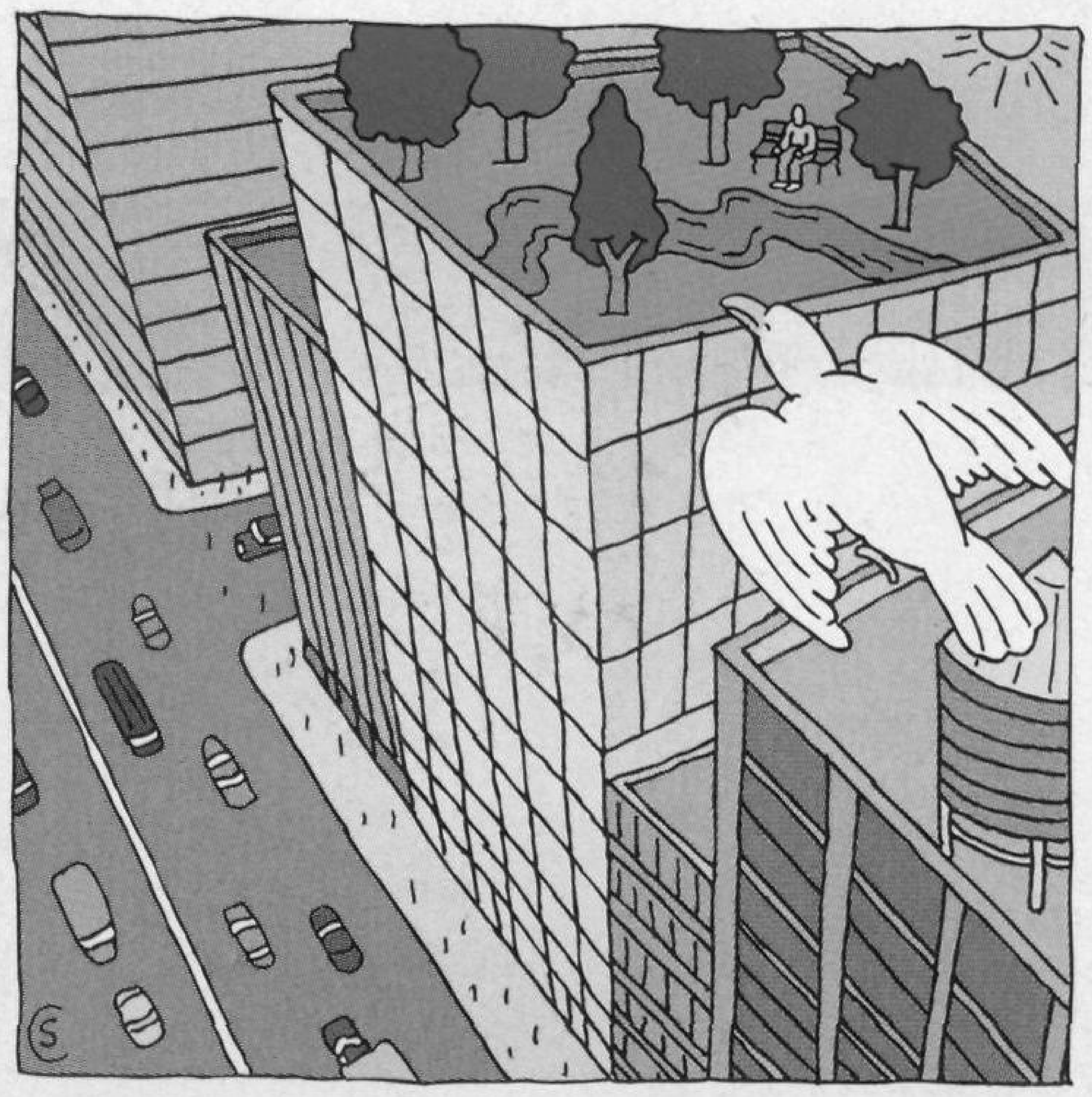

G Inconvenient *but* True

Good isn't always profitable. **BY SIMON ZADEK**

GLOBAL CORPORATIONS are becoming more accountable. That's the only conclusion one can draw from looking at the results of this year's Accountability Rating, which sets out to assess the progress of the world's 100 largest companies in building sustainability into their businesses.

Not a single FORTUNE Global 100 company scored below 15 this year, compared with ten last year—a bottom-rung group we branded "rearview gazers." And the top group of "strategic leaders," those companies scoring 56 or more, increased from 11% of the total last year to 17% this year. Overall, the mean score jumped from 39 to 43.

That improvement occurred even with the addition of a new dimension to the rankings. In previous years we rated companies on the way sustainable business practices were embedded in their strategy, corporate governance, and stakeholder engagement. This year, with the help of Swiss investment-information provider Asset4, we've added a new measuring tool that attempts to evaluate businesses not only on their internal procedures and external pronouncements but also on their actions.

The new measure is made up of three elements that in concert provide a reasonable proxy of a company's overall impact. The first is a score based on the number of controversies a company has found itself in over the previous year, especially in countries with weak or bad governments. The second is a score based on the company's progress in reducing its carbon intensity, using data drawn from voluntary reporting. And finally a score is derived from the extent of a company's involvement in multi-stakeholder initiatives, such as the Equator Principles and the U.S. Climate Action Partnership. Taken together, this new impact component accounts for 25% of a company's overall score.

But the marked improvement in overall scores does not yet translate into financial performance—that prized alignment of business value and public good. Except in a few cases, such as GE's Ecomagination portfolio, there is no demonstrated link across the Global 100 between performance measures such as return on equity and a company's Accountability Rating.

There are at least three explanations for this inconvenient truth. First, many companies have decided that the sustainability imperative is important, but they don't yet know how to exploit it. Second, smart strategies by innovative companies have not yet fed through to market performance. (Here, HSBC and Wal-Mart stand out as companies that have built strong sustainability positions in the past year on climate change and responsible supply chains, respectively, but have not been able to impress investors.) And third, some aspects of sustainability, desirable as they may be, simply have no business case, given what markets currently reward and penalize.

The data offer one other possible explanation. Although this year's results demonstrate that today's largest companies are trying to shift gear, history suggests that few will succeed in retrofitting their business models to succeed in tomorrow's markets. It's more likely that many of tomorrow's FORTUNE Global 100 companies are today's unknown or not-yet-existing business ventures, and will be designed from the ground up to embed sustainability into their products and processes. Our greatest opportunity as investors, employees, and consumers is to bet on those companies that move beyond fine words to deliver innovation that profitably addresses emerging social, environmental, and economic issues. The Accountability Rating will continue to provide the litmus test. F

Simon Zadek (simon@accountability21.net) is CEO of AccountAbility, a corporate-responsibility think tank based in London. Paul Begley and Alex MacGillivray provided research assistance.

ILLUSTRATION BY SEYMOUR CHWAST