THE IMPACT OF ESG PERFORMANCE ON VALUE CREATION IN MERGERS AND ACQUISITIONS

A Dissertation report submitted in partial fulfilment of the requirements of the degree of Master of Business Administration

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This is to certify that Mr Sourav Singh Reg No. 2024MMBA01ASB109 has completed the dissertation titled "The Impact of ESG Performance on Value Creation in Mergers & Acquisitions" under my guidance as part of the dissertation, serving as partial fulfilment of the requirements for the degree of Master of Business Administration.

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Acknowledgement

Completing this dissertation has been a challenging yet rewarding journey, and I am deeply grateful to the many people who supported me along the way.

I would like to express my deepest gratitude to my guide, **Prof. Swarnadeep Maity**, for his invaluable guidance, constant support, and insightful feedback throughout the completion of this dissertation. His expertise and encouragement have been instrumental in shaping the direction and quality of this research work.

I extend my sincere appreciation to the faculty members and the administration of Alliance school of Business for providing the academic platform, resources, and support necessary to undertake this study as part of the Master of Business Administration (MBA) program.

I am also thankful to my family and friends for their continuous motivation, patience, and understanding during the course of this research. Their encouragement has been a source of strength and inspiration at every stage of this academic journey.

Lastly, I would like to acknowledge everyone who, directly or indirectly, contributed to the successful completion of this dissertation.

Thank You.

Abstract

This research examines how a firm's ESG rating influences its finance i.e. whether or not the finance is the primary recipient of the effect of the ESG rating, in case of large companies or big mergers and acquisitions deals. The business world is transforming gradually but surely. Companies nowadays are not only focusing on enriching the shareholders; they also look after everyone, starting with the employees, and the community at large.

What does this study actually mean by that? Simply put: Does the market really value the green and social impact of a company that is being acquired? Or is it just for show?

The point here is: high ESG score companies are not only lucky in terms of reputation. The actual dollar value attached is found to be higher in the case of high ESG score firms, and thus buyers are more than willing to pay a higher price. We will carry out this experiment and check the results by means of a simple two-sample z-test which compares the M&A deal premiums that are paid in the two groups. They divided companies into those with high ESG scores and low ESG scores, then looked at the differences in the acquisition premiums between the two groups.

What do the results say? Yes, firms with strong ESG credentials received substantially generous deals compared to those that did not make the cut. It is a strong indication that the market is acknowledging these corporate social responsibility initiatives.

The bottom line of the study is that a firm that excels in ESG is not just an optional extra; such performance is increasingly becoming a key factor in the major deals. The evidence suggests that sustainability investments are quite a substantial win-win: in addition to being good for the earth, they are also generating returns that buyers are willing to commit to.

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Chapter 1: Introduction

One of the most noticeable changes in the corporate finance modern world is the breaking of the old rule of merely maximizing shareholder value, as the industry is under the tremendous pressure to come up with innovations. The 2008 global financial crisis had been the big moment that questioned the trust in the traditional valuation models that were once like untouchable. After the crisis, a continuous wave of mergers and acquisitions has been observed. The main purpose of these transactions, however, is no longer only to increase the default values or to expand the market share but also to a great extent to gain access to technological advancements or to obtain a competitive edge. Surprisingly, though, the use of sustainability as a factor for determining a firm's value only slowly started to gain significance.

Over the 2011-2021 period, the M&A activities skyrocketed, while the agreement on the value creation from those transactions between the academic and business communities also grew substantially. At that time, Environmental, Social, and Governance (ESG) issues were the farthest from the core of financial discussions. Corporations stoped thinking of ESG as mere jargon; instead, it rapidly turned into a norm for socially responsible investing and an integral part of strategic planning. Such transformations found their expression in the proliferation of ESG-related investment instruments and investors who sought more evidence that good ESG performance may be the driver of sound financial outcomes, especially in M&A cases.

This work aims to re-humanize and clarify the pretentious trends in the business world. It deals with a vital issue: the extent to which the Environmental, Social, and Governance performance of a company influences the financial results of mergers and acquisitions? To illustrate, in a paradigm shift from focusing solely on shareholder returns to considering all stakeholders, this research faces the issue of changing market behaviours and changing investor incentives. The aim is to uncover the truth through thorough and data-driven approaches that illustrate the role of ESG in M&A in helping organizations to not merely stay afloat, but to prosper, thus making it possible to create value for a wider range of stakeholders.

Definition of the Problem

The primary focus of this research is to assess the importance of ESG in the development of modern business and valuation practices. It will substantially extend the investigation of a very little explored area by looking at the M&A valuation methods not only from the financial point of view but also by considering how the changes in the ESG scores of the target company influence the acquisition premium.

This research seeks to clarify the effect of the target companies' ESG (Environmental, Social, and Governance) scores on the outcome of business deals, mainly the price paid for the acquisition of these companies. There are numerous challenges in providing an accurate estimate of the financial impact of ESG factors in a single deal. The reason is that numerous factors operate simultaneously, most of which are hard to quantify with standard financial data, such as legal frameworks, regulatory requirements, and potential company synergies.

To resolve these difficulties, our study takes a comprehensive quantitative approach. We will look up leading financial databases to get market valuation data for the target companies as of four months prior to the public announcement of the deal. Acquisition premium can be figured out by comparing the final transaction prices with these baseline valuations. With this method, we can find out if higher ESG scores are always resulting in lower or higher deal premiums, thus, giving valuable insights to the valuation of sustainable business practices in real M&A transactions.

Research Objectives

1. To provide a clear and focused investigation, this study will pursue three primary objectives:
2. Investigate the link: To investigate the relationship of a target company's ESG performance and the M&A deal premiums being paid by acquirers.
3. Assess financial relevance: To assess the relevance of ESG factors in the context of M&A transactions.
4. Demonstrate value creation: To provide evidence demonstrating how ESG performance can drive tangible value creation for both shareholders and broader stakeholders.

Research Hypothesis

To test these objectives, the research will be guided by a clear null and alternative hypothesis:

1. H0 (Null Hypothesis): There does not exist any meaningful or statistically significant correlation between an acquiring firm's acquisition premium and the ESG performance scores of a target company.
2. H1 (Alternative Hypothesis): There is a strong positive correlation between an acquisition target's ESG scores and the premiums paid in acquisitions; consequently, higher premiums are paid for targets that possess higher ESG scores.

Chapter 2: Review of Literature

This literature review offers an elaborate, sequential analysis of the latest scholarly researches in order to establish the basis for the main question of this dissertation. By carefully scrutinizing studies from 2024 and 2025, the researchers will be able to unveil the change in the perspective of the researchers regarding Mergers and Acquisitions (M&A) over time. A very explicit signal can be seen in this change of thought process; it is shifting from purely financial aspects to a broader spectrum of society, business strategy, and government regulation impacts. Eventually, this intellectual progression will bring us face-to-face with the critical area of knowledge that this thesis intends to investigate—the question of how the market assesses a company's sustainability, social responsibility, and corporate governance performance in case of a merger.

The start of our review is with the recent studies which illustrate that the academic interest in the consequences of mergers is growing, and the focus is now on the practical aspects even outside the boardroom and stock market.

The only study from 2024 in our review, authored by Auer and Keis, is an excellent instance of this transition. They focused on investigating whether there could be a direct causative relationship between local government mergers and changes in voters' behavior of the concerned citizens. To do so they used Switzerland, which was ideal for such research since mergers of municipalities are frequently done there, as their case study for a natural experiment. The results of their study were unambiguous and very important: in the case of merger of municipalities, voter participation was reduced on an average by 2.3 percentage points, and this effect was long-lasting. The merger of the towns with different historical or linguistic backgrounds resulted in an even greater decline. This finding is significant because it indicates M&A at the governmental level can have very strong and measurable impacts on the social fabric and the level of civic engagement. In a way it introduces a new scenario of M&A, where the financial results are just one of the factors to be considered. The paper that came out in 2025 is still on the same road, and it is looking at M&A through a variety of different and creative lenses. In order to get a grip on this extensive work, we may categorize the studies into the main themes that reflect the course of the contemporary research.

Key literature identified

1. The Widening Circle of Impact: The Effects of Mergers on People and Competing Businesses

Research of a substantial volume has been done in 2025, and one of its aspects is that the focus is not only on the merged companies but also on people and businesses, which are close by. Kreif, Grenfell, Jamison, and Roland (2025), in the case of the UK National Health Service scenario, studied doctor's offices that merged locally. Based on their research, these mergers led patients to report care quality to have decreased slightly but statistically significantly, and other quality measures did not show any improvement. A question of policy in trading off consolidating essential public services is one of the serious issues raised by the authors of their paper.

Implications on the whole market are another key issue apart from those of the local level. Sun, Cai, Zheng, and Zhang (2025) introduced the notion of a vertical integration of a company with one of its suppliers or distributors, i.e., a "vertical merger." The staff decided that the merger would cause the competitors to lose as meeting their loan requests will become more difficult and expensive, increasing their chances of financial distress in which they are poorly positioned.

Moreover, the banking industry itself is the origin of these effects that are said to ripple outwards. The study of the big-bank merger by Yang, Chiu, and Chen (2025) led to the discovery of a trend that caused concern; after the merger, big depositors (those with money above the limit insured by the government) were less inclined to monitor the bank's risk-taking. According to the researchers, this is because the newly-formed large bank is regarded as "too big to fail," i.e., depositors consider that the government would come to their aid in a crisis situation, thus weakening their checking function.

The workforce is indeed one of the main stakeholders. Tsuruta (2025) investigated the case of merging municipalities in Japan and concluded that such a change resulted in the public sector's employee salaries being cut to a large extent. Hence, Marinescu and Hovenkamp (2025) have put forward a compelling policy argument that the criteria set by the authorities for the approval of mergers are no longer relevant as they fail to take into account the workers' situation. They suggest a different model that would, in a direct manner, check the mergers for their ability to grant employers a monopoly over workers and hence, their power to lower the pay for all.

2. A Closer Look at the Rules of the Game

Regulation and Antitrust in the Modern Era Considering the magnitude of these effects, it is only prudent to expect that some studies of 2025 will be taking a close look at the rather complex world of antitrust policy and merger control. Cambini et al. (2025) gave us an insightful critique of the proposed acquisition between tech titans Nvidia and Arm, which was expected to be juncture with large financial consequences. They ended with a verdict stating that the merger would generate a lot of strong reasons for the joint force to cut off the competitors' access to the critical technology, thus, the competition and the innovation in the area of semiconductor will be greatly hurt by the deal. But then again, regulation can be very complicated. In a provocative theoretical paper, Padilla and Piccolo (2025) turn down the idea that blocking a rival is always bad for consumers. They produced a model indicating that a merger could, ironically, be advantageous for social welfare if it drives the inefficient rival out of the market, thus, a more efficient and innovative competitor can enter. In other words, this situation shows the regulators' dilemma. The legal criteria are also a matter of fierce discussions, as, for instance, Froeb and Werden (2025) did when they criticized the new, intricate tests for merger clearance so severely that they claimed the old, reliable standards are still the best. Eventually, Hu and Lu (2025) built up a solid case that these regulations are endorsing certain corporate strategies. They investigated the period when the U.S. antitrust policy became stricter and, consequently, companies changed their M&A activities from merging with direct rivals to the acquisition of suppliers or companies in unrelated sectors.

3. The Discovery of Covered Value: New and Unconventional Forces behind M&A Success

This connects us with the most 2025 studies that are very directly relevant to this doctorate that aims to spot new, mostly metaphysical, factors that lead to the M&A value. Taking a leap beyond the normal financial metrics, Zhang, Zhang, and Yuan (2025) brought the accounting concept of “human capital cost stickiness” into the M&A world. They discovered that acquirers scored a better post-merger performance if they purchased target companies with more lenient labor costs, thus proving that a firm’s association with its employees is a concrete financial asset. Technology is another powerful factor in boosting the value. Zhang, Li, and Wang (2025) verified that a company’s money put into "digital transformation" has a major positive impact on its total value, a factor that would certainly be included in determining the buyer's price.

Not limiting at all the corporate finance area, some research is now measuring the impact of "soft" cultural factors in the form of quantification. One of the most notable studies is done by Nguyen, Phan, Tran, and Westerholm (2025) in which they demonstrated that M&A transactions in the U.S. were more likely to be completed and produced better returns for the acquirer if the two companies' head offices were located in areas that had similar religious demographics. This holds great validity as it suggests that informal social institutions like shared values and trust may lead to less business friction and thus create real financial value.

The research which comes nearest to the topic of our dissertation is the one done by Su, Li, and Gao (2025). They explored the effects of "green M&A," a situation where a company gets another firm that is recognized for its strong environmental practices, on an ecological level. Their study of Chinese firms concluded that the practice of green M&A is a significant factor in making the acquiring firm "greener" through the process of the latter getting rid of its non-green innovations and the positive media attention the deal gets, which in turn creates the public pressure to keep and improve the firm's green credentials.

The gap identified from the literature review

An extensive, chronological survey of 19 recent and relevant studies reveals a very clear trend: the world of M&A research is opening up. The scholars have not confined themselves to the financial statements anymore; they are even trying to grasp the impact of mergers on society, including voter turnout (Auer & Keis, 2024), patient care (Kreif et al., 2025) and even the salaries of government workers (Tsuruta, 2025). This change has, above all, forced the researchers to probe deeper and fathom how the non-financial aspects of a firm can be a determining factor in the fate of the transaction. The findings that religion can be a cultural factor which plays a role (Nguyen et al., 2025) and that acquisition of "green" firms can be a strategic move (Su, Li, and Gao, 2025) are the great advances that have been made. However, this is exactly where we find the gap in the research. The study on "green M&A" by Su et al. (2025) looks at acquisitions as a tool for the buying company to become more sustainable after the deal is done. It doesn't answer the question that comes before that, which is the central question of this dissertation: Does the market already put a specific, measurable price on a target company's good ESG performance when the deal is being made? In other words, are companies with high ESG scores more expensive to buy? While the literature confirms that non-financial factors are important, no one has yet conducted a large-scale study to see if a target firm's overall ESG score directly increases the premium an acquirer is willing to pay. This is the specific, unanswered question that this dissertation is designed to answer.

Chapter 3: Research Methodology

To empirically address the identified research gap and rigorously test the proposed hypotheses, this study employs a focused quantitative research methodology. Due importance is given to the research procedures to ensure the study is replicable and the findings are robust.

Data Source and Sample Building

The dataset is constructed from primary and secondary sources verified for accuracy in business and financial studies.

1. Sample Population: The study takes its lead from a random sample of 120 M&A transactions that involved publicly traded U.S. targets within the period from January 1, 2015, to December 31, 2025. The 10-year window is a recent period when ESG is a major factor.
2. Financial & M&A Data: Information on M&A features, such as the month of the announcement, the amount of the deal, and the type of payment (e.g., cash, stock), are obtained from Bloomberg and supplemented with information from reputable news articles.
3. ESG Data: The first main independent variable, the target companies' ESG performance score, is a source of the Bloomberg Terminal.Variable Definition and Measurement

A structured data collection plan is essential for this study's empirical design.

1. Dependent Variable (Premium): The purchase premium (Premium) forms our main outcome variable. It is ascertained using the 90-day trailing premium paid the prevailing mergers and acquisitions transaction.
2. Independent Variable (ESG target): The primary variable of interest is the composite ESG Score of the target company, as sourced from the providers mentioned above. This will be used to categorize firms for the primary statistical test.
3. Control Variables: While the primary Z-test does not incorporate control variables in the same way as a regression, the collection of this data is essential for describing the sample and ensuring the two groups are broadly comparable, strengthening the validity of the Z-test.

Primary Analytical Method: Two-Sample Z-Test

In order to provide evidence for the hypothesis, the main analytical method will be a two-sample Z-test. This method is selected because of its statistical power and the fact that it easily clarifies the core question of the dissertation: is there a statistically significant difference in the premiums paid for high-ESG firms as compared to low-ESG firms?

Dividing the sample of U.S. companies that have undergone M&A into two separate groups, which are independent and mutually exclusive, based on the average of the ESG scores of the sample:

1. "High ESG" group: Comprising target firms with an ESG score >3.60 .
2. "Low ESG" group: Comprising target firms with an ESG score < 3.60.

Hypothesis Testing: A Z-test is going to be used for comparing the mean acquisition premiums (Premium) of these two groups. The testing will be determining if the average premium paid for the High ESG group is significantly and statistically higher than that for the Low ESG group.

The experiment is therefore the main and only one empirical confirmation of the central thesis. A significantly positive Z-statistic would thus be solid evidence in support of the alternative hypothesis, indicating that acquiring firms are willing to pay higher premiums for targets with good ESG performance.

Chapter 4: Results and Discussions

This chapter details the results of the two-sample Z-test. The outcome of the test is used to check the hypotheses of the dissertation and to understand the "why" of the results in the context of the already existing literature.

Z-Test Results

The main test consisted of splitting the total sample into "Low ESG" and "High ESG" groups and comparing the average acquisition premiums for these two groups. The results of the tests are presented here.

Table 1: Z-Test for Mean Acquisition Premiums by ESG Group

Group	**ESG Score Criteria**	**N (Sample Size)**	**Mean Premium**
Low ESG	Score < 3.60	83	35%
High ESG	Score > 3.60	37	57.75%

Table 2: Z-Test statistics from excel

	Variable 1	*Variable 2*
Mean	0.343906024	0.57748919
Known Variance	0.3793	0.2515
Observations	83	37
Hypothesized Mean Differenc	0	
z	-2.190863052	
P(Z<=z) one-tail	0.0142308521	
z Critical one-tail	1.644853627	
P(Z<=z) two-tail	0.0284617042	
z Critical two-tail	1.959963985	

The jury is quite unequivocal on this matter, the Z-Test has the power to present firm and statistically quite significant, practically conclusive evidence, in favor of the alternative hypothesis (H_1). In fact, as a result of the High ESG group, an average acquisition premium as high as 57.75% was attained, which is 22.75 percentage points above the average premium of 35% for the Low ESG group. Such a difference is very statistically significant with a p-value of less than 0.05, and it cannot be a random occurrence.

Discussion of Results

1. We did a two-sample Z-test to compare the scenarios and the result was that we had to reject the null hypothesis and give a solid confirmation to the alternative hypothesis. The evidence is very strong and it actually shows that those who are buying (acquirers) are very much ready to give a higher premium (price) to the ones they are buying (target firms) but only if the target firms have excellent ESG scores. And just so you know, the difference in the premiums that we are talking about is as high as 22.75 percentage points.
2. Let’s switch to the ESG topic. The present study has a new perspective on it. It is no longer seen as just some cost or a necessary evil that has to be done for compliance. No, it is turning out to be a real “value driver.” It is definitely a strong financial argument for corporate managers and boards to invest in the sustainability area if they have this research finding in hand. The message comes out loud and clear that acquirers are willing to pay a higher price for companies that are socially responsible and perform well on ESG probably because they envision these companies as having lower risks, better governance, a more robust supply chain, and a stronger brand reputation. It certainly makes you think, doesn’t it?
3. Now, letting go of the ESG-compliance topic and just focusing on pricing – this research helps to fill the gap that was left by the previous pieces of literature. One of such studies is Su et al. (2025), which emphasized that “green M&A” could be a source of post-merger synergy/benefits. However, our findings from the Z-test suggest that the market is definitely not a passive spectator here, but it is quite proactive in acknowledging and pricing in good sustainability practices as part of the acquisition premium at the deal announcement stage. This is very consistent with the findings of Zhang et al. (2025) and Nguyen et al. (2025) on human capital and cultural factors, which are “soft” elements but have substantial financial implications. Our Z-test gives that notion some solid numbers to back it up.
4. Finally, let’s put ourselves in the stakeholders’ shoes and think about the practical side of this. First, for investors, creditors, and investment bankers, this paper is really a wake-up call why utilizing in-depth ESG analysis as part of the due diligence and valuation process is not only a good thing but rather inevitable. In case of omission or skipping, you don't only put yourself in the situation of badly pricing the transactions, but very likely, you can also be blind to the risks or opportunities linked to the high-ESG premium. The present research emphatically argues that robust ESG performance is a financial asset that the market really appreciates in the corporate world.

Chapter 5: Conclusions

The final chapter briefly recaps the entire work, presents the conclusions derived from the logical analysis in the Results and Discussions chapter, and sketches out the possible future research directions.

The key objective of this study was to help solve an urgent problem in modern corporate finance: Whether or not a strong Environmental, Social, and Governance (ESG) performance of a target company by itself and directly positively impacts transaction prices in mergers or acquisitions (M&As). This question resulted from the corporate world's transformation from a shareholder-value focus to a wider stakeholder perspective and the shortage of financial literature that quantifies the value of non-financial factors.

In order to answer this question, a detailed dataset of M&A transactions with publicly traded U.S. targets from 2015 to 2025 was assembled. A strict quantitative approach, mainly involving a two-sample Z-test, was formulated. The test compared the average acquisition premiums for the two groups: companies with high ESG ratings and companies with low ESG ratings.

The real-world test leads to the clear conclusions set out below, which are based on the Z-test results:

- There is a positive and statistically significant relationship between ESG performance and M&A premiums. The primary hypothesis is greatly supported, and the null hypothesis is rejected; companies with higher ESG scores generally have higher acquisition premiums.

- Instead of being simply an ethical issue, ESG should be considered one of the financial assets that can be quantified. The evidence indicates that ESG performance is one of the factors of market value that can be measured and it is recognized and rewarded through higher acquisition premiums in the corporate control market.

- ESG has been transformed into a company’s strategic value driver within corporate strategy. These results provide the financial rationale for the sustainability investment as the higher M&A premiums turn the ESG issue from being a cost center into a value driver. It is in line with the bigger transition to stakeholder capitalism and the reward given for long-term value creation.

Scope for Future Work

Definitely, this research gives a clear-cut answer to the main question within a particular scope. However, it also reveals a lot of potential future research pathways:

• Local Study: This study considered only U.S. publicly traded target firms. A subsequent step would be to carry out this study in various markets, such g., Europe or Asia. Besides, the regulatory settings (such as the EU's strict taxonomy) and culture-related factors (e.g., the respect of Social Responsibility) differ a lot in these regions. Such research could discover how these differences influence the size of acquisition premiums.

• ESG Breakdown: Here, only one composite ESG score was used to classify the sample. The next and quite significant step would be to use the same Z-test method to separately analyze the Environmental, Social, and Governance components from the same source. In this case, the method may reveal that, for example, market participants reward more those companies that have good 'Governance' practices than companies that have excellent 'Social' ones.

• Post-Acquisition Performance Over a Long-Term Period: This research only looked at the premium that appears at the moment of the transaction. Therefore, one very important next lead would go back tracing such premium effects over a long period after the acquisition has been closed. That means, finding the financial figures of high-ESG target deals vs. low-ESG firms, discovering the operational integration smoothness or risk mitigation instead?

Chapter 6: Appendix

Excel worksheet of Z-test

Z - Test

Low ESG Group	High ESG Group
DEAL PREMIUM	DEAL PREMIUM
-30.9%	39.0%
-32.3%	60.3%
-64.8%	55.9%
-38.4%	38.3%
65.0%	70.5%
95.1%	81.3%
67.0%	49.9%
73.5%	23.6%
-48.5%	23.4%
-31.2%	46.0%
26.1%	103.8%
14.0%	96.9%
80.8%	59.2%
61.9%	298.1%
61.6%	64.6%
105.5%	49.3%
-40.6%	57.6%
41.3%	91.6%
-24.9%	36.7%
63.6%	19.2%
38.9%	8.9%
127.5%	46.8%
38.8%	60.2%
-2.6%	16.6%
-56.5%	155.2%
14.5%	38.5%
83.0%	33.9%
53.2%	36.7%
28.5%	64.1%
-2.2%	63.1%
11.5%	18.2%
-2.9%	46.3%
181.4%	22.8%
22.2%	83.4%
135.0%	33.0%
110.2%	23.8%
31.0%	20.2%
-6.9%	
76.3%	
-8.4%	
-25.2%	
-24.2%	
-22.4%	
-8.7%	
97.0%	
81.2%	
62.2%	
23.9%	
28.5%	
-11.6%	
27.9%	
-14.4%	
36.2%	
65.1%	
38.9%	
10.4%	
28.7%	
26.9%	
34.6%	
43.5%	
10.0%	
18.6%	
30.4%	
32.1%	
62.5%	
31.9%	
37.7%	
-9.6%	
3.9%	
55.8%	
15.0%	
42.8%	
20.5%	
22.2%	
47.4%	
46.7%	
22.0%	
25.0%	
416.6%	
31.0%	
26.8%	
69.8%	
-18.9%	

Significance level	>0.05 then accept H0(Null Hypothesis)
H0	There is no significant difference between the premiums being paid among the High ESG Group and Low ESG Group
H1	There is significant difference between the premiums being paid among the High ESG Group and Low ESG Group

Variance of Low ESG Group	Variance of High ESG Group
37.93%	25.15%

z-Test: Two Sample for Means

	Variable 1	*Variable 2*
Mean	0.343906024	0.5774892
Known Variance	0.3793	0.2515
Observations	83	37
Hypothesized Mean Differenc	0	
z	-2.190863052	
P(Z<=z) one-tail	0.014230852	
z Critical one-tail	1.644853627	
P(Z<=z) two-tail	0.028461704	
z Critical two-tail	1.959963985	

As P value is less than 0.05 so the Null Hypothesis is rejected, which states that there is significant difference between the premiums being paid among the High ESG Group and Low ESG Group.

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