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# Listed: Companies With the Best Reputations

By Tony Chapelle July 15, 2019

More companies are telling investors in their annual reports how their boards oversee risks to the corporate reputation. At some companies, that merely means they disclose that the board takes pains to vet director nominees closely about their reputations. Yet even that practice showed a great increase over the previous year.

That's one of the findings from an analysis that *Agenda* commissioned on the S&P 500 companies whose stakeholders deem their reputations to be the highest.

Among the group that investors, regulators, customers and other stakeholders esteem the most are S&P Global, PepsiCo, McDonald's, Essex Property Trust and O'Reilly Automotive.

For the second year, *Agenda* is publishing the list of 10 U.S. companies that lead their business sectors based upon quantifiable factors for reputation such as higher margins than peers, more ambitious analyst expectations for revenue growth, and elevated valuation projections. **Nir Kossovsky**, CEO of **Steel City Re**, a firm that designs assurance policies for corporate reputations, created the listing.

**Companies with Highest Stakeholder Reputations Per Sector**

Click here to see table.

Seven of the companies in the listing this year disclosed which board committee or other method they used to oversee management of reputation risk. Last year, just two did.

Kossovsky claims stakeholders recently have rewarded a number of firms for disclosing their process for reputation risk management.

Several factors may explain this recent awareness, including the #MeToo movement, the hobbled Uber IPO and a trend that Kossovsky has spotted: a sharp increase in litigation against boards alleging reputational damage, as *Agenda* has reported. In one case, Wells Fargo settled the largest-ever derivative suit litigation, according to the plaintiffs, in a case alleging that the board had failed to protect the bank's reputation.

In his study on companies with the best reputations, Kossovsky observed that PepsiCo was the first non-bank to disclose its risk management practices in a corporate Form 10-K.

While regulators require all banks to describe those practices in their annual reports, non-banks aren't required to mention risk management, so they typically sound off about it in their proxy statements, if they discuss it at all. But Pepsi was different. It was also highly regarded by stakeholders.

Kossovsky maintains that reputation is worth money in the form of lower borrowing costs for credit and higher pricing power when selling goods and services. Those financial outcomes take place when the panoply of stakeholders — creditors, consumers, the media, investors, the general public and regulators — act upon what they know, or think they know, about a company.

PepsiCo also spent a significant amount of disclosure space describing its water and other environmental risks. “So, water, in the context of sustainability — one of the elements of reputation risk — rises to the level where [Pepsi’s board] think they need to disclose it as a matter of reputation,” Kossovsky writes in an e-mail.

On the other hand, Kossovsky maintains, too many companies treat their reputation governance disclosures “as variants of an unsubstantiated marketing story.”

For instance, PepsiCo’s key competitor, Coca-Cola, which neglected to make the list, mentioned “reputation” 19 times in its 10-K. Yet Coke failed to explain how it manages risks to its reputation.

Other companies on the list that elucidated where or how they govern risk to the corporate reputation included S&P Global, McDonald’s (which specifically puts the responsibility on its board public policy and strategy committee), Essex, Air Products, Roper and Red Hat.

“The increase in … disclosures in annual 10-K filings may largely be due to dramatic changes in consumer demands and purchasing behaviors … potentially even influenced by the sharing economy,” writes Michael Yip in an e-mail. He’s the senior vice president of strategic risk consulting at Marsh Risk Consulting, a division of the insurance brokerage Marsh USA.

Yip is a former vice president of risk management at Dallas–Fort Worth International Airport. He adds that factors such as corporate social responsibility and companies’ environmental, social and governance behavior also play a role in how consumers view corporate brands. Such behavior also influences the financial markets.

This year, prices for insuring boards at companies with the best reputations against a catastrophic reputation event are much lower than last year. For example, this year at S&P Global, the estimated cost of what’s called a parametric personal asset-loss risk policy was only $813,000.

Last year it was $3.7 million. At Roper Technologies, this year the cost was $342,000. Last year, it was $2.4 million. These are the projected costs for an insurance policy that would reimburse a director for income loss after losing a board seat following a devastating reputation event. The price is based upon a $20 million claim limit from the Lloyd’s of London markets, and including parametric triggers. The parametric policies do not cover liability expenses for lawsuits, however. Those typically are covered by directors’ and officers’ liability insurance.

In effect, the policies help to insure a board’s reputation. “They allow directors to be honorable,” Kossovsky says.

He says the costs for parametric policies have fallen in the past year because of a 400% increase in written premiums for the insurance in that time frame.“There are enough placements that underwriters are able to lower prices. As more business is written, the market becomes comfortable in dropping prices.”

“Sometimes the wound-healing process requires that someone accept blame so that life can go on for the company. An honorable director might see that as part of their duty. But if you couldn’t afford to do it, you might be less inclined. So this allows you to act on your instincts.”

Yip explains that parametric insurance solutions have steadily been on the rise for the past five years largely due to growing sophistication and innovation in specialty insurance markets such as Lloyd’s and SwissRe, the reinsurance company.

Whereas parametric insurance began strictly as an insurance product to hedge the impact of weather-related disasters on corporate revenues, Yip says, it has evolved into a form of calculated risk-taking because of highly targeted analysis, indices and metrics.

# Companies with Highest Stakeholder Reputations Per Sector

| Company | Sector | Net profit margin* | Forward EPS multiple** | Expected 2019 net income growth† | Triggers for reputation risk (10-K) | Discloses apparatus to govern reputation risk (proxy) | Cost to insure board for catastrophic reputation event*** |
|---|---|---|---|---|---|---|---|
| **S&P Global** | Commercial services | 29.9% | 25.2% | 3.2% | Cyb, eth, qual, innov, sust | Screens for rep; clawbacks | $812,173 |
| **PepsiCo** | Consumer non-durables | 19.3% | 23.7% | -3.8% | Supp chain, saf, eth, water | Screens for rep | $273,004 |
| **McDonald's** | Consumer services | 28.2% | 25.8% | 0.8% | Food saf, labor eth | Public policy committee | $844,671 |
| **Essex Property Trust** | Finance | 29.3% | 50.3% | 13.8% | Cyb, qual (product) | Screens for rep | $406,271 |
| **Mettler-Toledo Internatl.** | Health technology | 17.9% | 36.4% | 8.7% | Geopol, cyb, qual (IT) | No | $323,153 |
| **Air Products and Chemicals** | Process industries | 18.9% | 26.9% | 12.2% | Cyb, qual (service), innov | Screens for rep | $379,343 |
| **Roper Technologies** | Producer manufacturing | 20.9% | 32.8% | 22.8% | Cyb | Screens for rep | $342,610 |
| **O'Reilly Automotive** | Retail trade | 13.8% | 20.8% | 7.4% | Qual (service), cyb | No | $351,124 |
| **Red Hat** | Technology services | 13.2% | 44.4% | 17.1% | Qual (service), compli, cyb, innov | Full board | $305,520 |
| **NextEra Energy** | Utilities | 17.6% | 24.1% | 10.3% | Sec, cyb, compli | No | $417,178 |

***Notes***

*Ten sectors selected from FactSet Research Systems' universe of 19 sectors. The companies listed had the highest absolute scores on Steel City Re's "Corporate Reputation Index Metric." The ten highest scored above the 0.99 percentile mark, as opposed to other companies, which came in at 0.98 or lower.*

* *Net profit margin of company's trailing four quarters between June 28, 2018 and June 27, 2019.*

** *Forward EPS multiple is current share price divided by annual analysts' consensus of expected net income divided by current number of shares.*

† *Expected 2019 net income growth is the FactSet analysts' consensus expectation of annual net income as of 27 June 2019 minus last year's consensus expected net income relative to the expected Net Income expectation as of June 28, 2018 divided by last year's consensus expected net income.*

*** *Estimated cost to insure board for catastrophic reputation event based upon $20 million claim limits, Lloyd's markets, and parametric triggers*

***Definitions***

*Reputation risk triggers: Cyb = cyber security; eth = ethics; innov = innovation and intellectual property; qual = quality; saf = safety; sec = security besides cyber security; sust = sustainability (including natural disasters); water = water quality or safety*

*Disclosures: "Screens for rep" means board discloses it closely screens director nominees about their reputations.*

***Source:*** *Steel City Re's reputation-risk actuarial tables, company financial statements via FactSet Research Systems, 2018 annual reports, 2018 and 2019 proxies.*