmental and social elements while ESG also considers the governance element (Gillan et al., 2021). The term ESG is also associated with measuring the sustainability of companies, and ESG ratings have become the preferred way to measure companies' responsibility numerically. ESG ratings are provided by different independent rating agencies that analyze companies' sustainability reports and actual CSR actions to generate comparable literal or numerical ratings which are indicating the responsibility of companies' operations (Billio et al., 2021).

ESG ratings are widely used by investors to analyze corporate risks, by management companies to create sustainable investment products, and by researchers to study the connection between CFP and CSR. Partly due to the popularity, problems related to the

determination of the ESR rating have been noted and studied in the academic literature. The core content of CSR reports is textual, non-quantifiable data about the performance of businesses in the social, environmental, and governance areas, as well as their policies and practices (Dhaliwal et al., 2011). Given the descriptive and non-financial nature of CSR reports and the lack of common reporting standards, it leaves much room for interpretation for the user of the report. This has led to ESG disagreement among rating agencies, and Billio et al. (2021) found that the lack of common metrics in the definition of ESG characteristics, attributes, and standards had led to the point where rating agencies have assigned even opposite ratings to a given company. Despite the noticed problems, ESG ratings are often used as CSR indicators by considering the social and environmental pillars of the rating.

## **2.2 Corporate financial performance and firm value**

Corporate financial performance (CFP) refers to the measurement of a company's financial success. Measuring corporate financial performance is important for company owners and management, but also for other stakeholders such as employees, partners, creditors, investors, and governments. Reviewing corporate financial performance means evaluating the overall financial health of the company, and measuring it tells how well the company manages its assets from operations to generate revenue (Irwanti & Ratnadi, 2021). CFP is typically measured using profitability metrics such as return on equity (ROE) and net profit margin, alongside operational indicators like return on assets (ROA) and cash flow analysis (Brealey et al., 2020, pp. 125-130).

Examining firm value is another method for evaluating the financial success of a company. Firm value refers to a company's total worth, and in theory, it reflects the market's perception of the company's ability to generate future cash flows and profits. However, because the stock price of a publicly traded company can predict firm value, it means that firm value is also influenced by market sentiment, investor expectations, and macroeconomic factors (Pástor & Pietro, 2003). Firm value is commonly measured using metrics such as market capitalization, which represents the total value of a company's

outstanding shares, and enterprise value (EV), which includes both equity and debt, giving a more comprehensive view of a company's total worth (Fama & French, 1992). When metrics such as market capitalization are not available, discounted cash flow (DCF) analysis is a key method for evaluating firm value. DCF involves forecasting future cash flows and discounting them to their present value (Berkman et al., 2000). In general, a high firm value signals strong financial health, growth potential, and effective management, while a declining value may indicate operational or financial inefficiency.

Corporate financial performance and firm value are also strongly connected to each other. Several studies have found that companies with higher profitability receive better market valuations because investors perceive them as less risky. For instance, Fama & French (1992) finding supports the theory that strong financial performance positively correlates with firm value, indicating that companies that consistently report strong earnings often command higher stock prices. Firm value is also partly driven by the company's ability to generate future cash flows, which are influenced by current financial performance metrics such as profitability and operational efficiency. According to Jensen (1986), firms with higher free cash flow can reinvest in growth opportunities or return capital to shareholders, thus enhancing their market valuations. In addition to the relationship between CFP and firm value, it has been noticed that market sentiment and macroeconomic factors have an impact on the strength of the correlation. Baker and Wurgler (2006) found that in bullish markets, strong financial performance is rewarded with higher valuations, while during downturns, even solid performance may not shield firms from declining stock prices.

Strong corporate financial performance can generally be seen as improving the company's value and poor financial performance reducing the company's value. To further investigate this connection let's include corporate social responsibility in the equation and see how these factors impact each other. As discussed previously, companies have started to integrate CSR initiatives into their strategies and it has become increasingly important to consider both stakeholders and shareholders, as it can influence financial

outcomes and market valuation. The connection between CSR, CFP, and firm value can be understood through a feedback loop in which CSR initiatives enhance financial performance, which in turn drives firm value.

Academic literature has recognized several ways how CSR engagement can have a positive impact on corporate financial performance. One key argument is that CSR initiatives help firms build stronger relationships with stakeholders, which can lead to increased customer loyalty, enhanced employee satisfaction, and a more favorable public image. These factors can drive higher sales, improve operational efficiency, and ultimately boost profitability (Eccles et al., 2014). According to the feedback loop, enhanced financial performance has the potential to elevate the company's market valuation. Also, Orlitzky et al. (2003) found that CSR positively correlates with financial performance across industries and geographies. They suggested that companies engaging in socially responsible practices tend to have a stronger brand reputation, which can translate into improved customer and investor relations. Moreover, firms that prioritize environmental sustainability and fair labor practices may reduce costs associated with regulatory fines and increase operational efficiencies. This supports the idea that CSR can have a direct impact on profitability metrics such as return on assets (ROA), return on equity (ROE), and net profit margin.

In addition, CSR can also have a direct impact on firm value. Numerous studies indicate that CSR engagement can enhance firm value by improving the company's market perception and reducing information asymmetry between the firm and its investors (Dhaliwal et al., 2011). Companies with strong CSR credentials are often perceived as lower-risk investments, which can lead to higher market valuations. For instance, Flammer (2015) found that firms that increase their CSR efforts experience positive stock market reactions, as investors recognize the potential for long-term value creation through sustainable practices. Moreover, the signaling theory suggests that CSR activities can signal a firm's commitment to long-term value creation and responsible governance, which is increasingly valued by socially conscious investors (Spence, 1973). In particular, the rise

of ESG-focused investing has led to a growing pool of investors who prioritize companies that demonstrate a commitment to social and environmental responsibility. This shift in investor behavior means that firms with strong CSR practices may attract more investment, thereby increasing their market capitalization and overall firm value.

### **2.3 Mergers and acquisitions**

Mergers and acquisitions (M&A) can be stated to be a strategic tool for corporate restructuring, which means that companies can utilize M&A to achieve corporate growth, financial restructuring, and operational improvement. In recent decades, M&A activity has increased significantly due to factors such as globalization, deregulation, and technological advancements. Partly driven by the increased activity, M&A has become a critical area for both corporate managers and scholars to understand (Alexandridis et al., 2017) and as a result, M&A transactions have become an extensively studied topic. However, the results of the benefits of M&A transactions in prior academic literature have been two-fold. Some studies highlight the potential for significant gains in efficiency, profitability, and shareholder value, while others have emphasized the high failure rates and integration challenges that can arise (King et al., 2004). However, recent research suggests that companies engaging in M&A can achieve significant performance improvements when the transactions are well-planned and executed (Bena & Li, 2014).

Although mergers and acquisitions are commonly discussed together, they are different forms of transactions, both with different structural and strategic implications. A merger is typically a mutual agreement between two companies to combine their assets and operations to create a new, unified entity. In such cases, the companies' resources and market positions are consolidated to create a larger organization with enhanced capabilities (Trautwein, 1990). The new entity may adopt a completely new corporate identity, or it may choose to retain one of the original brands while integrating the strengths of both companies. In many cases, the companies involved in a merger have roughly the same size and market influence, which is why the deal is sometimes referred to as a "merger of equals" (Devine et al., 2016). Mergers are typically motivated by the goal of

strengthening competitive advantages by achieving synergies in areas such as cost savings, operational efficiencies, or expanded market reach.

In contrast, an acquisition occurs when one company purchases a controlling stake in another company. Unlike a merger, acquisitions are often one-sided actions, with the acquiring company maintaining its identity and operational control while the target company may lose its autonomy and become a subsidiary or be fully integrated into the acquirer (Martynova & Renneboog, 2008). Acquisitions can occur in either a friendly or hostile manner. Friendly acquisitions take place when the target company agrees to be purchased, while hostile takeovers occur when the acquiring company aims to purchase a company against the wishes of its management, often through public offers to shareholders (Schnitzer, 1996). From a legal and regulatory standpoint, mergers are typically more complex than acquisitions, as they often involve the consolidation of two legal entities into one. This can require significant regulatory approval, especially in cases where the merger could lead to reduced competition in the market. Acquisitions are also subject to regulatory oversight, but in general, acquisitions are less complex than mergers in terms of restructuring since the acquiring firm continues to operate as a separate legal entity.

In conclusion, mergers and acquisitions are essential corporate strategies that could help companies increase profitability, improve operational efficiency, and grow inorganically. While they share commonalities, mergers and acquisitions also have differences in their structure, intent, and impact on the organizations involved. To understand the strategic logic behind these transaction types it is crucial first to understand the difference between them. Despite this nowadays the difference between these two is often ignored and as a result mergers and acquisitions are discussed and studied together. The next sections will explore the motivations, valuation methods, and the role of corporate social responsibility (CSR) in M&A activities.

### 2.3.1 Motivation of M&A

M&A activity has traditionally been driven by two main motives, strategic and financial. Strategic motives include goals such as gaining access to new markets, products, or technologies, while financial motives often focus on leveraging synergies to increase efficiency or reduce costs. Motives can be examined more closely from various perspectives due to the differences between merger and acquisition transactions, as well as the fact that transactions always involve two parties, and the motivations and objectives may vary between these parties.

Motives for mergers can be categorized based on the strategic relationship between the companies involved. A horizontal merger occurs when two firms within the same industry, often competitors, join forces. The primary motivation here is to consolidate market share, eliminate competition, and achieve cost synergies by merging similar resources and operations (Fee & Thomas, 2004). A vertical merger, on the other hand, involves companies operating at different stages of the supply chain within the same industry. These mergers aim to increase control over production, enhance efficiency, and reduce reliance on external suppliers or distributors (Atalay et al., 2014). Another type is the conglomerate merger, where firms from unrelated industries merge to diversify their portfolios. This approach mitigates risk by entering new markets, thus enhancing financial stability through diversification (Mueller, 1969). Additionally, market extension mergers involve companies in the same industry but in different geographic markets, aiming to expand market presence (Colwell, 1969). Similarly, product extension mergers happen when firms with complementary products or in related industries merge to diversify offerings, expand market share, and strengthen competitive positioning (Colwell, 1969).

Additionally, motivations can also be examined from the M&A transaction outcome perspective by categorizing the motives into two factors known as value-increasing and non-value-increasing (Nguyen et al., 2012). Based on previous literature, transactions carried out with value-increasing motives generally lead to an increase in shareholder value, while conversely, value-decreasing motives result in a decline in shareholder value. The

primary goal of value-increasing M&As is to enhance operational efficiency and profitability through synergies (Bradley et al., 1988). The motivations in these transactions are primarily driven by identified synergy benefits, which can be eliminating competition, increasing control over production, enhancing efficiency, entering new markets, expanding market share, strengthening competitive positioning, diversifying offerings, expanding market presence, reducing reliance on external suppliers or distributors, and achieving cost synergies through the merging of similar resources and operations.

Value-decreasing motives include agency problems, hubris, and market timing. Agency issues arise when the M&A is motivated by managers' personal interests over shareholders' value. Morck et al. (1990) found that many acquirers are more interested in maximizing firm size than firm value, which can be seen as a result of managers pursuing excessive growth to promote personal interests rather than maximizing shareholder value. The second value-decreasing motive is hubris, which means that the company may pursue M&A transactions without recognized synergies due to the hubris of managers. Large entities that are often led by hubris managers tend to pay higher takeover premiums and are overall more likely to complete a takeover than smaller companies (Moeller et al., 2004). The third value-decreasing M&A motive is market timing. When overvalued acquirers use stock to buy undervalued targets, the acquisition is stock market driven and the motivation is mostly based on market timing (Shleifer and Vishny, 2003). In addition, the findings of Dong et al. (2006) suggest that market timing-based acquisitions are typically followed by lower post-merger abnormal returns.

In addition, M&A motivations can also be examined from a target company perspective. Targets are most often motivated to carry out M&A transactions by the desire to maximize shareholder value and due to this their main goal is to secure the highest possible premium during negotiations. According to Aktas et al. (2010), targets may strategically encourage competitive bidding to drive up offers, especially when they are facing hostile or unwanted bids. In some cases, targets are motivated to merge with stronger firms to protect themselves from financial instability or market challenges. In summary, target

companies aim to maximize shareholder value, find beneficial partnerships, and avoid hostile takeovers.

It can be concluded that mergers and acquisitions are often influenced by several motives. While strategic objectives such as market expansion and operational synergies play a significant role, financial considerations, including cost reductions and efficiency gains, are equally important. The motivations for these transactions can vary between mergers and acquisitions, as well as between the acquiring and target companies. Also, M&A transactions are often driven by a combination of factors, for example, Hodgkinson and Partington (2008) found that M&A transactions in the UK involve multiple motives, especially synergy and market timing factors.

### **2.3.2 Domestic vs cross-border M&A**

In addition to varying motives, mergers and acquisitions (M&A) can be categorized into two primary types based on the geographic location of the acquirer and target company. These categories are called domestic and cross-border deals. A domestic M&A deal occurs when both the acquiring and target companies are headquartered in the same country. In contrast, a cross-border M&A deal takes place when the acquirer and target are located in different countries, meaning the transaction spans national borders. When discussing domestic and cross-border deals, it is not merely a matter of the home countries of the acquirer and target companies, these deal types also have a broader influence on the dynamics of the transaction itself.

While both types of deals are undoubtedly motivated by the goal of value creation, there are also significant differences between them. Domestic transactions typically focus on consolidating market share, reducing competition, or achieving operational synergies within a familiar regulatory and cultural environment. For instance, acquiring a competitor or a complementary business within the same market allows firms to strengthen their position and improve efficiencies through shared resources, integrated supply chains, or aligned product offerings. In contrast, cross-border M&A often reflects a

strategic pursuit of internationalization. These transactions are frequently driven by the desire to enter new markets, access foreign resources such as specialized talent, advanced technology, or critical raw materials, and diversify geographically to reduce dependence on a single economy (Shimizu et al., 2004). Additionally, companies may aim to leverage tax benefits, exploit cost arbitrage opportunities, or expand their global brand presence. Consequently, cross-border M&A often aligns with long-term objectives focused on global growth and competitiveness.

The risks associated with M&A transactions also vary notably depending on whether the deal is domestic or cross-border. Domestic M&A risks are largely operational and financial in nature. These include difficulties in integrating systems, aligning organizational structures, and achieving anticipated cost or revenue synergies. However, the shared cultural and regulatory environment in domestic transactions often enables smoother negotiations and execution, reducing the likelihood of significant disruptions. In contrast, cross-border M&A involves a more complex risk landscape. Cultural differences between the companies involved, as well as between their respective national cultures, can give rise to miscommunication, mistrust, and even conflict during the integration process (Shimizu et al., 2004). Moreover, regulatory hurdles in the target country, such as foreign investment restrictions, tax policies, or antitrust regulations, can complicate or delay the transaction. Political and economic instability adds another layer of uncertainty, as issues like currency fluctuations, trade barriers, or geopolitical tensions can further elevate the risk profile for the acquirer.

In conclusion, the primary difference between domestic and cross-border M&A deals lies in the geographic location of the acquirer and target. However, there are also other key differences. For instance, domestic deals typically focus on market consolidation and achieving operational synergies within familiar regulatory and cultural environments, whereas cross-border deals emphasize internationalization, entering new markets, and achieving geographic diversification. Geographic locations and deal motivations also

influence the risk structure of the transaction, which is why cross-border deals are generally considered riskier than domestic ones.

### **2.3.3 M&A valuation**

Valuation in mergers and acquisitions (M&A) is a critical component that directly influences the decision-making process and the overall success of the transaction. It is clear that in an M&A transaction, the acquiring and target company's businesses and assets are combined with the aim of growth. However, often less attention is paid to the fact that also the liabilities of both companies are the responsibility of the acquiring company or the new entity after the transaction. For this reason, the success of the transaction is partly dependent on the correctness of the valuation done and the price paid in the transaction. In addition, the accuracy of the valuation depends on the valuation methods used, which is why different valuation methods have been extensively studied in academic literature and will be discussed in this chapter.

When valuing a target company in an M&A transaction, companies often employ multiple valuation methods to capture different aspects of the firm's financial health, growth potential, and market conditions. As noted by academics such as Kaplan and Ruback (1995), there is no one-size-fits-all approach to valuation and companies may apply a combination of methods, such as discounted cash flow (DCF), comparable companies analysis (CCA), and precedent transactions analysis (PTA), to gain a comprehensive understanding of the target firm's value. Utilizing a multi-method approach helps mitigate biases and uncertainties associated with individual techniques, ensuring a more reliable valuation estimate. Moreover, recent empirical research suggests that firms tailor their choice of valuation methods based on the characteristics of the target and the deal. For instance, while DCF is typically favored for firms with stable cash flows, CCA and PTA are often employed when market comparables are available or when past transaction data provide insight into current market conditions (Damodaran, 2012).

One of the most used income-based valuation methods is discounted cash flow. It estimates a company's value by forecasting future free cash flows and discounting them to the present value, using an appropriate discount rate that reflects the company's risk profile. According to Kaplan and Ruback (1995), the DCF method often provides a sound estimate of value in M&A transactions, particularly in stable industries where firms have a history of consistent earnings and reliable financial forecasting. However, its accuracy is heavily dependent on the quality of the assumptions made, including the growth rate, cost of capital, and terminal value, so errors in these inputs can lead to significant over- or under-valuation of the target firm.

To avoid under- or over-valuation, another valuation method that is often used is comparable company analysis. The method involves comparing the target company valuation multiples, such as the price-to-earnings (P/E) ratio or enterprise value to EBITDA (EV/EBITDA), to similar firms within the industry. The assumption when utilizing the market-based valuation method is that similar companies will be valued similarly by the market. Alford (1992) studied the comparable method and found it to be relatively effective when there are enough comparable companies in the same industry. Findings also suggest that firm size has an impact on valuation accuracy, meaning that the CCA method works better for large firms than small firms.

In addition to DCF and CCA, other methods, such as asset-based valuation or comparable transaction analysis can also be used to help determine the value of the target company. In asset-based valuation companies, net asset value (NAV) is estimated by subtracting liabilities from the total asset value. According to Damodaran (2012), the asset-based valuation method is more relevant for firms where tangible assets dominate, such as in manufacturing or asset-heavy industries, than for growth industry firms with a high proportion of intangible assets. Precedent transactions analysis, or transaction-based valuation, involves analyzing the pricing of previous M&A transactions involving similar firms to determine a fair value for the target. PTA can provide useful benchmarks, but the problem is often that comparable transactions can be difficult to find in the same

industry (Kaplan & Ruback, 1995). In general, this method can be useful if the target company operates in industries with frequent M&A activity.

In conclusion, employing multiple valuation methods can significantly benefit the acquiring company by delivering a more accurate and balanced estimate of the target's value. This approach helps mitigate the risks of overpayment or undervaluation. In today's M&A landscape, this practice is not only common but expected, particularly in large-scale acquisitions. Most acquiring and target firms now rely on financial advisors, such as investment banks, to guide the valuation process, ensuring thoroughness and precision.

### **3 Literature review**

This chapter critically examines the existing literature on the relationship between Corporate Social Responsibility (CSR) and mergers and acquisitions (M&A). The main focus is to determine whether target firms with high CSR performance benefit in terms of acquisition premiums when they are acquired. In addition, this section seeks to determine why an acquirer would pay a higher premium for a target company that has invested in CSR or, alternatively, why the target CSR performance should not have an impact on acquisition premium. Lastly, this chapter focuses on CSR impacts on deal premiums in the cross-border M&A context. Each section aims to evaluate both supportive and critical perspectives found in prior research.

#### **3.1 The role of CSR in M&A**

The connection between CSR and M&A is complex and the topic can be viewed from several angles. Previous studies have dealt with both the acquirer's and the target company's perspective. From the acquirer's point of view, topics such as how acquirer CSR affects M&A announcement returns (Deng et al., 2013; Krishnamurti et al., 2021), how target CSR affects acquirer CSR performance (Aktas et al., 2011; Tampakoudis & Anagnostopoulou, 2020), whether acquirer CSR affects M&A transaction completion uncertainty (Arouri et al., 2019) and how acquirer CSR affects the payment method used in the transaction (Vo et al., 2024; Li et al., 2021) have been studied. Although the prior literature has focused significantly less on the target perspective, few studies have concentrated on topics such as how target company CSR performance is valued in M&A transactions (Gomes & Marsat, 2018; Cho et al., 2021; Qiao & Wu, 2019) and does CSR performance impact on target choice (Gomes, 2019).

In relation to this study, it is crucial to think why an acquirer would be willing to pay a higher premium for a CSR-aware target compared to a non-CSR-aware one. For the acquirer to justify such a premium, the CSR-aware target must offer benefits that directly or indirectly enhance the acquirer's value proposition. The most commonly cited reasons

in the prior literature include higher M&A announcement returns (Aktas et al., 2011), improvements in post-merger CSR performance (Tampakoudis & Anagnostopoulou, 2020), and better integration processes during the M&A (Gomes & Marsat, 2018). In addition to reasons presented in prior literature, acquirer willingness to pay a premium can also be examined through stakeholder and shareholder theories. According to stakeholder theory (Freeman, 1984), the acquirer may value CSR-aware targets because they contribute to long-term value creation by addressing broader stakeholder concerns, such as environmental responsibility or social governance, which can enhance reputation and reduce risks. On the other hand, shareholder theory (Friedman, 1962) suggests that such premiums are justified only if they lead to tangible financial returns, such as higher announcement returns or operational efficiencies. Thus, the acquirer's willingness to pay a premium reflects a balancing of these competing considerations.

Acquirer companies can see the impact of the target company's CSR performance in several ways, such as meaningful, meaningless, or something in between, since previous literature also presents contradictory observations on how the target company's CSR affects acquisition outcomes. Some studies suggest that CSR adds tangible value, others indicate that its benefits may be more symbolic than financial. Tampakoudis and Anagnostopoulou (2020) found that acquiring a target with higher ESG performance increases the acquirer's postmerger ESG performance and market value, while Wang et al. (2021) found that the acquirer experience declining market reactions when they announce the acquisition of target company that has overinvested in CSR. This reflects that the question of whether CSR performance warrants a premium in M&A transactions is far from settled. In order to find out does the acquirer benefits from the target company's high CSR performance and whether the benefits are good enough to motivate pay a higher acquisition premium, let's examine the previous literature in more detail next.

As mentioned, Tampakoudis and Anagnostopoulou (2020), studied whether acquiring targets with higher ESG performance improves the acquirer's ESG performance and how the market is evaluating this possible rating increase. In addition to the results that align

with Friedman (1962) stakeholder theory, the study demonstrates how acquiring a CSR-aware target can enhance the firm's market position, providing tangible benefits beyond short-term financial gains. These findings are supported by Aktas et al. (2011), who studied how financial market's response to socially responsible investments (SRI) within the M&A context and provided early evidence that financial markets tend to react positively to acquisitions of firms with strong CSR performance. Their findings suggest that socially responsible targets may be perceived as lower-risk investments due to their reputation for ethical practices, which enhances the likelihood of stakeholder support and reduces potential negative backlash. These results support that CSR can be viewed as a value-adding factor in M&A transactions, influencing acquirers to have reason to pay higher premiums for such firms.

In contrast, Wang et al. (2021) paper focused on target companies that have overinvested in CSR and showed that firms purchasing CSR-overinvesting targets experience significantly lower stock returns at the M&A announcements and poorer financial performance following M&A transactions. The study also addressed that the acquirer buying target with CSR-overinvestments is often motivated to carry out the M&A by value-decreasing factors. These findings raise an important question about the timing of value realization. A possible interpretation is that while CSR investments may pay off in the long run, they could create a short-term financial burden on the acquiring firm, especially if investors are skeptical about the benefits of CSR initiatives. Thus, the timing of returns on CSR may affect the willingness of acquirers to pay high premiums for socially responsible firms. In addition, CSR-overinvestment is a relative concept, and due to this, the results are in contradiction with Aktas et al. (2011). This, however, does not remove the fact that the findings of Wang et al. (2021) demonstrated that the target company's CSR performance has limitations.

Brunner-Kirchmair and Wagner (2024) examine the impact of the target company's CSR performance on stock performance following an M&A announcement in the European market. The results show that a high CSR acquirer experiences negative stock

performance both in the short and long term after the M&A deal announcement. This indicates that shareholders view M&A deals involving high-CSR acquirers less favorably compared to those involving low-CSR acquirers. This may partly suggest that in European markets, where there is a high degree of stakeholder orientation, shareholders may not value additional investments in CSR, as CSR is already elevated due to EU policies and regulations. From the target company's perspective, these results can be seen as negative since, if shareholders do not value CSR investments, high CSR target companies are unlikely to receive higher premiums. The negative market reaction experienced by the acquirer could also lead to lower premiums, as acquirers may be reluctant to pay more for CSR-driven synergies that are not immediately apparent to shareholders.

The findings of Yen and André's (2019) cross-country study partially support Brunner-Kirchmair and Wagner's (2024) research. According to Yen and André (2019), an acquirer's high CSR can help deal completion, especially in cross-border M&As, but market reactions are more influenced by CSR cost concerns rather than by any indirect effect of CSR on deal efficiency. Moreover, they find that better governance quality in the target company's country compared to the acquirer's country is not valued by market investors, but it significantly contributes to better long-term operating performance. The governance quality of a country in cross-border M&As can, in part, be compared to differences in company CSR. In summary, the results of Yen and André (2019) indicate that due to the market reaction experienced by the acquirer, a target company's high CSR performance may not necessarily be reflected in the price paid during the acquisition.

The study by Deng et al. (2013) agrees that high CSR engagement leads to higher long-term operating performance in M&A deals, as well as to lower likelihood of deal failure and faster deal closure times. However, Deng et al. (2013) differ in their findings regarding how the acquirer's CSR affects post-deal announcement returns. In this US-based study on mergers, they find that high CSR acquirers receive higher announcement stock

returns than low CSR acquirers. Based on this research, shareholders are valuing CSR, and this can also be seen as a positive factor for high CSR target companies.

CSR clearly has an impact also on other factors than just the acquirer's post-merger returns in M&A transactions. Gomes (2019), shows that firms with higher CSR performance are more likely to be attractive targets, suggesting that CSR acts as a signal of firm quality. This view aligns with Li et al. (2021), who analyzed Chinese firms and found that acquiring high-CSR companies could lead to better post-acquisition outcomes, particularly in terms of enhancing the acquirer's own CSR performance and market reputation. Additionally, Li et al. (2021) found that the social performance of both parties positively correlates with transaction success rates in the Chinese M&A market. Arouri et al. (2019) further argue that firms with strong CSR performance can reduce uncertainty during the acquisition process, as their commitment to ethical practices and sustainability is viewed as a signal of long-term stability. In their study, they found that the acquirer's CSR performance plays a crucial role in lowering M&A completion uncertainty. Firms with strong CSR reputations may face less regulatory scrutiny and experience fewer integration challenges when acquiring similarly responsible firms, thereby reducing transaction risks and improving the likelihood of success.

Previous studies show that CSR plays a significant role in M&A transactions when it comes to risk mitigation and deal success rates. High CSR performance of both the target and the acquirer reduces the risk of transaction failure and likely improves post-transaction operational efficiency. This factor can be seen as one reason why an acquirer might be more motivated to purchase a high-CSR target company rather than a low-CSR one. As a result, high-CSR targets may receive a higher premium in acquisition situations. Another perspective focuses more on the direct financial benefits the acquirer gains from the transaction. Prior literature has shown that shareholders reward acquiring companies for completing M&A deals that improve their CSR performance, meaning acquisitions of high-CSR companies. At the same time, prior literature has demonstrated that shareholders view M&A transactions through a shareholder expense view, and thus do

not always reward acquirer companies for pursuing CSR-enhancing acquisitions. In summary, it is difficult to determine whether acquirer companies are motivated to pay a higher premium for high-CSR companies compared to low-CSR companies or even acquire high-CSR companies rather than low-CSR companies.

Based on the studies discussed, it is clear that both the target and acquirer companies' CSR can have a significant impact on the outcome of M&A transactions, as well as on market reactions. These factors also influence the acquirer's perspective on CSR within the transaction. Next, we will examine previous research that has specifically focused on the relationship between the target company's CSR performance and the premium paid in M&A transactions.

### **3.2 The impact of CSR on M&A premiums**

Premiums paid to the target company in an M&A transaction can be connected to corporate social responsibility. Even though most of the prior literature has been focused on the acquirer perspective and on the impacts that CSR has on acquirers in M&A, few studies have also covered the target company viewpoint. This section critically examines prior studies to determine whether acquirers are willing to pay a higher premium for targets with strong CSR performance. While much of the literature supports the view that CSR adds value in M&A contexts, there are conflicting findings on the degree of its impact, suggesting that CSR's role is context-dependent.

Several studies have demonstrated a positive relationship between target CSR performance and acquisition premiums. Ozdemir et al. (2022), for instance, found that in the service sector, firms with strong CSR performance are valued more highly in M&A deals. Their findings suggest that the intangible benefits of CSR, such as enhanced reputation, customer loyalty, and risk mitigation can translate into tangible financial outcomes, such as higher premiums. Similarly, Gomes and Marsat (2018) report that across an international sample, acquirers are willing to pay more for high-CSR targets. According to their

study, CSR-aware firms are better positioned for long-term sustainability, which aligns with stakeholder expectations and reduces potential post-merger integration risks.

In addition, Cho et al. (2021) provide evidence from the U.S. market, indicating that acquirers with strong CSR themselves are more likely to pay a premium for high-CSR targets. This finding suggests that CSR synergies between the acquirer and target may be a motivating factor for higher premiums. Acquirers may perceive CSR alignment as a strategic advantage, enabling smoother integration and enhancing the combined entity's overall CSR performance. The study by Vo et al. (2024) further supports this view, noting that high-CSR acquirers prefer cash payments for acquisitions, which is positively associated with higher premiums. The willingness to use cash, a more immediate and costly method than stock, indicates a strong belief in the value-add of acquiring a high-CSR target.

The findings of Alexandridis et al. (2022) offer a slightly different perspective. They examined how CSR culture differences affect international M&A deals and concluded that cultural alignment in CSR values is crucial for deal success. According to the study, acquirer benefits when the target's CSR practices align with their own, as this reduces integration challenges and helps preserve organizational culture. This may suggest that acquirers are not willing to pay higher premiums for target companies whose CSR performance is substantially higher than their own. In addition, Krishnamurti et al. (2021) research suggests that companies with strong CSR invest less in M&A and also pay lower bid premiums to target companies, as they may prioritize strategic acquisitions over CSR considerations.

Jost et al. (2022) findings offer a more neutral perspective, suggesting that while CSR may influence acquirer decisions, it does not consistently lead to higher premiums. This neutrality may result from differences in market perception, as some investors may view CSR as an overinvestment that does not immediately generate financial returns. This perspective is supported by Wang et al. (2021), as they argue that acquirers may be cautious when targets are perceived to have overinvested in CSR, which can lead to lower

stock returns at the M&A announcement and, consequently, lower acquisition premiums.

The geographic context also plays a critical role in how CSR impacts M&A premiums. Qiao and Wu (2019) studied cross-border acquisitions and found that targets with strong CSR performance tend to command higher premiums, especially in deals where the acquirer values CSR as a means of overcoming cultural and operational integration challenges. This means that CSR can be seen as a risk-reducing factor that can help facilitate cross-border synergies in international M&A. From this perspective, target companies with strong CSR performance could be justified to receive a higher premium in cross-border deals. Similarly, Li et al. (2021) emphasize that in China, acquiring high-CSR firms can improve post-acquisition outcomes, especially by enhancing the acquirer's own CSR reputation. This highlights how regional differences in CSR expectations and regulatory environments can shape the valuation of CSR in M&A deals.

Also, Gomes and Marsat (2018) extend their study to examine M&A premiums and target CSR performance in a cross-border context. Their findings suggest that, overall, target CSR performance and both social and environmental elements are positively correlated with deal premium. However, in the cross-border context, only the social element has a significant positive impact on M&A premiums. These results indicate that acquirers place greater value on the social aspect in cross-border deals, suggesting that target companies can benefit from investing in social performance.

These findings collectively suggest that the value of CSR in M&A transactions is contingent on several factors, including industry, geography, and the acquirer's own CSR orientation. When both the acquirer and target have strong CSR commitments, as demonstrated by Cho et al. (2021) and Vo et al. (2024), the alignment tends to generate higher premiums, reflecting the potential for CSR synergies. This theory, however, is challenged by Krishnamurti et al. (2021), as they found that CSR firms invest less in M&A. Also, when CSR is perceived as an overinvestment or when the acquirer's CSR stance is less

developed, as noted by Jost et al. (2022) and Wang et al. (2021), the financial rationale for paying a premium weakens.

From a critical standpoint, these mixed results suggest that CSR's impact on M&A premiums is not straightforward. On one hand, high-CSR targets can be seen as value-adding, offering reputational and operational advantages that justify higher premiums. On the other hand, the financial benefits of CSR are often long-term, and the immediate impact on shareholder value may be less clear. The acquirer's willingness to pay a premium may, therefore, depend on their strategic priorities and whether they are focused on short-term financial returns or long-term sustainability goals.

In conclusion, while much of the literature supports the notion that high-CSR targets command higher M&A premiums, this relationship is not universally accepted. The positive impact of CSR on premiums is context-dependent, influenced by factors such as industry, geographic location, and the CSR orientation of both the acquirer and target. These findings suggest that CSR should not be viewed as a consistent driver of acquisition premiums but rather as a factor whose value depends on the specific circumstances of each transaction. Table 1 summarizes the research findings of the literature discussed in prior chapters.

**Table 1.** Summary of prior literature

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Table 1 combines the research findings of the main prior literature on the connection between CSR and M&A premium discussed in section 3.2.

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<b>Summary of prior literature</b>		
<i>Authors(s)</i>	<i>Region</i>	<i>Results</i>
Gomes and Marsat (2018)	International	Acquirers value target company CSR performance positively in M&A transaction. Only social element of CSR is positively valued in cross-border transaction.
Qiao and Wu (2019)	International	Acquirers are willing to pay more for a socially responsible targets in cross border acquisition, meaning that CSR positively correlates with M&A premium.
Cho et al. (2021)	U.S.	M&A bidders (acquirers) value target company CSR performance positively.
Krishnamurti et al. (2021)	U.S.	CSR and M&A relation has negative impact in value creation.
Li et al. (2021)	China	Acquirers are paying higher acquisition premiums for socially responsible target companies.
Wang et al. (2021)	U.S.	Acquirers favor more targets with CSR overinvestments than targets with low CSR performance.
Jost et al. (2022)	International	Target company CSR performance and M&A premium does not have significant connection.
Ozdemir et al. (2022)	International	In service sector target company CSR performance has positive impact on deal premium in M&A transaction.

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## 4 Data and methodology

This chapter introduces the data and methodology used in this study. In more detail, this section describes the data collection process, sample selection criteria, and sources of data utilized. The chapter also provides a detailed walkthrough of the research methodology used in the study. The aim is to examine how the target company's CSR performance impacts the premium paid in M&A transactions and, furthermore, to determine whether the impact differs between different CSR elements. This study follows previous literature on CSR and M&A, such as Gomes and Marsat (2018), Hussaini et al. (2021), and Jost et al. (2022), and utilizes a multivariate OLS regression.

### 4.1 Data

The sample for this study consists of 205 M&A transactions from the European market area between the years 2012 and 2024. Transaction data is collected from the LSEG Workspace, providing comprehensive information on mergers and acquisitions. This dataset was further combined with company-specific financial data, stock price data, and ESG-rating data provided by DataStream and Worldscope. To ensure the relevance and reliability of the data, several limitations and cleaning procedures were applied during the sample selection process.

Initially, the dataset included all M&A transactions available through the LSEG Workspace between 2012 and 2024. First, transactions involving target companies that were not based in the Euro area were excluded, as this research focuses on examining the impact of CSR from the perspective of Euro area target companies. Second, all transactions where the target company was not publicly traded were excluded, as the premium can only be calculated for deals where the target company's stock price information is available. Third, transactions for which no ESG rating or other required control variables were available for the target company were excluded. Lastly, a minor portion of the transactions were missing deal value information, and these transactions were excluded.

Following these refinements, the final sample consisted of 205 transactions which took place between February 2012 and February 2024, each involving a target company based in the Euro area. To follow data refinements, the transaction premiums were calculated, the natural logarithm of one control variable was taken, and few control variables were converted into the dummy variable format.

These limitations are utilized to ensure the study's focus on relevant and comparable acquisitions within the Eurozone. By controlling for target company characteristics, data availability, and geographic scope the sample selection process aims to make the study more significant and enable meaningful analyses of the relationship between CSR performance and acquisition outcomes.

**Table 2.** Sample distribution by year

Table 2 presents the yearly distribution of M&A transactions in the sample within the Eurozone from 2012 to 2024, including information on cross-border transactions and the incidence of competing offers.				
<b>Sample by year</b>				
	<i>#Deals</i>	<i>Proportion %</i>	<i>#Cross Boarder</i>	<i>#Competing offer</i>
2012	10	3,8 %	3	0
2013	6	2,5 %	2	1
2014	17	10,0 %	8	0
2015	21	10,0 %	8	4
2016	13	7,5 %	6	0
2017	19	10,0 %	8	5
2018	15	13,8 %	11	0
2019	19	10,0 %	8	3
2020	22	5,0 %	4	4
2021	36	15,0 %	12	7
2022	11	6,3 %	5	1
2023	13	5,0 %	4	0
2024	3	6,3 %	1	0
Total	205	100 %	80	25

The observations of the final sample are distributed between 2012 and 2024. Table 2 shows that the highest volume of M&A transactions occurred in 2021, accounting for 17,6 % of the sample (36 deals). The previous year, 2020, was also notably active, with the second-highest volume at 10,7 % of the sample (22 deals). The third-highest volume occurred in 2015, accounting for 10,2 % of the sample (21 deals). These fluctuations align with the theory of merger waves, which suggests that M&A activity tends to cluster during certain periods when macroeconomic factors, such as low interest rates, economic growth, and regulatory shifts, create a conducive environment for mergers and acquisitions (Harford, 2005). Out of the 205 transactions in the sample, 39,0 % (80 deals) are cross-border deals, highlighting the international scope of M&A activity within the Eurozone. The significant proportion of cross-border deals in this sample aligns with prior literature, which has found that globalization has increased in M&A markets, and firms often try to find growth opportunities outside their home countries to diversify and capture new markets (Erel et al., 2012). Competing offers are relatively rare within the sample, occurring in only 12,2 % of the transactions (25 deals).

**Table 3.** Target and acquirer company

Table 3 provides a breakdown of target and acquirer companies by country, showing the proportion of each within the sample.

<b>Target and acquirer country</b>				
	<i>Target</i>	<i>Proportion %</i>	<i>Acquirer</i>	<i>Proportion %</i>
Austria	12	5,9 %	3	1,5 %
Belgium	4	2,0 %	5	2,4 %
Bosnia and Herzegovina	1	0,5 %	0	0,0 %
Cyprus	2	1,0 %	2	1,0 %
Czech Republic	0	0,0 %	5	2,4 %
Denmark	2	1,0 %	1	0,5 %
Finland	6	2,9 %	7	3,4 %
France	38	18,5 %	39	19,0 %
Germany	24	11,7 %	21	10,2 %
Greece	1	0,5 %	0	0,0 %

Guernsey	2	1,0 %	0	0,0 %
Hungary	0	0,0 %	1	0,5 %
Ireland	1	0,5 %	1	0,5 %
Italy	15	7,3 %	14	6,8 %
Jersey	1	0,5 %	0	0,0 %
Luxemburg	0	0,0 %	13	6,3 %
Malta	0	0,0 %	1	0,5 %
Netherlands	9	4,4 %	11	5,4 %
Norway	12	5,9 %	13	6,3 %
Poland	7	3,4 %	3	1,5 %
Portugal	7	3,4 %	3	1,5 %
Spain	13	6,3 %	13	6,3 %
Sweden	9	4,4 %	6	2,9 %
Switzerland	2	1,0 %	6	2,9 %
Turkey	6	2,9 %	3	1,5 %
United Kingdom	31	15,1 %	34	16,6 %
Total	205	100 %	205	100 %

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The distribution of M&A activity shown in Table 3 highlights that certain nations play a particularly prominent role in Eurozone mergers and acquisitions. According to Table 3, France, Germany, and the United Kingdom, in particular, exhibit high levels of activity. In this sample, France accounts for about 19 % of both target and acquirer companies, Germany represents 12 % of targets and 10 % of acquirers, and the United Kingdom comprises 15% of targets and 17 % of acquirers. This distribution aligns with prior research in M&A literature, which suggests that larger economies are generally more active in M&A markets due to their greater financial resources, competitive pressures, and strategic motives for international expansion (Shleifer & Vishny, 2003).

Notably, Spain, Norway, and Italy each account for approximately 6 % to 7 % of both target and acquirer companies, and for this reason, these countries can also be seen as significant players in the European M&A market. In contrast, Luxembourg has 0 % of target companies but represents 6 % of acquirer companies. Conversely, Austria

accounts for only about 1 % of acquirer companies but represents 6 % of target companies. The observation regarding Luxembourg is particularly significant, as it indicates that the role of some countries is clearly more focused on being acquirers rather than being acquired. Additionally, the following Table 4 on the macro-industry distribution further supports this observation about Luxembourg. The financials sector constitutes a large proportion of acquirer companies, and Luxembourg is recognized as a major hub for the financial industry.

**Table 4.** Target and acquirer macro industry

Table 4 presents the distribution of target and acquirer companies by macro-industry.

<b>Target and acquirer macro industry</b>				
	<i>Target</i>	<i>Proportion %</i>	<i>Acquirer</i>	<i>Proportion %</i>
Consumer products and services	7	3,4 %	4	2,0 %
Consumer stables	17	8,3 %	7	3,4 %
Energy and power	17	8,3 %	15	7,3 %
Financials	32	15,6 %	109	53,2 %
Healthcare	6	2,9 %	2	1,0 %
High technology	25	12,2 %	2	2,9 %
Industrials	27	13,2 %	16	7,8 %
Materials	10	4,9 %	3	1,5 %
Media and entertainment	14	6,8 %	13	6,3 %
Real estate	30	14,6 %	22	10,7 %
Retail	10	4,9 %	3	1,5 %
Telecommunications	10	4,9 %	5	2,4 %
Total	205	100 %	205	100 %

Table 4, highlights the distribution of M&A activity across macro-industries, revealing notable disparities between target and acquirer companies. The financials sector dominates among acquirers, accounting for 53 % of the sample while representing only 16 % of targets. This emphasizes the financial sector's central role in driving acquisitions. In contrast, sectors like industrials and high technology exhibit more balanced activity.

Industrials represent 13 % of targets and 8 % of acquirers, while high technology accounts for 12 % of targets but only 3 % of acquirers. This suggests these sectors are particularly attractive for acquisitions due to innovation potential and growth opportunities. Also, real estate sector also stands out, accounting for 15 % of targets and 11 % of acquirers while sectors such as consumer products and services, healthcare, and materials show minimal activity, indicating potential market saturation or regulatory constraints.

## 4.2 Methods

To explore the research question, this study adopts a quantitative research approach, utilizing a cross-sectional dataset of M&A transactions within the Eurozone. As the main research method, this study utilizes a multivariate OLS regression model where acquisition premium acts as a dependent variable and target company CSR score as an independent variable. In addition, the dataset includes several, both deal and firm level, control variables established to make the findings more reliable.

### 4.2.1 Dependent variable

This study uses the acquisition premium as a dependent variable. The premium is determined by calculating the percentage difference between the target stock price prior to the announcement and the price paid by the acquirer. This study follows Betton et al. (2008) and the target company stock price is considered 42 days prior to the announcement day. Speculations and Rumors tend to start circulating about acquisitions as the announcement day approaches. By considering the target stock price 42 days prior to the announcement, the risk that the quoted price would be affected by rumors or speculation decreases significantly and then the premium is also compounded reliably.

$$Premium = \frac{Acquisition\ price - Target\ stock\ price\ 42\ days\ prior\ to\ announcement}{Target\ stock\ price\ 42\ days\ prior\ to\ announcement} \times 100 \quad (1)$$

#### **4.2.2 Independent variable**

The second key component of this study is corporate social responsibility (CSR) performance. To measure CSR performance, this study utilizes a company-specific ESG score provided by Datastream. To be in line with the previous studies CSR performance is formed by taking into concentration only social and environmental factors (Gomes & Marsat, 2018; Gomes, 2019; Yen and André, 2019; Jost et al., 2022). The environmental factor used in the study consists of three different elements, which are resource use, emissions, and innovation (LSEG, 2023). The social element includes workforce, human rights, community, and product responsibility. The overall CSR score for this study is calculated as the average of the environmental and social factors. Compared to the ESG rating, the CSR score excludes financial performance and corporate governance elements to create a measure that focuses specifically on reflecting the company's corporate social responsibility performance. To yield more comprehensive results, regressions are also run with the target company's environmental and social components. To avoid multicollinearity CSR, social and environmental components are researched in separate regression models.

#### **4.2.3 Control variables**

The control variables encompass various dimensions relevant to M&A transactions and firm characteristics. These variables are essential for controlling potential confounding factors that might influence or mediate the relationship between the primary dependent variable and the independent variable. This thesis includes several control variables that manage the financial characteristics of the target company, as well as deal-specific characteristics. The variables for the target company encompass company size (represented as the natural logarithm of the market value of equity at the previous year-end), market-to-book (MTB) ratio, return on equity (ROE), and leverage (calculated as total debt divided by total assets). Additionally, a few deal-specific control variables is utilized, including a cross-border dummy variable (set to one if the target and acquirer originated from

different countries) and a competing dummy variable (set to one if there was a competing offer). A year variable is also added to control for time trends.

### 4.3 Regression models

The analysis of deal premiums in this study employs six key regression models to empirically assess the influence of corporate social responsibility on the premiums paid in mergers and acquisitions within the European market. This section provides an in-depth explanation of the theoretical basis and model specifications which together form empirical framework to test the study's hypotheses. The base model uses the premium as the dependent variable and the target company's CSR performance as the independent variable. This model tests the first hypothesis and determines whether target company high CSR performance has positive impact on deal premium. In line with previous research (e.g., Gomes & Marsat, 2018), the model incorporates the CSR score as an aggregated measure of the target's social and environmental initiatives.

$$\begin{aligned}
 Premium_i = & \beta_0 + \beta_1 T\_CSR_i + \beta_2 T\_Size_i + \beta_3 T\_MTB_i + \beta_4 T\_ROE_i \\
 & + \beta_5 T\_Leverage_i + \beta_6 Cross - Border_i + \beta_7 Competing_i \quad (2) \\
 & + \beta_8 Year_i + \varepsilon_i
 \end{aligned}$$

To continue the second and third regression extent base model by examining the individual impact of environmental and social scores on the premium. This approach allows determine whether environmental or social factors contribute differently to the premium, thereby testing if the specific components of CSR have varying significance in valuations. In previous research, environmental and social dimensions of CSR have been shown to affect firms' perceived reputation and stakeholder relations differently. For example, environmental responsibility may be more relevant in industries with high regulatory scrutiny, while social initiatives may resonate more strongly in consumer-facing industries. By including these scores separately, these additional models tests if acquirers place different weights on environmental and social contributions, potentially offering more detailed insights into the drivers within CSR that affect M&A premiums.

$$\begin{aligned}
Premium_i = & \beta_0 + \beta_1 T\_E_i + \beta_2 T\_Size_i + \beta_3 T\_MTB_i + \beta_4 T\_ROE_i \\
& + \beta_5 T\_Leverage_i + \beta_6 Cross - Border_i + \beta_7 Competing_i \\
& + \beta_8 Year_i + \varepsilon_i
\end{aligned} \quad (3)$$

$$\begin{aligned}
Premium_i = & \beta_0 + \beta_1 T\_S_i + \beta_2 T\_Size_i + \beta_3 T\_MTB_i + \beta_4 T\_ROE_i \\
& + \beta_5 T\_Leverage_i + \beta_6 Cross - Border_i + \beta_7 Competing_i \\
& + \beta_8 Year_i + \varepsilon_i
\end{aligned} \quad (4)$$

The fourth, fifth and sixth regressions extends the base model and focuses on cross-border M&A deals. Cross-border deals often carry more risks than domestic deals due to possible cultural differences or regulatory misalignment. On the other hand, increased risks in cross-border deals also mean greater potential rewards for the acquiring company (Shimizu et al., 2004). This model addresses hypothesis three, determining whether CSR is more valued in cross-border deals than in domestic deals and examining the impact of CSR on premiums in cross-border transactions. This model follows the approach used by Gomes and Marsat (2018), utilizing a binary variable between CSR and cross-border status to assess the additional influence of CSR performance on cross-border transactions. The binary variable is calculated by multiplying the CSR score with the cross-border dummy variable. The regression is also run separately for environmental and social factors to determine whether the impact of these element differ from the impact of overall CSR score.

$$\begin{aligned}
Premium_i = & \beta_0 + \beta_1 T\_CSR_i + \beta_2 Cross - Border_i \\
& + \beta_3 CSR_{Cross - Border}_i + \beta_4 T\_Size_i + \beta_5 T\_MTB_i \\
& + \beta_6 T\_ROE_i + \beta_7 T\_Leverage_i + \beta_8 Competing_i + \beta_9 Year_i \\
& + \varepsilon_i
\end{aligned} \quad (5)$$

$$\begin{aligned}
Premium_i = & \beta_0 + \beta_1 T\_E_i + \beta_2 Cross - Border_i \\
& + \beta_3 E_{Cross - Border}_i + \beta_4 T\_Size_i + \beta_5 T\_MTB_i + \beta_6 T\_ROE_i \\
& + \beta_7 T\_Leverage_i + \beta_8 Competing_i + \beta_9 Year_i + \varepsilon_i
\end{aligned} \quad (6)$$

$$\begin{aligned}
Premium_i = & \beta_0 + \beta_1 T\_S_i + \beta_2 Cross - Border_i \\
& + \beta_3 S\_Cross - Border_i + \beta_4 T\_Size_i + \beta_5 T\_MTB_i \\
& + \beta_6 T\_ROE_i + \beta_7 T\_Leverage_i + \beta_8 Competing_i + \beta_9 Year_i \\
& + \varepsilon_i
\end{aligned} \tag{7}$$

The six regression models outlined above serve as the foundation for the empirical analysis conducted in this study. Detailed descriptions of all individual variables used in these models, including their definitions and measurements, are presented in Table 5.

**Table 5.** Description and definitions of variables

Table 5 combines all variables and present their definitions.	
<b>Description and definitions of variables</b>	
Premium	The premium paid by the acquirer, calculated as the difference between the offer price and the target's stock price 42 days prior to the announcement day.
T_CSR	Target company ESG score is a continuous variable measured as the average of a target environment and social pillar scores in the year prior the announcement.
T_E	Target company's environmental score, representing the company's environmental performance.
T_S	Target company's social score, representing the company's social responsibility performance.
T_Size	Size of the target company, calculated as the natural logarithm of the market value of equity at the end of the year preceding the M&A transaction.
T_MTB	Market-to-book ratio of the target company, calculated as the market value of equity divided by book value of equity at the end of the year preceding the M&A transaction.
T_ROE	Return on equity of the target company, indicating the profitability relative to shareholders' equity at the end of the year preceding the M&A transaction.
T_Leverage	Leverage of the target company calculated as total debt divided by total assets at the end of the year preceding the M&A transaction.

Cross-border	A dummy variable indicating whether the acquisition is cross-border (1 if target and acquirer are from different countries, 0 otherwise).
CSR_Cross-border	Binary variable which is calculated by multiplying CSR score and cross-border dummy.
E_Cross-border	Binary variable which is calculated by multiplying environmental score and cross-border dummy.
S_Cross-border	Binary variable which is calculated by multiplying social score and cross-border dummy.
Competing	A dummy variable indicating the presence of a competing bid (1 if there was a competing offer, 0 otherwise)
Year	Control variable for the year of the transaction to account for time trends in M&A activity.

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## 5 Empirical results

This section presents the descriptive statistics of the research data and all the regression results. All findings are critically discussed, with the aim of drawing conclusions about the relationship between CSR and M&A transactions in the European market. The analysis begins with an examination of the descriptive statistics for each variable used in the study. Following this, the focus shifts to the regression results, which are presented in two parts. First, the base model results are discussed, addressing hypotheses one and two. Second, the results of the model focusing on cross-border M&A transactions are examined, exploring whether CSR has a greater impact on M&A outcomes in cross-border deals.

Based on previous literature, it can be assumed that the CSR performance of target companies influences M&A transactions. However, the precise impact on variables such as the premium paid remains inconclusive, with no reliable evidence indicating a consistently positive or negative relationship. Furthermore, in the European market, companies are often expected to maintain high CSR standards, partly due to EU policies and regulations (Brunner-Kirchmair & Wagner, 2024). This regulatory environment introduces an additional variable into the analysis and shapes the context in which this study is conducted.

**Table 6.** Descriptive statistics

Table 6 presents an overview of the descriptive statistics for the primary variables in the analysis, offering insights into their distributions and variations across the sample.

Descriptive statistics							
	<i>Mean</i>	<i>Median</i>	<i>S.D.</i>	<i>Min</i>	<i>Q25</i>	<i>Q75</i>	<i>Max</i>
Premium	0,368	0,270	0,394	-0,043	0,112	0,472	2,097
T_CSR	0,545	0,544	0,204	0,035	0,421	0,706	0,947
T_E	0,514	0,538	0,242	0,000	0,362	0,703	0,974
T_S	0,575	0,582	0,211	0,060	0,440	0,738	0,970
T_Size	14,879	14,907	1,360	10,296	14,130	15,704	18,428

T_MTB	1,897	1,310	1,662	0,010	0,880	2,360	10,100
T_ROE	0,057	0,072	0,161	-0,922	0,018	0,135	0,664
T_Leverage	0,303	0,304	0,183	0,000	0,156	0,451	0,713
Cross-border	0,390	0,000	0,489	0,000	0,000	1,000	1,000
CSR_Cross-border	0,202	0,000	0,284	0,000	0,000	0,460	0,931
E_Cross-border	0,189	0,000	0,282	0,000	0,000	0,411	0,974
S_Cross-border	0,214	0,000	0,301	0,000	0,000	0,473	0,970
Competing	0,122	0,000	0,328	0,000	0,000	0,000	1,000
Year	2018	2019	3,191	2012	2015	2021	2024

Table 6 provides descriptive statistics for the variables used in this study, offering insights into the sample's distribution and underlying patterns. The premium variable has a mean value of 0,368, indicating that acquirers, on average, pay a 37 % premium for target companies in this sample. The standard deviation of 0,394 suggests considerable variability in premiums across transactions. The minimum and maximum values range from -0,043 to 2,097, meaning that at least one transaction occurred with a small discount, while the highest premium paid was as much as 200 %. However, the interquartile range (from Q25 at 0,112 to Q75 at 0,472) indicates that most deals were completed with a premium between 10 % and 50 %. Additionally, the positive skew indicates that while some acquisitions involve significant premiums, the majority are closer to the median premium of 0,270. This variation aligns with prior research, which suggests that acquisition premiums often depend on target-specific factors such as growth potential and profitability, as well as deal-specific elements like competition and the strategic objectives of the acquirer.

The target companies' CSR scores show a mean of 0,545 with a standard deviation of 0,204, suggesting a moderate level of CSR engagement across the sample. The range, from a minimum of 0,035 to a maximum of 0,947, highlights the diversity in CSR practices, with some targets displaying minimal CSR commitment while others are highly active in socially responsible initiatives. The interquartile range (from Q25 at 0,421 to Q75 at 0,706) indicates that a large portion of target firms maintain moderate CSR scores, with

few extreme outliers. The target companies' environmental and social scores yield similar results to the overall CSR score, indicating that neither environmental nor social elements dominate the other within this sample. Also, the same trend continues with binary variables where the cross-border dummy is multiplied with CSR elements.

Firm-specific measures reveal that target companies in the sample tend to be moderately sized, with a mean of 14,879, measured as the natural logarithm of market capitalization. The relatively low standard deviation of 1,360 indicates that the scale of target firms is relatively consistent. The market-to-book ratio, with a mean of 1,897 and a standard deviation of 1,662, highlights the range of valuation expectations and reflects target firms' varying levels of market confidence and growth potential. The return on equity shows a low mean value of 0,057, with a substantial standard deviation of 0,161 and a negative minimum value of -0,922, suggesting that while some targets are moderately profitable, others may be struggling financially. The leverage of target firms has a mean value of 0,303 and a standard deviation of 0,183 which indicates moderate reliance on debt across the sample. The interquartile range (Q25 at 0,156 and Q75 at 0,451) suggests that most firms operate within a moderate leverage range, with a few firms displaying either very low or very high levels of debt financing.

## **5.1 CSR and M&A premiums**

This chapter examines the relationship between targets' CSR performance and M&A premia, providing clarity on how this connection occurs in the European market. It also explores how these findings compare to prior studies. By focusing on both the overall CSR score and its environmental and social dimensions, this analysis aims to evaluate whether CSR performance plays a significant role in influencing acquisition premiums in European markets. Table 7 presents the regression results, showcasing the coefficients and significance levels for the overall CSR score, as well as its environmental and social components. The analysis explains the implications of these findings and situates them within the broader literature, considering both supporting and contradictory evidence from previous research.

**Table 7.** The impact of CSR performance on M&A premia.

Table 7 presents the estimation of the effect of CSR performance on M&A premia. The parentheses "(") enclose the T-statistics and \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% levels.

<b>Regression analysis</b>			
	<i>Overall (1)</i>	<i>Environmental (2)</i>	<i>Social (3)</i>
T_CSR	0,200 (0,141)	0,226 (0,125)	0,093 (0,128)
T_Size	-0,058** (0,023)	-0,065*** (0,023)	-0,050** (0,021)
T_MTB	0,004 (0,016)	0,006 (0,016)	0,002 (0,016)
T_ROE	0,292 (0,169)	0,302 (0,170)	0,280 (0,170)
T_Leverage	-0,002 (0,142)	0,011 (0,142)	-0,008 (0,143)
Cross-border	-0,150*** (0,055)	-0,145*** (0,055)	-0,160*** (0,055)
Competing	-0,005 (0,081)	0,005 (0,082)	-0,016 (0,081)
Year	-0,038*** (0,008)	-0,038*** (0,008)	-0,038*** (0,008)
Constant	1,439*** (0,327)	1,516*** (0,332)	1,374*** (0,324)
Observations	205	205	205
$R^2$	0,156	0,161	0,149
Adjusted $R^2$	0,121	0,127	0,115
F statistic	4,516	4,701	4,298

The overall CSR score shows a positive but statistically insignificant coefficient, indicating that the CSR score does not have a significant impact on the premium. A similar observation is made for the environmental and social elements, where the coefficients are

positive, but the results are not statistically significant. These findings suggest that while a target's CSR performance may signal a potential for long-term value creation and stronger stakeholder relationships, its direct effect on M&A premiums is not significant. While the impact of CSR is found to be insignificant, several control variables, such as target company size, the cross-border dummy, and year variables, show a significant influence on the results. The size of the target company has a consistently negative and statistically significant impact on M&A premiums in all models, and this implies that larger target firms tend to receive lower acquisition premiums. The cross-border dummy variable is significant at the 1 % level across all models, with a negative coefficient, which indicates that cross-border deals are associated with lower M&A premia. The coefficient of the year variable is consistently negative and highly significant across all models, suggesting a declining trend in M&A premia over time.

In terms of model fit and diagnostics, the R-squared values in the regression models range from 0,149 to 0,161, indicating that the models explain only 15 % to 16 % of the variation in M&A premia. These relatively low values imply that additional factors not included in the analysis likely play a significant role in determining M&A premiums. Furthermore, the variance inflation factor (VIF) values for all independent variables are well below the commonly accepted threshold of 10, with the highest VIF reported at 1,509. This confirms the absence of significant multicollinearity issues, ensuring that the estimated coefficients are reliable and not distorted by strong correlations among the variables.

The results presented in Table 7 partially support hypotheses one and two, as the findings indicate that CSR consistently has a positive coefficient in all models, and also, environmental score has a higher coefficient than social score. However, since none of the models show statistical significance for CSR, the data does not support hypotheses one and two, leading to their rejection. While this analysis did not find statistically significant evidence to suggest that a target's CSR performance directly influences M&A premiums, the result aligns with several prior studies, as previous findings on the impact of CSR on

deal premiums have been inconsistent. For example, the finding of Jots et al. (2018) supports the result as they found by utilizing an international sample that there is no significant relationship between CSR performance and M&A premium.

Despite this, many previous findings contradict this result, with the most significant being those by Gomes and Marsat (2018) and Ozdemir et al. (2022). Both studies found a positive correlation between the target company's CSR performance and deal premiums. The differences in results can, however, be explained by the differences in the data used. Gomes and Marsat (2018) utilized an international sample, with only 28% of the observations coming from Europe. Additionally, Ozdemir et al. (2022) focused on the service sector, which constitutes only a small portion of the industries in this study's data. Therefore, the divergent results suggest that in the European M&A market, CSR performance does not directly translate into deal premiums. This view is supported by Brunner-Kirchmair and Wagner (2024), who concluded that European markets have a high degree of stakeholder orientation, which may lead shareholders to value CSR differently than in other markets. Furthermore, the generally high level of CSR in European companies, due in part to EU policies and regulations, could be another reason why CSR performance does not have a significant impact on M&A deal premiums.

In practice, the results suggest that European companies do not benefit from CSR investments when it comes to deal premiums in acquisitions. The primary explanatory factor for this can be seen in the status of CSR in Europe. Investing in CSR can be perceived as necessary for many companies in Europe due to EU directives but also due to the European position as one of the largest economies in the world. As a result, CSR performance is not valued as highly in Europe as previous literature has shown it to be in many emerging markets (Li et al., 2021), as it is already elevated. Therefore, when examining the results solely from the perspective of CSR and deal premium relationships, the insignificant relationship aligns with shareholder theory (Friedman, 1962). However, this does not directly imply that CSR investments in Europe do not benefit companies, rather, it indicates that these investments do not have a direct impact on the deal premium.

## 5.2 CSR and cross-border M&A deal

To build on the previous findings, this chapter focuses on the impact of target company CSR performance on M&A deal premiums in cross-border transactions. As discussed earlier, cross-border deals involving European target companies appear to be associated with lower M&A premiums compared to domestic deals. This can be attributed to the higher risks that normally occur in cross-border transactions, driven by cultural, regulatory, and economic differences (Shimizu et al., 2004). These risks may be realized as transaction delays, poor integration processes, or lower-than-expected financial returns. Due to these uncertainties, it is clear that acquiring companies may be less willing to pay high premiums compared to domestic deals.

Several studies have noted that CSR can act as a risk-mitigating factor in M&A transactions, enabling smoother integration and increasing transaction success rates. This makes it particularly interesting to examine how the target company's CSR performance influences premiums in cross-border deals. Table 8 presents the results of the fourth regression model, which extends the base model by incorporating a binary variable to analyze the impact of CSR on premiums in cross-border transactions. The table provides results for the overall CSR score, as well as the environmental and social components.

**Table 8.** The impact of CSR performance on M&A premia in cross-border deals.

<b>Regression analysis</b>			
	<i>Overall (1)</i>	<i>Environmental (2)</i>	<i>Social (3)</i>
T_CSR	0,363 (0,182)	0,277 (0,158)	0,326 (0,170)
Cross-border	0,052 (0,154)	-0,084 (0,128)	0,138 (0,154)
CSR_Cross-border	-0,370	-0,118	-0,520**

Table 8. presents the estimation of the effect of CSR performance on M&A premia in Cross Border deals. The parentheses "()" enclose the T-statistics and \*, \*\* and \*\*\* indicate statistical significance at 10%, 5% and 1% levels.

	(0,264)	(0,224)	(0,251)
T_Size	-0,062***	-0,066***	-0,054**
	(0,023)	(0,023)	(0,021)
T_MTB	0,004	0,006	0,001
	(0,016)	(0,016)	(0,016)
T_ROE	0,300	0,305	0,293
	(0,169)	(0,169)	(0,168)
T_Leverage	0,003	0,010	0,010
	(0,142)	(0,142)	(0,142)
Competing	0,014	0,013	0,002
	(0,082)	(0,083)	(0,081)
Year	-0,039***	-0,038***	-0,039***
	(0,008)	(0,008)	(0,008)
Constant	1,395***	1,503***	1,307***
	(0,327)	(0,333)	(0,323)
Observations	205	205	205
$R^2$	0,164	0,162	0,168
Adjusted $R^2$	0,125	0,124	0,129
F statistic	4,252	4,194	4,359

The coefficient of CSR remains positive across all models, but it is not statistically significant as expected due to the result of the base model. Unlike Table 7, the direct cross-border dummy is no longer significant, suggesting that cross-border status alone does not influence M&A premia when CSR interactions are included. The control variable where the CSR element was multiplied with the cross-border dummy is significant at the 5 % level in the social model, with a negative coefficient. This suggests that high social performance might reduce M&A premia in cross-border deals. Similar to Table 7, the target firm size exhibits a negative and statistically significant relationship with M&A premia. Also, the year variable remains negative and significant. The R-squared values are slightly higher than in Table 7, indicating a marginal improvement in explanatory power when focusing on cross-border deals. Also, VIF values are below the commonly accepted threshold of 10, with the highest VIF reported at 8,617. While these are below

the critical threshold for severe multicollinearity, the elevated VIF values for interaction terms warrant caution in interpreting the coefficients.

The impact of the overall CSR score is found to be insignificant, making it impossible to definitively address hypothesis three, whether CSR performance is more valued in cross-border M&A deals than in domestic transactions. However, the observed negative connection between the social score and premium in cross-border deals contradicts the hypothesis, leading to its rejection. This result also conflicts with earlier findings by Gomes and Marsat (2018), as they reported that a particularly high social score positively impacts premiums. This deviation can potentially be explained by the market conditions in Europe. As noted, the European market exhibits a high degree of stakeholder orientation, meaning companies take significant care to address the needs of stakeholders such as employees, suppliers, and customers (Dhaliwal et al., 2014). In this context, additional investments in social performance are not rewarded in M&A transactions, as such investments may be perceived as shareholder expenses rather than benefits.

In summary, the results presented in Table 8 show that the target company's CSR performance does not have a clear significant impact on M&A premiums in cross-border deals. The social element of the CSR score has a significant negative impact on deal premiums, but when combined with the environmental element, the effect becomes insignificant. These findings indicate that the impact of CSR on premiums paid in M&A transactions is minimal when the target company is European.

## 6 Conclusion

This thesis analyzes the role of corporate social responsibility in the European mergers and acquisitions market. The primary aim of this study is to determine if and how CSR investments by target companies affect M&A premiums in the Eurozone. The objective is to provide insights into whether CSR creates tangible value for shareholders during acquisition negotiations. In addition to the primary aim, this study also tries to identify the relative importance of environmental and social factors in CSR within M&A transactions and to investigate whether CSR's impact differs between domestic and cross-border deals. The findings of this study contribute by bridging the research gap regarding CSR's valuation in the M&A context, specifically in the Eurozone.

The empirical results suggest an insignificant relationship between the target company's CSR performance and acquisition premiums, rejecting the hypothesis that CSR enhances the target company's perceived value in M&A transactions. The findings indicate that CSR has an insignificant impact on premiums in both domestic and cross-border deals in Europe, even though cross-border deals are found to be riskier.

The study's findings align with several prior studies that have found CSR to have an insignificant impact on M&A premiums. At the same time, the results conflict with prior studies that have identified a positive correlation between these two elements. However, previous literature has not focused on this relationship specifically in Europe. When considering the European market's high degree of stakeholder orientation and the influence of EU policies and regulations, which compel companies to prioritize corporate social responsibility far more than in other markets, the findings become consistent with the broader literature. European target companies' CSR performance is generally considered to be at a high level due to these factors, which explains why an exceptionally strong CSR score is not rewarded with higher premiums in M&A transactions.

The study has some limitations that need to be considered. First, the reliance on ESG scores as a proxy for CSR performance may not fully capture qualitative aspects of CSR.

Second, the sample was restricted to publicly traded firms in the Eurozone due to data availability, which may affect the generalizability of the results to private firms. Additionally, the dataset, comprising 205 transactions, is relatively small, which could limit the robustness of the conclusions, particularly for subgroups such as cross-border versus domestic transactions. Third, the selected control variables may not encompass all relevant factors, and additional variables not included in the analysis likely play a significant role in determining M&A premiums.

In conclusion, this study demonstrated that target company CSR performance does not have a significant impact on M&A premiums, indicating that European target companies may not be rewarded for their CSR investments through higher premiums when acquired. However, since the findings on the impact of CSR on M&A premiums remain inconsistent across various studies, future research seems to be still necessary. To get more accurate results for the European market, future research should try to utilize a larger dataset or concentrate on particular industries. Additionally, examining the impact of target company CSR on acquirers' post-merger performance within Europe could provide better insights into whether high-CSR target companies, despite this study's findings, should receive higher premiums.

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