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ESG at an inflection point

From reporting burden to strategic reckoning

Board Leadership Center (India)

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1. The shift from voluntary intent to hard-edged reality

What is unfolding in ESG today is not an evolution—it is a structural reset. For the better part of a decade, ESG remained a largely voluntary construct, shaped by principles, disclosures, and reputational signaling. That era is closing.

A new architecture is emerging—defined by regulation, market enforcement, and extraterritorial rules. Across jurisdictions, ESG is increasingly being codified through a widening set of regulatory instruments—ranging from tightening anti-greenwashing and disclosure norms in India, to mandatory supply chain due diligence regimes in Europe, climate risk disclosure requirements in markets such as the UK and (evolving) U.S., taxonomy-driven capital allocation frameworks, and product-level traceability requirements embedded across global trade corridors. Collectively, these signal a decisive shift: sustainability is being encoded into the rules of commerce, not just the language of responsibility.

For Indian companies, this changes the terms of competition. ESG is no longer about aligning with global expectations in principle; it is about proving alignment in measurable, verifiable ways to retain market access.

Export competitiveness, supplier onboarding, and even pricing power may increasingly hinge on this ability. What appears today as a regulatory inconvenience, in short order, might become a market filter.

2. The credibility gap: Bridging information asymmetry

As ESG moves from voluntary commitments to a domain shaped by regulation and capital allocation, a critical challenge is reducing the information asymmetry between executives and capital providers. ESG was founded on the premise of providing decision-useful information to markets, yet questions remain about whether current disclosures are sufficiently reliable, comparable, and actionable. Many organisations still rely on fragmented systems, manual data capture, and evolving definitions, resulting in inconsistent and difficult-to-verify disclosures. Standardisation remains uneven, and sector-specific nuances are often lost in generic metrics. While ESG technology is advancing—with growing adoption of automated reporting platforms and emerging predictive tools for climate and supply chain risks—most organisations are still at an early stage of embedding these capabilities into decision-making processes. The challenge is compounded by the current state of assurance. Although ESG assurance is becoming more common, it has yet to achieve the rigor, consistency, and institutional maturity associated with financial audits. As a result, boards are often provided comfort, but not necessarily conviction, regarding the integrity of ESG information. The next phase of ESG governance may therefore require disciplines closer to financial reporting: greater clarity on material KPIs, stronger controls over data capture at source, and more robust and independent assurance mechanisms. Without these foundations, ESG may fall short of its core purpose: providing decision-useful information that supports informed capital allocation.

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3. The disclosure trap: When ESG becomes a surrogate for strategy

A paradox defines today's ESG landscape: while frameworks such as BRSR have brought greater structure and comparability to disclosures, they have also risked reducing ESG to a reporting exercise. Companies are improving disclosures and scores, yet these efforts often fail to drive meaningful shifts in strategy, capital allocation, or value creation, creating a disconnect between what is reported and what changes in practice. Environmental metrics continue to dominate, while social and governance dimensions remain less developed. As a result, boards are increasingly shifting their focus from the completeness of disclosure to its decision-usefulness, recognising the risk of ESG becoming a high-effort, low-insight exercise unless firmly linked to business strategy. This challenge is further reflected in the differing objectives of disclosure frameworks. BRSR offers a broad, multi-stakeholder view of performance, while frameworks such as IFRS S1 and S2 are designed around investor needs, emphasising financially material and comparable information. This divergence raises an important question: whether current ESG disclosures are effectively serving the decision-making needs of their intended stakeholders.

4. Beyond compliance: The unrealised value of ESG

A less examined dimension of the current ESG discourse is how strongly it is shaped by **external pressure**—regulation, investor demands, customer audits. While these forces are necessary, they have inadvertently anchored ESG in a **compliance mindset**.

This has two consequences. First, organisations prioritise what is required over what is transformative. Second, the conversation remains disproportionately focused on risk avoidance, rather than **value creation**.

Yet, the most compelling ESG outcomes are emerging where companies go beyond compliance:

- Reconfiguring operations to drive **resource efficiency and cost advantage**
- Embedding governance practices that improve **decision quality and risk anticipation**
- Building deeper engagement with communities to secure **long-term resource access and social license**
- Leveraging sustainability credentials to **shape market positioning and customer preference**

These are not peripheral gains—they are central to competitiveness. And they require ESG to be treated not as a reporting function, but as an **organisational capability**.

The transition here is analogous to the digital journey many companies have already undergone. Those that treated digital as IT modernisation lagged behind; those that treated it as a business transformation led. ESG is at a similar crossroads.

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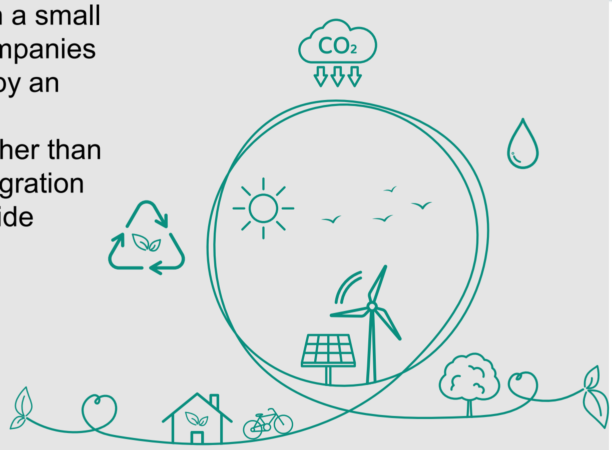
5. The system problem: Uneven progress and missing accountability

Despite visible progress, ESG maturity remains uneven, with a small set of leaders advancing meaningfully while a long tail of companies stays at minimum compliance. This imbalance is reinforced by an ecosystem that rewards leaders but rarely holds laggards accountable, with ESG ratings often treated as endpoints rather than diagnostic tools. The challenge is compounded by weak integration across value chains—especially MSMEs—limiting system-wide progress. Public procurement remains an underleveraged lever, with governments well-positioned to accelerate adoption by embedding sustainability into purchasing decisions. Without broader accountability and integration, ESG risks becoming a two-speed transition rather than a systemic shift.



Key considerations for boards

As ESG moves from the margins to the core of enterprise risk and strategy, boards need to recalibrate their approach in fundamental ways. For Indian directors, this is not merely a governance imperative but a statutory responsibility under Section 166(2) of the Companies Act, 2013, which requires directors to act in the '**best interests**' of the company, its employees, shareholders, the community and the environment.

Interrogate the 'why' behind ESG metrics: Prioritise metrics that are material to strategy and long-term value.	**Shift focus from reporting and ratings to value creation:** Look beyond disclosures to identify value-creating risks and opportunities.	**Embed long-term scenario thinking into decision-making:** Test decisions against evolving regulatory, climate, and resource risks.
Expand the aperture beyond environmental metrics: Give adequate focus to social impact, trust, and governance quality.	**Strengthen oversight of data integrity and assurance:** Apply financial-grade rigour to ESG data, controls, and assurance.	**Drive integration across value chains:** Build ESG accountability and capabilities across suppliers and partners.

Closing perspective

ESG is entering a phase where **intent will matter less than evidence, and disclosure less than discipline.** The external environment—regulatory, commercial, and societal—is converging to enforce this shift.

For boards, the implication is not simply to do more on ESG. It is to **engage with it differently**—with sharper questions, deeper scrutiny, and a clearer line of sight to value.

Because in the next phase of this transition, ESG might not distinguish companies by what they say, but by what they can prove—and **sustain value for the organisation**.

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We would like to thank our ESG committee members for their time in providing us with their valuable insights and perspectives that have contributed to building this point of view documents.

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