

Governing the Transition: Embedding Sustainability and Climate Accountability into Corporate Decision-Making



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For Indian companies, ESG is no longer a reporting exercise. It is increasingly linked to how risks are assessed, how capital is allocated and how resilient business models are to change.

At the core of this shift is the dual imperative of decarbonization and energy security, shaped by India's national commitments and development priorities. Targets such as expanding non-fossil fuel capacity to 500 GW, reducing emissions intensity, and progressing towards net-zero by 2070 are influencing policy direction and capital allocation. For companies, this is translating into a gradual shift towards renewable energy, not only to reduce emissions but also to manage energy cost volatility, improve supply security and align with evolving regulatory expectations.

Beyond carbon, the scope of environmental considerations is widening. Resource efficiency, including the use of energy, water and raw materials, is

becoming increasingly integral to cost structures and operational resilience. Over time, other environmental impacts such as waste management and biodiversity are also expected to gain prominence as regulatory expectations evolve, and resource constraints intensify.

Social considerations are similarly becoming more material to business continuity. Factors such as employee welfare, health and safety, and workforce stability are increasingly linked to productivity, risk management and long-term value creation.

In this context, ESG is emerging as an indicator of how well a company understands its impacts, manages resources and positions itself to respond to emerging risks and opportunities. The question is no longer whether companies disclose sustainability information, but whether they have the governance capacity to act on it.

From Commitments to Capability

There has been a clear increase in sustainability disclosures and formal commitments in recent years. Large, listed companies are reporting more structured ESG information, setting climate targets and defining board-level responsibilities more clearly.

However, the next phase of progress will depend on the depth of governance behind these commitments. Climate targets and sustainability policies require internal systems that can track performance, assign responsibility and support decision-making. While ESG is increasingly recognized as a board-level issue, the effectiveness of oversight varies, particularly in how risks are escalated and whether outcomes translate into accountability. This reflects a broader transition from stated intent to implementation, with uneven progress across companies.

What Stronger Governance Looks Like

ICRA ESG's 2025 analysis on emerging governance trends among large corporates indicates that ESG outcomes are linked to deliberate governance design rather than incidental factors.

Companies with relatively stronger performance tend to demonstrate the following:

- Clear board-level oversight of ESG risks and impacts
- Regular integration of sustainability risks into decision-making forums
- Early linkage of ESG metrics with management performance
- Alignment with best known global initiatives to reflect public commitment
- Integration of ESG considerations into enterprise risk management, strategy and performance review

These features reflect a shift from oversight to accountability, where sustainability is embedded within core business processes rather than treated as a standalone agenda.

Closing the Gap Between Targets and Systems

Sustainability discussions in India have largely been driven by disclosure requirements. While this is beginning to change, with ESG and climate considerations being incorporated into enterprise risk management and strategic planning, the transition remains at an early stage.

A clear gap persists between commitments and governance capacity. While many companies have articulated climate targets, fewer have established structured mechanisms to oversee delivery. More advanced approaches, such as scenario analysis or capital allocation aligned with transition strategies, remain limited.

ICRA ESG's December 2024 analysis highlights a related imbalance. India has 127 companies committed to SBTi net-zero targets, yet only around 7–10% of these are from high-emission sectors that account for a large share of national emissions. This indicates that while participation is increasing, it is not yet aligned with sectors where transition is most critical.

A different lens through ICRA ESG's report on governance trends reveals sectors such as oil and gas and energy show relatively higher adoption of dedicated ESG oversight structures, while metals and mining continue to rely more on broader governance mechanisms.

Other sectors have seen faster formalization. In BFSI and IT, ESG committee adoption has increased significantly in recent years. At a finer level, some sectors show stronger progress in target-setting than in governance structures.

These patterns indicate that sectors with higher environmental exposure are not always the fastest to institutionalize governance mechanisms, reinforcing the uneven pace of transition readiness.

Without clearly defined systems, accountability structures and performance tracking, execution can remain inconsistent.

What Disclosures Reveal

Regulatory developments have improved the consistency and comparability of sustainability disclosures, particularly among larger companies. However, disclosures often reflect underlying governance quality. There is also a growing extension of these expectations along value chains. As disclosure and sustainability requirements become more formalized for larger corporates, particularly listed entities, similar expectations are gradually cascading to smaller players within their supply chains. This is driven by procurement standards, customer requirements and evolving disclosure conditions. As a result, sustainability considerations will begin to heavily influence operational practices and data expectations across broader industry ecosystems.

Without robust systems for data, oversight and accountability, improvements in reporting may not translate into operational outcomes, limiting their usefulness in assessing execution capability.

Bridging Disclosure and Assessment

As disclosures expand, interpreting them consistently remains a challenge. In this context, third-party assessments like SEBI-regulated ESG ratings, are emerging as an additional layer of evaluation. Engagement based approaches typically combine disclosures with management interactions and stakeholder inputs to assess how sustainability commitments are being implemented in practice. Transition-focused assessments extend this further by evaluating the trajectory of change rather than static performance. This includes examining transition plans, progress against targets, capital allocation decisions and the effectiveness of governance systems. Such approaches provide an external lens on execution capability, particularly where disclosures alone may not be sufficient.

Evolving Regulatory Architecture

The regulatory landscape is gradually evolving to support a more structured transition. Mechanisms such as CCTS, carbon credit trading systems, increasing clarity on ESG and sustainability-linked debt instruments, and the expected development of climate taxonomies are beginning to define what constitutes credible transition activity.

These developments are likely to improve comparability, guide capital allocation and reduce ambiguity around sustainability claims. In parallel, the Reserve Bank of India has been setting expectations around climate risk-related disclosures for banks. Once finalized, this is likely to increase the focus on climate risk within lending portfolios, as financial institutions begin evaluating exposures through the lens of emissions intensity, transition risk and alignment with sustainability objectives. This could introduce an additional channel of discipline, linking corporate transition performance more directly with access to capital.

The Governance Test

Governance is emerging as a key determinant of how effectively companies translate sustainability commitments into outcomes. It provides insight into whether ESG considerations are embedded in decision-making or remain limited to reporting.

As sustainability becomes more closely linked to capital allocation, risk management and regulatory expectations, the focus is shifting from intent to alignment. Governance systems, supported by independent assessment frameworks and evolving regulatory architecture, will increasingly determine whether companies are able to demonstrate credible transition progress.

For companies, this implies a need to move beyond target-setting towards building execution capability. This can be done through clearer accountability, stronger integration into strategy and more disciplined tracking of outcomes. For investors and lenders, the emphasis is likely to sharpen on distinguishing between stated commitments and demonstrated transition readiness.