

Companies are Modifying their Business Models according to ESG framework

Companies are modifying their business models not only to get closer to their net zero emission goals but also to attract investments through adapting ESG framework in already established entities while enhancing shareholder value.

In many sectors with the help of technologies emissions can be brought to zero. For instance electricity, can be generated using renewable resources. A transport system that runs on electricity or hydrogen, industrial processes based on electricity rather than gas can help to reduce hazardous emissions to absolute zero. Sometimes a net zero target is expressed in terms of greenhouse gas emissions overall, sometimes of CO₂ only.

How Companies are going into restructuring to follow ESG framework

Companies are shifting towards green energy business, Indian companies like Vedanta Ltd, Reliance Industries Ltd and JSW Energy have started moving in a new direction. Such modification may include a demerger, shifting of hazardous industries to environment friendly entities, while RIL is transferring the company's gasification assets to a wholly-owned unit. JSW Energy has introduced its green energy business through wholly owned unit named JSW Neo Energy Ltd , while keeping the thermal business as part of the main company. The green business is expected to contribute more than 62% of JSW's earnings before interest, taxes, depreciation and amortization .

Around the world, investors collectively allocate their investment money to use in a better way. With the help of sustainability information, these investors are effectively aiming and targeting for companies who are contributing towards ESG.

For too long, markets around the world has analyzed risks and opportunities related to social and environmental challenges, from climate change to shortage of resources to economic inequality and racial injustice. To ensure proper disclosure comprehensive and standard system of corporate disclosure is needed.

To adopt ESG frameworks, the World Economic Forums, along with companies like Deloitte, EY, KPMG, and PwC, has drawn upon existing frameworks and identified a set of universal disclosures called Stakeholder Capitalism Metrics. This Metrics promote alignment among existing ESG frameworks and create a set of data points that can be compared between companies, regardless of their industry or region.

Since January 2021, approximately 120 companies have shown their activity and initiative towards ESG. Companies like Accenture, HSBC, IBM, Nestlé, PayPal, Vedanta Ltd, Reliance Industries Ltd and JSW Energy .

In addition other Forums like International Financial Reporting Standards Foundation (IFRS) has been collaborating with the Impact Management Project to bring together the major standards and frameworks.

Conclusion

Measuring the impact companies have on society and our planet is essential if practices are to be managed and improved in proper order. However, public and private companies are taking lots of efforts to make clear progress by following common standards, frameworks and initiatives.

The access to green capital through dedicated ESG funds are the real reason behind companies restructuring model. At the COP-26 summit, India announced its targets of reaching net zero emission by 2070 and achieving 500 GW of non-fossil fuel energy capacity by 2030.