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COVER STORY

The Most Sustainable Companies

These companies score high on forward-thinking and good behavior

By Leslie P. Norton

How much of a company's journey toward sustainability is driven by the personal passions of its CEO? Based on the conversations Barron's had recently with several corporate chieftains, quite a lot. That's one of the insights from our second annual sustainability ranking of public companies.

Consider Voya Financial (ticker: VOYA), the insurer and retirement-savings company that vaulted to No. 6 this year from No. 46 last year. Even before Voya separated from Dutch parent ING and went public in 2013, its CEO was already planning something fairly radical: diversity in its management ranks and gender parity on the board. "We very consciously wanted to send a message that diversity and inclusion were very high on our list," Rod Martin, Voya's chief executive, told Barron's. To Martin, it was the right thing to do—"there's so much evidence that companies that have done this perform better." By 2018, Voya had diversified its board; half of the executive committee members were women, and the stock had beaten the S&P 500 index twofold.

Or consider Hubert Joly of No. 1-ranked Best Buy (BBY). He dates his sustainability commitment to when he was a child in France and saw the environmental damage being done to the Alps. He traces it through early adulthood as he developed a spiritual practice, and then to an encounter with a worldly client when he was a young McKinsey consultant.

For investors, it has paid off. In a tough 2018, in which the S&P 500 lost 4.2% and the Russell 1000 fell 4.6%, the 100 most sustainable companies on our list lost 3.2%. Calvert Research and Management, the sustainability powerhouse owned by Eaton Vance (EV), compiled Barron's list, basing the rankings on hundreds of metrics that address en-



environmental, social, and corporate governance, or ESG, factors. “We’re beginning to get more and more recognition from the markets,” says Calvert CEO John Streur. “Companies can be differentiated based on how well they manage their environmental and social impact, and the strength of their governance. The list shows who’s creating a better company, long term, for long-term investors.”

There are significant changes in the top 10 from last year, including the entry of Voya, and Best Buy’s ascent to No. 1 from third last year. You might notice that some of the top companies are headquartered in California. That makes sense: The state is home to tough environmental regulations and governance initiatives. “You can’t say it’s causal, but it’s explanatory,” Streur says.

To create the rankings, Calvert analyzed the 1,000 largest publicly held U.S. companies (by stock market value) and scored them on more than 200 key indicators and 28 issues. Calvert then sorted the data into five key categories: shareholders, employees, customers, planet, and community. (The shareholders category might include executive compensation, for example, and the customers category might include data security or product safety.) Each corporation received a rating from zero to 100 in each category.

Finally, Calvert produced a single rating for all of the companies, weighted according to how material each category is for their industry: Emissions are less critical for a bank’s score than they are for a trucking company’s, for example. It also excluded companies that didn’t meet the Calvert Principles for Responsible Investment.

The lowest overall score in the universe was 27; the median was 55. The average score for the best 100 was 66.6, leaving room for improvement. What’s more, the best 100 scored marginally worse than the previous year’s, which averaged 68.7. While scores rose as companies boosted diversity, says Calvert analyst Chris Madden, Calvert also increased penalties for companies with late filings, restatements, or other actions that could concern shareholders.

Separately, we asked Calvert for a list of the most sustainable publicly traded companies outside the U.S. You can see it in the nearby table.

Across the U.S., sustainability has become a priority in many areas. This year, California’s new law mandating that companies based there have at least one woman board member takes effect. Other states, such as New Jersey, are consid-

Special Report: The 100 Most Sustainable Companies

Calvert Research and Management, a unit of Eaton Vance, produced a sustainability ranking for the 1,000 largest publicly traded U.S. companies. The top 100—based on hundreds of environmental, social, and governance factors—are in this table. As a group, they returned an average loss of 3.2% for 2018, beating the S&P 500 index’s -4.2% return for the year. For a description of Calvert’s methodology, the specifics of how the companies ranked in each of five key areas, top winners by sector, and other interesting data, see barrons.com.

2019 Rank*	2018 Rank	Company / Ticker	Weighted Score	2018 Total Return	Recent Price	Market Value (\$bil)	2019E P/E**	2019E EPS Growth**
1	3	Best Buy / BBY	75	-20.0%	\$59.52	\$16.0	10.9	6.7%
2	1	Cisco Systems / CSCO	75	16.5	47.26	212.5	15.0	15.8
3	17	Agilent Technologies / A	74	1.6	76.31	24.3	24.7	9.3
4	5	HP Inc. / HPQ	73	0.1	22.80	35.4	10.3	8.0
5	6	Texas Instruments / TXN	73	-7.0	102.32	98.3	19.9	-6.9
6	46	Voya Financial / VOYA	72	-18.8	46.78	7.3	8.8	34.3
7	9	Clorox / CLX	72	6.1	152.76	19.5	23.4	3.6
8	75	W.W. Grainger / GWW	71	21.8	299.99	16.8	16.6	8.2
9	13	Motorola Solutions / MSI	71	29.7	119.38	19.7	15.8	4.1
10	12	ManpowerGroup / MAN	71	-47.0	79.05	4.9	10.2	-14.2
11	2	salesforce.com / CRM	71	34.0	158.99	121.6	58.0	12.0
12	37	PVH / PVH	70	-32.1	111.81	8.5	10.9	9.3
13	4	Intuit / INTU	70	25.8	224.49	58.3	32.8	25.4
14	60	Cummins / CMI	69	-21.8	149.82	24.1	9.7	13.2
15	33	Kellogg / K	69	-12.9	59.14	20.5	13.7	-0.2
16	NR	Tiffany / TIF	69	-20.5	89.63	10.9	18.2	6.1
17	8	Oshkosh / OSK	69	-31.5	75.82	5.3	10.1	12.8
18	28	United Parcel Service / UPS	69	-15.1	107.66	92.4	14.2	4.6
19	18	Colgate-Palmolive / CL	69	-18.9	64.74	56.2	22.5	-3.3
20	22	Lam Research / LRCX	69	-24.0	173.69	26.5	12.2	-9.8
21	77	Autodesk / ADSK	69	22.7	152.42	33.4	51.6	553.7
22	48	McCormick / MKC	69	38.7	124.79	16.5	23.7	5.4
23	36	American Water Works / AWK	69	1.2	95.86	17.3	26.8	8.5
24	14	Williams-Sonoma / WSM	69	0.8	55.44	4.4	12.5	4.0
25	20	Applied Materials / AMAT	69	-34.6	39.12	37.3	11.0	-16.8
26	29	Ecolab / ECL	68	11.1	158.66	45.8	26.9	12.4
27	NR	Delta Air Lines / DAL	68	-8.6	50.54	34.7	7.6	16.9
28	47	Prudential Financial / PRU	68	-25.9	92.99	38.4	7.3	5.8
29	43	V.F. / VFC	68	-1.0	85.74	34.0	20.8	19.5
30	25	Deere / DE	68	-2.9	164.21	52.5	14.1	20.0
31	15	Darden Restaurants / DRI	68	6.9	108.09	13.4	17.9	13.6
32	50	Hasbro / HAS	68	-7.9	91.50	11.6	18.3	17.3
33	71	CBRE Group/ CBRE	68	-7.6	46.57	15.9	13.7	6.3
34	44	Keysight Technologies / KEYS	67	49.2	75.64	14.2	19.6	16.0
35	31	Target / TGT	67	5.1	72.77	38.0	13.0	4.8
36	68	Baker Hughes / BHGE	67	-29.8	25.03	25.9	23.5	62.8
37	39	Teradata / TDC	67	-0.3	46.22	5.5	29.1	27.4
38	NR	UniFirst / UNF	67	-13.0	139.51	2.6	19.7	-2.1
39	38	PNC Financial Services / PNC	67	-16.6	123.02	56.2	10.8	6.8
40	NR	Bank of Hawaii / BOH	67	-18.7	79.47	3.3	14.1	7.4
41	NR	People’s United Financ. / PBCT	66	-19.1	16.72	6.3	11.8	8.1
42	63	Mettler-Toledo Int’l / MTD	66	-8.7	652.84	16.4	29.0	11.2
43	7	Microsoft / MSFT	66	20.8	107.22	822.6	22.8	13.2
44	76	DXC Technology / DXC	66	-34.3	64.71	18.1	7.3	8.8
45	NR	Estee Lauder / EL	66	3.5	152.02	55.2	28.9	10.7
46	58	Church & Dwight / CHD	66	32.8	60.46	14.9	24.5	8.7
47	74	KeyCorp / KEY	66	-23.9	16.36	16.7	8.9	7.2
48	90	Sonoco Products / SON	66	3.0	58.26	5.8	16.6	5.9

E=Estimate. NM = Not meaningful. NR = Not Ranked *Rank based on non-rounded weighted average. **For calendar 2019.

2019 Rank*	2018 Rank	Company / Ticker	Weighted Score	2018 Total Return	Recent Price	Market Value (\$bil)	2019E P/E**	2019E EPS Growth**
49	NR	Gap / GPS	66	-21.6	25.22	9.6	9.6	4.3
50	64	CenturyLink / CTL	66	3.8%	14.58	15.8	12.5	3.5
51	23	Northern Trust / NTRS	66	-14.4%	\$89.81	\$19.7	13.5	-0.1%
52	NR	Deckers Outdoor / DECK	66	59.4	139.35	4.1	17.0	10.2
53	NR	SVB Financial Group / SIVB	66	-18.8	235.83	12.4	11.4	14.3
54	65	Henry Schein / HSIC	66	12.4	79.67	12.1	17.8	8.5
55	NR	Nvidia / NVDA	66	-30.7	149.95	91.5	27.5	-17.0
56	41	Starbucks / SBUX	66	14.4	69.34	86.2	24.8	12.2
57	59	Macy's / M	66	24.2	25.96	8.0	7.7	-15.8
58	34	Int'l Flavors & Fragrances / IFF	66	-10.2	143.77	15.3	21.7	4.3
59	42	ON Semiconductor / ON	66	-21.2	21.88	9.2	11.8	-5.8
60	56	Lowe's / LOW	65	1.3	98.10	78.8	16.5	17.9
61	57	Campbell Soup / CPB	65	-28.5	34.96	10.5	14.0	-7.4
62	19	Flowserve / FLS	65	-8.0	44.71	5.9	20.7	23.2
63	NR	Verizon Communications / VZ	65	10.7	54.14	223.7	11.6	-0.6
64	NR	Hershey / HSY	65	-3.1	106.10	21.7	18.8	5.1
65	84	Vertex Pharmaceuticals / VRTX	65	10.6	187.02	47.8	44.1	NM
66	26	PepsiCo / PEP	65	-4.9	112.90	159.4	19.3	3.5
67	NR	BlackRock / BLK	65	-21.2	417.56	66.2	16.1	-3.5
68	NR	Hewlett Packard Ent. / HPE	65	-5.1	15.89	22.2	9.9	2.6
69	NR	Kohl's / KSS	65	26.8	68.13	11.3	11.9	5.8
70	83	Xerox / XRX	65	-28.8	28.98	6.7	7.7	8.2
71	72	Avery Dennison / AVY	65	-20.0	104.77	9.1	15.9	8.7
72	80	Comerica / CMA	65	-18.8	79.58	12.7	9.7	14.3
73	NR	Rockwell Automation / ROK	65	-21.5	170.73	20.4	18.6	10.1
74	NR	RingCentral / RNG	65	70.3	96.48	7.8	139.6	-3.6
75	NR	Regions Financial / RF	65	-19.9	15.41	15.8	9.7	16.5
76	40	Tractor Supply / TSCO	65	13.2	89.59	10.9	19.1	9.2
77	NR	F5 Networks / FFIV	65	23.5	162.41	9.7	14.8	24.7
78	85	Varian Medical Systems / VAR	64	1.9	132.93	12.1	27.3	8.5
79	NR	AptarGroup / ATR	64	10.6	101.07	6.3	23.1	11.8
80	98	Republic Services / RSG	64	8.8	78.18	25.4	24.0	6.3
81	NR	Air Products & Chemicals / APD	64	0.2	167.92	36.9	19.9	10.4
82	66	Xilinx / XLNX	64	28.4	110.98	28.1	29.8	18.8
83	NR	T. Rowe Price Group / TROW	64	-9.3	94.60	22.5	15.1	-13.4
84	49	State Street / STT	64	-33.6	70.91	26.9	10.4	-5.4
85	92	Robert Half International / RHI	64	5.0	63.61	7.7	15.9	12.7
86	96	BioMarin Pharma / BMRN	64	-4.5	97.58	17.4	NM	907.1
87	NR	Cintas / CTAS	64	9.1	191.80	20.1	24.3	16.5
88	NR	Alaska Air Group / ALK	64	-15.5	64.74	8.0	9.6	51.5
89	55	First Solar / FSLR	63	-37.1	49.31	5.2	19.3	75.2
90	93	Yum! Brands / YUM	63	14.4	94.44	29.5	24.8	4.4
91	NR	S&P Global / SPGI	63	1.5	194.90	48.9	21.2	8.5
92	NR	Coca-Cola / KO	63	6.6	49.26	209.7	22.2	6.5
93	NR	BB&T / BBT	63	-9.7	48.79	37.2	11.2	8.3
94	70	Medidata Solutions / MDSO	63	6.4	74.68	4.6	40.5	15.6
95	NR	BorgWarner / BWA	63	-30.7	40.94	8.5	9.0	4.9
96	NR	Home Depot / HD	63	-7.2	186.39	210.5	18.2	6.5
97	NR	Avnet / AVT	63	-6.9	41.93	4.5	9.5	12.7
98	NR	Ingredion / INGR	63	-32.9	93.43	6.6	13.2	2.1
99	82	USG / USG	63	13.2	43.17	6.0	19.8	21.9
100	NR	AT&T / T	63	-21.5	29.63	215.8	8.3	1.9
		S&P 500		-4.2%	2737.70		16.2	5.3%

Sources: Calvert Research and Management, a unit of Eaton Vance; FactSet

ering similar legislation, on the theory that diverse boards perform better and are less susceptible to groupthink. Institutional Shareholder Services predicts that the number of all-male boards, now at an all-time low, will continue to decline. Boards, once somnolent, are being asked to address a variety of risks, such as those from climate change, or other ESG concerns and behavior that can influence corporate performance. Technology companies, for example, are increasingly scrutinized over their protection of user data. The pressure isn't coming just from progressive states: Much of it is being driven by professional money managers, who are adding ESG factors to their investment strategies.

No. 1-ranked Best Buy, headquartered outside Minneapolis, moved up from third last year. Its shares fell 20% last year amid concerns that its multiyear makeover may have peaked, but are still up more than 200% since Joly took over as CEO in 2012. Further gains aren't out of the question: Best Buy is the last man standing in consumer-electronics retailing. It has even joined with Amazon.com to sell Alexa-enabled Fire TVs in stores. Best Buy has done all of this while practicing sustainability: It helps customers recycle old appliances and electronics, to recover rare earths, gold, copper, and plastic. Its Geek Squad helps extend the lives of old devices and appliances. Geek Squad members now drive to clients in a Prius, cutting the firm's emissions footprint. The retailer scored 100 on the Human Rights Campaign Foundation's corporate equality index. It's on the climate A list of the CDP, formerly known as the Carbon Disclosure Project, and made it onto the Dow Jones Sustainability Index for the eighth year in a row.

"Sustainability is embedded in everything we do," Joly says. He grew up in Nancy, France; his parents took him skiing in the Alps, where the glaciers were already receding. In business school, he became friendly with two Jesuit monks. The future CEO began to meditate, and wrote articles about the purpose of work. In the early '90s, when Joly was a young McKinsey consultant, a client told him, "If you believe the only thing for a company to do is generate shareholder value, you're going to be in trouble. You need to 1) have a great team, 2) have happy customers, and 3) generate returns. But it's the first priority that generates the second, which generates the third. Making money is the outcome."

Today, Joly says, "sustainability is integral to each element of our strategy. It starts with the purpose of the company—

not to make money, but to contribute to the common good, and, specifically, to enrich lives through technology by addressing key human needs—and not burning the place to make a profit.”

No. 2 is networking giant Cisco Systems (CSCO), down from No. 1 last year. Cisco shares jumped 17% in 2018, as the company beat expectations every quarter. Its weighted average score is just under Best Buy's: Calvert praised the San Jose, Calif., company for “best-in-class data security and privacy controls, including recognizing data privacy and security as a human right, external certification on privacy controls, and incorporating privacy by design principles into product development.” By 2022, Cisco plans to reduce greenhouse-gas emissions by 60% from 2007 levels. Renewable energy now accounts for 80% of its electricity consumption, and it has widespread waste-reduction programs.

CEO Chuck Robbins tells Barron's that “I've been really focused on more of the social issues” recently. In March, Cisco made a commitment to spend \$50 million to fight homelessness in Silicon Valley, part of a wider initiative with the Kaiser Permanente health-care system. To ensure a workforce that will need Cisco products, it created Cisco Network Academies, which boasts 9.2 million graduates and has 1.9 million students enrolled today. The tech giant has committed to educating another 10 million students globally over the next five years. Says Robbins: “If you can connect someone and educate someone, you provide them opportunity to participate in this global economy.”

No. 3-ranked Agilent Technologies (A) vaulted up from 17; shares of the laboratory instrument and software maker gained 2% in 2018. Agilent, a former unit of Hewlett-Packard, has a dense, detailed corporate social-responsibility report that includes information such as the organization's direct and indirect greenhouse-gas emissions, by weight.

CEO Mike McMullen joined Hewlett-Packard in 1984 as a freshly minted Wharton M.B.A. “I said I want to be with a company that makes a difference in the world,” he recalls. Customers of Santa Clara, Calif.-based Agilent include labs that test for environmental and water safety: 85% have their own sustainability goals. Many are fans of new Agilent products like Intuvo, a gas chromatogra-

phy system that uses 50% less electricity. Agilent has increased energy efficiency by 40% and cut its carbon footprint by 25%. The firm doubled its maternity leave last year, to 13 weeks. Next month, a third of its independent directors will be female. The firm also gives employees a paid week off for volunteer work. Says McMullen: “This is a performance-driven culture. Having an energized, aligned workforce is how you get great results.”

HP Inc. (HPQ) itself is No. 4, up from No. 5. Silicon Valley's original garage startup, founded 80 years ago, has benefited from robust sales of personal computers and printers, thanks to increased demand from corporate buyers and popular demand for gaming devices. Among other things, Calvert praises HP Inc. for robust corporate governance, a thorough e-waste recycling program (45% to 70% of its ink cartridges are made of recycled plastic), and a commitment to develop skills and improve the well-being of a half-million factory workers by 2025, via initiatives including leadership and career-development programs focused on women. The compensation plan of every member of HP Inc.'s leadership team has sustainability-related objectives.

Last year, HP Inc. received \$700 million of additional business—“specifically, all things being equal, because our sustainability programs were stronger” than rivals’, says Stuart Pann, head of the company's supply chain. “The line that connects this to shareholder value is our customers—they are asking for what we're doing in this area, and [they] value it.”

Rounding out the top 5 is Dallas-based chip maker Texas Instruments (TXN), up from No. 6. TI has reduced water consumption by 5%—significant because it already recycles 30% of the water it uses in manufacturing. In sixth place, as mentioned, is Voya Financial. No. 7 is Oakland, Calif.-headquartered Clorox (CLX), the ninth-place finisher in 2018. Under CEO Benno Dorer, Clorox has produced strong transparency around the ingredients in its products, has robust product-safety assessments, and already has exceeded its goal of cutting greenhouse-gas emissions 20% by 2020.

Vaulting to No. 8 from No. 75 is Chicago industrial-supplies company W.W. Grainger (GWW), which has reduced greenhouse-gas emissions by 20% on its

way to 33% by 2020, and is the only industrial supplier to participate in an Environmental Protection Agency initiative to trim emissions from freight transportation. No. 9 is Chicago-based Motorola Solutions (MSI), up from the 13th spot last year. At No. 10 is Milwaukee-based staffing outfit ManpowerGroup (MAN).

Among the companies that fell in the rankings is Microsoft (MSFT), which slipped to No. 43 from a top-10 ranking as it faced discrimination and harassment lawsuits. One case alleges discrimination toward about 8,630 female employees. Microsoft didn't return requests for comment. Also edged out of the top 10 was Oshkosh (OSK), now No. 17 amid concerns about the trucking company's pay policies. Oshkosh did not reply to a request for comment.

When Dutch insurer ING flirted with bankruptcy after the financial crisis, it began shedding assets, including Voya. Preparing for the initial public offering allowed Voya CEO Martin and his colleagues to rethink the company. Martin was committed to diversity and gender parity on the theory that it improves decision-making and profitability. “We could no longer dial the Netherlands and ask them to send another billion dollars,” he says. “We tried to think through the outcomes and characteristics if we started a new company.”

Worried about being branded politically correct, he and fellow executives talked about the initiatives less candidly in the early days. As the program gained traction, they grew more confident. Today, 40% of the independent directors are women. Voya has received a number of plaudits for sustainability. Management reports regularly to the board on the issue, and creates an annual report card that it shares with the board and with customers. The company is moving fast, completing several of 23 corporate social-responsibility goals it has set for 2020. “In 2½ years, we went from no women and diversity to coequal,” he observes. “It has reflected itself in our ability to recruit and retain talent.”

Today, Martin is routinely asked by executives and directors from other firms how Voya did it. Sometimes, they tell him that their fellow leaders are opposed. “That's a bunch of excuses,” Martin tells them. “You're going to be in the crosshairs of these things. Lead. It's a great outcome.” ■

Important Disclosures

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Additional information regarding the ranking methodology for the Barron's 100 Most Sustainable Companies is available at <https://www.barrons.com/articles/methodology-how-calvert-research-management-produced-the-barrons-ranking-1517605641>

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