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Sustainable Culture, Sustainable Deals: Legal Dimensions of ESG-Driven Change Management in M&As

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ABSTRACT

The Mergers and Acquisitions (M&A) landscape in the world is changing fundamentally, as the Environmental, Social, and Governance (ESG) principles are shedding their peripheral issue status and becoming central strategy points. This article claims that the growth of divergent ESG legal regimes over major jurisdictions, in particular, the European Union (EU), the United Kingdom (UK), the United States (US), and India, is radically transforming the nature of M&A by making PMI a multi-faceted endeavour in socio-legal compliance and cultural change management. This study indicates how ESG requirements are offering a concrete, enforceable set of laws of what previously was an amorphous idea of cultural fit, a notorious source of M&A failure. The comparative analysis shows that there is a large range of regulatory systems, including the prescriptive and value chain-oriented system of the EU regulation that establishes extensive extraterritorial obligations, to the more disjointed and politically disputable system in the US that produces much legal uncertainty. The key player in this new paradigm is the board of directors, which is expected to find a way to manoeuvre these complicated legal requirements and focus on the human-centric nature of integration. The paper concludes that it is no longer possible to achieve sustainable M&A success in the 21st century solely through financial engineering. It requires a new, legally aware method of change management that takes advantage of ESG requirements of reducing the risk, developing a robust and cohesive corporate culture, and, in the end, unlocking long-term and sustainable value across all stakeholders. This demands a fine balance between compliance requirements of the hard law and the creation of a sustainable culture of internalisation of values that these laws embody.

Keywords: *ESG, PMI, culture, M&A, sustainability, socio-legal*

I. THE INTRODUCTION: THE NEW IMPERATIVE FOR SUSTAINABLE M&A

The M&A playbook was in the language of finance and strategy, and it aims at creating synergies, market share, and shareholder value, which has served for decades. Nowadays, a new story is being written, which is characterised by the concepts of Environmental, Social, and

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Governance (ESG). This does not represent a mere cosmetic change, but an essential paradigm change. The fact that a company has an explicit ESG component in its transactions is a testament to this shift, with an unmistakably upward trend in the number of such deals all over the last 20 years. Dealmakers and investors have clearly realised that the risk profile, market valuation and long-term resilience of any company are inherently linked to its ESG performance[2].

The present paper has suggested that the legalisation of the ESG principles in major economies of the world has posed a twofold challenge and opportunity to the M&A practitioners. The difficulty is going through a world of global regulations, which is becoming more complex, fragmented, and contradictory. Acquirers are now faced with a labyrinth of laws that have imposed tough disclosure conditions, required a wide range of due diligence in whole value chains, and provided new sources of liability[3]. The possibility, however, is far-reaching. It is these legal requirements that offer a robust and organised platform of successful change management, which is a strong remedy to the timeless issue of cultural/human-centric integration failures that have historically plagued M&A deals. Studies continuously indicate that a significant percentage of 40 to 60 per cent of M&A transactions fail to perform what they claim to do, with poor PMI and cultural misfit cited as the main culprits. ESG regulations bring about a sense of discipline and focus on the soft side of the integration that had hitherto not been observed.

This study will be conducted by initially examining the existing literature on the background of M&A success, PMI and human aspects of organisational change, as this provides a theoretical background to the transformative role of ESG[4]. It will then proceed to provide a comprehensive comparative legal study of the four major jurisdictions: the EU, UK, the US, and India, breaking down their respective ESG structures and the actual implications of M&A due diligence, deal structuring, and risk allocation. Lastly, the paper will integrate these legal and theoretical strands to come up with a new model of ESG-driven change management. This model shows how legal requirements can be not only used as a tool of compliance but as a toolkit to develop a post-merger culture that is sustainable, thus achieving the so-called sustainable deal by developing a realistically sustainable culture.

[2] Ieva Poderiene, Valdone Darskuviene; Corporate value creation: the effects of board role and composition on post-merger integration. *Managerial Finance* 2025; https://doi.org/10.1108/MF-09-2024-0684

[3] Mahima Thakur & Mohini Yadav (2025) Unraveling the Drivers of PostMerger Identification in Facilitating Organizational Changes during M&As, Journal of Change Management, 25:2, 145-168, DOI: 10.1080/14697017.2025.2467063

[4] Jyoti, G., & Khanna, A. (2021). Does sustainability performance impact financial performance? Evidence from Indian service sector firms. *Sustainable Development*, *29*(6), 1086-1095. https://doi.org/10.1002/sd.2204

II. LITERATURE REVIEW: FROM SOCIOLEGAL INTEGRATION TO FINANCIAL SYNERGIES

A. The Shifting Paradigm of M&A Success

Mandatory alliances that have destroyed value are rife in the history of M&A. High failure rates in academic and practitioner literature have been documented over the years, with a number of studies attributing these failures to poor PMI processes, as well as, most importantly, due to a mismatch in the cultures between the merging entities.4 The classical concept of value creation, which is most simplistically expressed as 1 + 1 = 3, has been known to shift the definitions of value to have a broader stakeholder-based approach[5]. This new theoretical understanding that has been promoted by the stakeholder theory and updated principles of corporate governance is that long-term success is achieved through creating value to all stakeholders-employees, customers, suppliers, and the community- not only to the shareholders.

The fact that the role of cultural fit has been touted as a mantra in M&A literature has been a source of both frustration and disappointment since it is abstract and intangible. Cultural compatibility was usually considered a subjective endeavour and thus challenging to operationalise in the high-stakes, data-oriented world of a deal. This is where the emergence of ESG regulation gives a transformative perspective. What used to be a soft concept is currently being transformed into hard law. The ESG legal frameworks offer a specific, legally constrained, and quantifiable framework of measures that will translate the amorphous concept of culture into concrete, quantifiable and auditable practices by the corporation. To illustrate, laws such as the Corporate Sustainability Reporting Directive (CSRD) in the European Union and the Business Responsibility and Sustainability Reporting (BRSR) initiative in India require major and detailed disclosures of a vast quantity of aspects related to social and governance.[6] These are employee relations, workforce diversity/inclusion, health and safety guidelines, board make-up, and business ethics policies. The culture, as a concept that used to be amorphous, has thus been reformulated. Cultural due diligence and integration are no longer a question of good management practice, but rather a question of legal compliance, which can be subject to regulatory challenge and legal action.[7]

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[5] Namkyung Lee, Jinyoung Kim & Seon Min Lee (02 Feb 2025): ESG as an innovative practice: global interdisciplinary review with a focus on Asia Pacific, Asia Pacific Business Review, DOI: 10.1080/13602381.2025.2456997

[6] Chouhan, V., Sharma, R. B., Goswami, S., Al-Zaimoor, N., & Sharma, A. (2024). Exploring the need for an environmental, social, and governance disclosure strategy from the shareholders' perspective. Corporate & Business Strategy Review, 5(3), 81–93

[7] Valentina Beretta, Enrico Cotta Ramusino, Maria Chiara Demartini, Emanuel Bagna, Exploring the intersection of sustainability performance and M&A activity: A review of the literature, International Review of Financial

B. The Human Dimension of Integration

The key point in any merger or acquisition is always the people whose lives have been totally changed as they work. Their psychological and behavioural reaction to the change will determine the success of PMI[8]. Social Identity Theory is an effective theory of explaining such dynamics, as it looks at the source of identity by individuals belonging to social groups, including the organisation in which an individual is employed. An M&A event can cause the individual to lose this identity, leaving it in limbo, endangering the identity of individuals who are members. The key change management activity, then, is the support of the formation of a new, coherent, and integrated PMI, in which the workers of both previous companies are made to feel engulfed by a single, unified new company.

Studies have always established that there are major antecedents of successful PMI. These are among clear, consistent and transparent communication by the leadership; a sense of fairness and procedural fairness in the mechanism of integrating decisions and implementation; and a sense of continuity that aids in reassuring employees about their future job and the maintenance of the much-valued elements of their former companies.[9] The lack of these factors will often breed an us-versus-them culture, which will foster habits of resistance, conflict, and loss of major talent, thus compromising the strategic goals of the deal.

Additional shading is provided by the HR signalling theory, which investigates how the organisation's practices and policies are perceived as signals of the things that the organisation values and expects from workers. In an M&A setting, this theory provides an insight into a possible large source of tension between the various, but necessary, organisational capabilities.[10] An example of this is where an acquirer has a high M&A capability, which has been developed through experience and is codified in the form of checklists and focuses on conformity to the pre-established integration plans. At the same time, the acquirer may boast of its organisational agility, which is more of a higher-order dynamic capability that focuses on flexibility, quick adaptation and breaking past routines to adapt to changes in the market. These two capabilities give mixed messages to the employees.[11] The M&A capability is an indication

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[8] Barros, V., Verga Matos, P., Miranda Sarmento, J., & Rino Vieira, P. (2022). M&A activity as a driver for better ESG performance. *Technological Forecasting and Social Change, 175*, Article 121338. https://doi.org/10.1016/j.techfore.2021.121338

[9] Ahmad, M. F., Aziz, S., Michiels, Y., & Nguyen, D. K. (2024). Tracing environmental sustainability footprints in cross-border M&A activity. *European Financial Management, 30*(3), 1165–1195. https://doi.org/10.1111/eufm.12437

[10] Aktas, N., De Bodt, E., & Cousin, J. G. (2011). Do financial markets care about SRI? Evidence from mergers and acquisitions. *Journal of Banking & Finance, 35*(7), 1753–1761.

[11] Alexandridis, G., Hoepner, A. G. F., Huang, Z., & Oikonomou, I. (2022). Corporate social responsibility culture

of a requirement of organisation, discipline and following a plan, whereas the organisational agility is an indication of the necessity of improvisation, autonomy and revolution. This conflict may result in a weak HR situation, where the employees are given conflicting messages that confuse them, making them not of their roles, and subsequently, intergroup conflict. This kind of conflict is a direct block to key value-creating processes, such as transfers of knowledge, which is sometimes the main reason why the acquisition was desired in the first place.

C. ESG as a Catalyst for Change

The ESG movement around the world is an elementary transformation of the concept of corporate governance. It is a significant change in the paradigm of the shareholder primacy approach that had long prevailed under the agency theory to a more dynamic stakeholder approach that acknowledges the broader responsibility of a corporation to society and the environment. This redefinition has a direct effect on the workings of M&A decisions, where courts, regulators and investors are beginning to redefine the traditional fiduciary duty of care to include the prudent management of material long-term, ESG risks and opportunities.

More essentially, ESG regulations are establishing a kind of new social contract in the M&A setting. Traditionally, M&A due diligence was a closed-ended affair, focusing on internal financial status, operational resources and legal obligations of the target company. This new wave of ESG laws, which the EU has introduced in its Corporate Sustainability Due Diligence Directive (CSDDD), shatters this old paradigm. The CSDDD and others like it require companies to exercise due diligence not only upon themselves, but upon their whole chain of activities, direct and indirect suppliers, distributors, and other business partners. This makes direct legal liability of an acquiring company to human rights violations or environmental harms that occur far down the supply chain of a target, by an entity that is not owned by the acquirer and has never been contracted with directly.[12] This essentially changes the character of the risk evaluation and responsibility post-merger, wherein the integration strategy should go way beyond the two companies in merger but must feature strong measures of tracking, influencing and curing the ESG matters across the newly acquired value chain.

III. THE GLOBAL LEGAL TAPESTRY: COMPARATIVE ESG REGULATION IN M&A

The European Union has assertively taken the lead in ESG regulation and has developed an integrated and well-knit framework, which is transforming the corporate behaviour not only

and international M&As. *The British Accounting Review, 54*(1), Article 101035. https://doi.org/10.1016/j.bar.2021.101035

[12] Berchicci, L., Dowell, G., & King, A. A. (2017). Environmental performance and the market for corporate assets. *Strategic Management Journal, 38*(12), 2444–2464. https://doi.org/10.1002/smj.2670

inside its borders but also outside. This model may be interpreted as a regulatory triad, where each of the elements has a specific yet complementary role in M&A.

A. The European Union: The All-Inclusive Rule-Maker

The European Union has assertively taken the lead in ESG regulation and has developed an integrated and well-knit framework, which is transforming the corporate behaviour not only inside its borders but also outside. This model may be interpreted as a regulatory triad, where each of the elements has a specific yet complementary role in M&A.

First, the Corporate Sustainability Reporting Directive (CSRD) establishes a new level of transparency never seen before. It goes beyond the narrow focus of its predecessor, the Non-Financial Reporting Directive (NFRD), by establishing that in-scope companies should report in detail and audited sustainability reports based on a common set of European Sustainability Reporting Standards (ESRS), which are grounded on the principle of "double materiality," which makes companies report not merely on how sustainability issues impact their business (financial materiality), but on how they impact themselves on the one hand (impact materiality). Most importantly, the CSRD has a massive extraterritorial scope since even non-EU companies that have substantial operations within the EU or listed securities within the EU are also subject to CSRD, which has created a de facto global standard.

Second, the Sustainable Finance Disclosure regulation (SFDR) applies to the financial sector and requires stringent disclosure requirements on asset managers and financial advisers about integrating sustainability risks, and the sustainability nature of their financial products (Article 8 "light green" and Article 9 "dark green" funds). The SFDR is directly impacting how capital is allocated, how the sustainability risks are priced into M&A financing, and the intensity of reviewing the ESG credentials of target companies.

Third, and perhaps the most effective for M&A, is the Corporate Sustainability Due Diligence Directive (CSDDD). This historic law that came into effect on July 25, 2024, introduces a compulsory, cross-sector obligation on big businesses to carry out a human rights and environmental due diligence in their own business, their subsidiaries, and their business relationships. The CSDDD makes companies that do not comply directly liable to civil liability to victims in cases of damages. This directive is based on innovative national legislation in member countries, such as the Supply Chain Due Diligence Act (LkSG) of Germany and the Duty of Vigilance Law (Loi de Vigilance) of France.

In the case of M&A, the implication of the EU framework is far-reaching. It makes ESG not just a reputational, soft issue, but a hard legal compliance issue. Due diligence needs to go well

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past the four walls of the target to engage the entire global value chain of the target. Share Purchase Agreements (SPAs) risk allocation ought now to consider long tail risks of human rights or environmental damages by remote suppliers. The PMI planning is not merely about systems and people anymore; there should be tangible policies to integrate the operations and the supply chain of the target with the CSDDD compliance framework of the acquirer.

B. The United Kingdom: Mapping a Post-Brexit Future

After leaving the European Union, the United Kingdom has developed its own evolution on ESG regulation, and its legal framework is defined chiefly by a powerful emphasis on climate-related risks and corporate governance instead of its more extensive social and value chain due diligence requirements as observed within the EU.

The foundation of the regime in the UK is the economy-wide disclosure mandate in correspondence with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. TCFD-aligned disclosures are now mandatory in the UK on large traded companies, banks and insurers; the rules are provided by amendments to the Companies Act 2006, and by specific regulatory instruments, and demand comprehensive reporting by the four TCFD pillars: Governance, Strategy, Risk Management, and Metrics and Targets. This has entrenched climate risk analysis in the corporate reporting and the board-level strategy.

This agenda has been led by the Financial Conduct Authority (FCA), which has its own framework of TCFD-aligned rules of listed companies and regulated firms in its ESG Sourcebook. The FCA is also developing a framework of Sustainability Disclosure Requirements (SDR) regime and an investment labelling system, similar to the SFDR in the EU, which is meant to bring clarity to the market of sustainable investment products and reduce greenwashing.

In the case of M&A transactions, the legal framework of the UK poses another set of problems and places of interest. A demanding evaluation of a target climate-associated physical and transition risks, its decarbonization plan, and the strength of its TCFD-compatible reporting should now be part of due diligence. Such considerations can have a material effect on the valuation, especially to those companies operating both in the UK and the EU, where this presents a dual track compliance burden as the company must meet both the climate-centric regime of the UK and wider ESG reporting and due diligence of the EU.

C. The United States: A Fallen and Partisan System

Unlike the harmonised view of the top-down, the ESG law environment in the United States is characterised by both fragmentation and political polarisation and deep legal ambiguity. This

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puts a distinctively complicated situation on M&A practitioners, who have to manoeuvre through an evolving patchwork of federal, state, and judicial factors. The major development at the federal level has been the climate disclosure rule by the SEC. Having gone through an extensive and controversial rulemaking process, the SEC approved a final rule in March 2024. But this regulation was quickly swept away by a storm of legal action on both sides by the states and business organisations on the one hand that claimed the SEC was exceeding its powers, and by the environmental organisations on the other that the rule was feeble. The rule is now made in stay by the courts, and its final outcome is very much uncertain, especially taking into consideration the political sensitivity of ESG within the US.

It is the uncertainty itself that is a major risk factor to M&A, since businesses are unsure of the future federal compliance baseline[13]. Due to a lack of clear federal leadership, various states have filled the gap, and a multifarious network of sub-national regulation has emerged. SB 253, which imposes the reporting of the Scope 1, 2 and 3 greenhouse gas emissions of large private and public companies operating in California, and SB 261, which requires reporting of financial risks associated with climate, have had extensive implications on companies throughout the US due to the de facto nature of California as a regulator of the national scope. At the same time, various other states have been passing anti-ESG laws, such as banning state pension funds from transacting or doing business with financial institutions that are viewed as boycotting the fossil fuel industries. The primacy of the Delaware corporate law forms the foundation of all corporate activity in the US, as it governs most US public companies. The key to the M&A decision-making is the fiduciary duties of directors, which are the duties of care and the duties of loyalty. The scope of these responsibilities that allows or even obligates directors to take into account the interests of stakeholders and other ESG considerations is a subject of a currently heated and ongoing debate in the Delaware courts and the wider legal community regarding the scope of these responsibilities.

The scope of these duties that allow or even mandate directors to consider the interest of stakeholders and other ESG considerations beyond their effect on long-term shareholder value has become an even more thorny problem in terms of understanding the scope of these duties.

In 2025, further amendments to the law will be made. In the case of M&A in the US, this fragmented environment requires a complex and extremely careful legal scrutiny. Due diligence needs to evaluate the ESG risks of operations of the target, but also its exposure to a changing

[13] Caiazza, S., Galloppo, G., & Paimanova, V. (2021). The role of sustainability performance after merger and acquisition deals in the short and long term. *Journal of Cleaner Production, 314*, Article 127982. https://doi.org/10.1016/j.jclepro.2021.127982

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mosaic of state laws. Deals involving transactions need to be formulated to reflect the depth of uncertainty on the federal level, and boards need to be carefully counselled on the consistency of their deal-related decisions with their fiduciary obligations under Delaware law. This complexity is bound to cause a rise in transaction costs as well as new legal and political risks that should be well-addressed[14].

D. India: An Emerging Rapid Regulatory Ascent

The Indian experience in the ESG regulatory domain has been marked by an exceptionally fast and resolute transition from a voluntary to a strong and compulsory framework that makes it one of the frontrunners in the emerging world. This accelerated development has major consequences for the M&A activity of Indian companies. The course started with the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business (NVGs) of 2011, which established the baseline of responsible corporate behaviour. This was succeeded by the introduction of the Business Responsibility Report (BRR) by the Securities and Exchange Board of India (SEBI) in 2012, where the top listed companies were expected to report their performance with reference to these principles. The turning point was the year 2021, when the Business Responsibility and Sustainability Reporting (BRSR) framework was introduced by SEBI. This substituted the BRR with a far more detailed and expansive disclosure regime that is mandatory on the top 1,000 listed companies by market capitalisation (the National Guidelines on Responsible Business Conduct). Spelling possible further intensification of the regulatory framework, SEBI has since applied the concept of the so-called BRSR Core, a subset of key performance indicators in which listed entities must obtain a reasonable assurance, but without compulsory introduction over time. In the case of M&A transactions involving Indian companies that are listed, comprehensive ESG due diligence has been established by BRSR as an indispensable part of the deal[15]. Acquirers now have to carefully examine the adherence of a target to the nine principles of BRSR, its data collection practices and the performance of the target in significant ESG indices. This oversight has a direct effect on the valuation, risk assessment and PMI planning, and though the Indian system aligns well with international standards such as the GRI, it creates major compliance costs[16]. This becomes especially pertinent since studies have shown that there might be a negative short-

[14] Berchicci, L., Dowell, G., & King, A. A. (2012). Environmental capabilities and corporate strategy: Exploring acquisitions among US manufacturing firms. *Strategic Management Journal, 33*, 1053–1071. https://doi.org/10.1002/smj.1960

[15] Bammi, R. (2013). An empirical analysis of environmental and financial performance of BSE 100 companies. Indian Journal of Finance, 7(6), 16–30

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term association between ESG performance and the financial performance of Indian firms, which forms a complicated trade-off that dealmakers have to work with.

IV. LEGAL ASPECTS OF CHANGE MANAGEMENT BY ESG

The above-mentioned complex legal frameworks are not just abstract compliance drills, but have concrete, practical implications on the implementation of M&A transactions. They are transforming all the stages of the deal lifecycle, starting with the first due diligence and risk assignment, to the more important PMI and culture creation[17]. In this section, the legal analysis is operationalised in showing how such new rules are a source of risk and also a toolset for an effective ESG-driven change management.

A. The Legal Imperative in Due Diligence and Contractual Risk Allocation

The M&A due diligence has been redefined by contract since the introduction of the ESG laws across the world. An example of a typical due diligence checklist has to now include a myriad of new and highly specific inquiries mandated by the applicable legal regimes, such as requiring the buyer to undergo a comprehensive investigation of the target company supply chain, investigating whether it has potential human rights and environmental risks among its direct and indirect business partners, a far more intensive exercise than old-fashioned third-party compliance checks. When the ESG risks are known, whether it is imminent environmental legal action, a low score on diversity and inclusion, the possibility of forced labour in the supply chain, or weak climate transition plans, they should be tackled and addressed in the transaction contract. This is being increasingly achieved with more targeted and secure contractual terms. Buyers are requiring legally binding representations and warranties with regard to adherence to ESG laws, accuracy of the data to be used in sustainability reporting, and the lack of ESG-related controversies. In situations where major risks are identified, the buyers may demand certain indemnities to recoup the future liability or may negotiate pre-closing covenants where the seller must deal with some of the matters before the transaction is agreed upon[18].

Such a process is, however, challenging the conventional risk allocation mechanisms of M&A. The sheer characteristics of the many ESG risks, such as long tail, forward-looking, reputational and infamously immeasurable in financial terms, make them a poor fit with standard contractual

[17] Teti, E., Dell'Acqua, A., & Bonsi, P. (2022). Detangling the role of environmental, social, and governance factors on M&A performance. *Corporate Social Responsibility and Environmental Management, 29*(5), 1768–1781. https://doi.org/10.1002/csr.2325

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protections.

Traditional M&A risks, like undisclosed commercial litigation or financial misstatements, are reasonably well defined and frequently amenable to warranty and indemnity (W&I) insurance. Conversely, underwriters are usually hesitant to insure hypothetical, non-financial risks such as the prospective reputational harm resulting from a historical supply chain workforce matter or the eventual expenses incurred in the transition of a company to a net-zero approach. Such a lack of easy diffusion of ESG risks to a third party implies that the purchasers and sellers have to deal with these risks directly at the negotiation table. It is causing increasingly complicated and controversial purchase price adjustment negotiations, larger and longer escrows, and more tailor-made indemnities, which are fundamentally changing the risk-sharing relationship of contemporary M&A transactions.

B. The Role of the Board in Legal and Cultural Integration

The board of directors has been placed as the key player in this new complex environment, with fiduciary obligations now explicitly and apparently implicitly binding, to ensure that the PMI process is effectively managed and that this new entity is well aligned with the sustainability promises that are being made during the process of the transaction[19]. An acquisition board that sanctions an acquisition without properly due diligence the value chain of said target is at risk, e.g. may be negligent in its duty of care, especially under such a regime as the CSDDD. Equally, failing to manage a PMI process that does not mitigate major social or governance deficiencies detected in the due diligence process may put the board at risk of mismanagement claims[20]. The success of the board in performing these expanded responsibilities is much reliant on the composition of the board itself[21]. The existence of an independent board that has a diversity of viewpoints, a solid understanding of the issues of relevance in ESG, as well as previous experience in going through the merger integration pitfalls, is much better placed to offer the strategic advice and strict supervision the process demands[22].

[19] Tampakoudis, I., Andrikopoulos, A., Nerantzidis, M., & Kiosses, N. (2022). Does boardroom gender diversity affect shareholder wealth? Evidence from bank mergers and acquisitions. *International Journal of Finance & Economics, 27*(3), 3315–3344. https://doi.org/10.1002/ijfe.2323

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[22] Lavin, J. F., & Montecinos-Pearce, A. A. (2021). ESG reporting: Empirical analysis of the influence of board heterogeneity from an emerging market. *Sustainability, 13*(6), Article 3090. https://doi.org/10.3390/su13063090

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C. Riding Legal Requirements for Cultural Integration

Although the ESG laws have been considered through the prism of compliance burden and legal risks, they can be actively used as an effective change management toolkit[23]. The legal requirements may offer the much-needed push and a guideline towards an internalised cultural change throughout the challenging PMI phase[24].

These legislations provide a number of legal levers of change. As an illustration, the legal aspect of the CSDDD involving significant stakeholders can be used strategically to establish a more participative and collaborative PMI process by developing formal mechanisms of engaging employees in a consultative and responsive manner that is essential in achieving a buy-in attitude of ownership, which is essential to PMI[25]. In the same vein, the specific disclosure requirements regarding diversity, equity and inclusion in the EU CSRD and Indian BRSR may be the catalyst to create a more integrated and equitable workforce after the merger[26]. The legal requirement to collect, audit and disclose such information will be the ideal legal catalyst to have the leadership have clear, measurable objectives regarding creating a diverse culture that is also unified after the merger and to hold the management to account[27].

Nevertheless, this is a legal mandate, which has its legal and reputational traps. The most obvious of them is the danger of greenwashing or social washing, i.e. making false or unproven statements concerning the sustainability of a company. This threat is accelerated in an M&A setting. When an acquirer publicly boasts of the ESG positive effects of a transaction to investors, regulators and other stakeholders, and then the PMI process thereafter does not fulfil what was claimed, the results can be disastrous[28]. An inadequate integration that fails to resolve the specified ESG concerns, as well as develop the advertised sustainable culture, may result in

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shareholder lawsuits, regulatory fines based on the consumer protection laws, such as the Green Claims Code in the United Kingdom, and a massive mistrust on the side of stakeholders. In these situations, the very principles of ESG that were to be a source of value creation may be the source of its destruction, so that the merged entity will find itself in a worse position than it was at the time of the deal.

V. CONCLUSION AND FUTURE OUTLOOK

The implementation of the principles of Environmental, Social, and Governance into the juridical and strategic framework of corporate life has significantly transformed the situation in M&A. In this paper, it has been established that ESG is no longer a work stream or a corporate social responsibility issue, but a broad legal and strategic issue that flows through all the steps of a transaction process, including target selection and PMI. The relative system of analysis of the law in the European Union, the United Kingdom, the United States, and India presents a world of great regulatory deviation[29]. This is at one end of the ambitious, harmonised and extraterritorial regime of the EU, which requires value chain-wide due diligence, and at the other end of the spectrum, the disjointed, politically heated field of the US, where legal ambiguity is a risk factor in itself. Such a multifaceted legal hosting requires a higher degree of sophistication by M&A practitioners, boards, and their legal counsels.

The main thesis of the study is that in the modern age, a law-abiding and financially effective M&A transaction remains inevitably connected with the effective development of a sustainable post-merger corporate culture. The legislation has now given the inspiration as well as the skeleton to get this synthesis. The compliance risk tool of litigation, regulatory fines, and civil liability creates a threat of the stick, compelling a strict method of ESG due diligence and risk management[30]. At the same time, the carrot of these legal systems could provide a well-developed toolkit of successful change management. The stakeholder engagement requirements, transparency in reporting social metrics and oversight of the sustainability strategy by the board are not only legal obstacles; they are also tools that can be applied to win trust, employee identification and develop a single, strong organisation that can create long-term value. The past failures in the M&A caused by the inability to face the intangible issue of cultural clashes can be resolved with the tangible requirements of ESG that are legally

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established.

It is an ever-changing and fast-developing sphere with a lot of research perspectives. With the maturity of these new legal regimes, we will be in dire need of empirical studies that would monitor the success of M&A transactions conducted in these high standards of ESG legal frameworks[31]. To offer advice on liability and best practices, additional legal review of emerging case laws and regulatory implementation activities will be necessary. There is also a need to conduct a further study on the efficacy of individual contractual representations, warranties and covenants, including those related to ESG, in effectively addressing the long tail risk, particularly to the environment and social concerns. Lastly, with the ever-growing number of ESG regulations across the world, more comparative legal research on other jurisdictions will be required to trace the continually evolving web of legal responsibilities of multinational dealmakers.

Finally, the sustainable deals era calls for the emergence of sustainable cultures. The current reality requires a holistic strategy in which the legal counsel, strategic advisors and change management professionals collaborate to create organisations not only compliant and profitable, but resilient, responsible, and fit to sustain in the future.

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