

## Frequently Asked Questions

### S&P/Drucker Institute Corporate Effectiveness Index

#### INDEX DESIGN

- 1. What is the S&P/Drucker Institute Corporate Effectiveness Index?** The [S&P/Drucker Institute Corporate Effectiveness Index](#) is designed to track stocks in the S&P 500® that consistently rank highly on proprietary management criteria. The best of these companies are published annually in a special section from the Wall Street Journal as the “Management Top 250.” These are companies that create value through excellence in employee engagement and development, customer satisfaction, social responsibility, innovation, and high-quality financial metrics, all of which may be leading indicators of both short- and long-term financial performance. Furthermore, companies that pursue success in one or two of these factors at the expense of the others may be taking on risk currently undervalued by the market. The S&P/Drucker Institute Corporate Effectiveness Index was thus constructed to identify companies that exhibit excellence and consistency in how they create and sustain value.
- 2. Why was the S&P/Drucker Institute Corporate Effectiveness Index created?** While some investors obsess over short-term financial performance, they typically look right past crucial long-term factors that are difficult to measure—the reason these factors are often called “intangibles.” Yet a growing body of research shows that as much as 80% of a typical company’s value is driven by intangibles such as the strength of customer relationships, the engagement of the workforce, the ability to innovate, integrity in finances, and contributions to society. In collaboration with the Drucker Institute, S&P Dow Jones Indices created this index to give investors the whole picture: companies that effectively manage their intangibles with a holistic consistency that suggests they will continue to do so in the future.
- 3. What makes the S&P/Drucker Institute Corporate Effectiveness Index unique?** The index combines two innovative measures—the Drucker Institute corporate effectiveness score and the S&P DJI quality score—into a single method that seeks to measure a company’s capacity for creating value while managing risk. The index uses an innovative construction that considers both financial and intangible management performance, and recognizes companies that stand out on the combined measure without resorting to a more risky unbalanced approach.

The objective of the S&P/Drucker Institute Corporate Effectiveness Index is to track firms that are managed effectively. This begins with the Drucker Institute’s rigorous and quantitative assessment of the managerial functions at the core of every enterprise: customer satisfaction, employee engagement and development, innovation, and social responsibility. Added to this is S&P DJI’s quality score as a recognized measure of financial strength. Together, these measures assess a firm’s ability to create, deliver, and sustain value for shareholders and stakeholders alike. Finally, in identifying companies that are not only effective on average but also well balanced, the index seeks a blend of short-term performance and long-term potential.

- 4. Is the S&P/Drucker Institute Corporate Effectiveness Index an ESG product?** Yes, but it is also more than just ESG, offering an index that assess holistically how well a company is managed. Managing ESG, whether it be carbon emissions, social impact, or good governance, is becoming more prominent among the concerns for top management teams, but so is investing in their people, innovating to meet customers' needs, and generating the long-term profitability necessary to be a good corporate citizen. The index uses the management principles of Peter Drucker to turn his big-picture view of social responsibility into a uniquely rigorous and holistic assessment of corporate effectiveness. Yes, the index incorporates ESG ratings. However, it puts them in place alongside measures of customer satisfaction, employee engagement and development, innovation, and financial strength.
- 5. What is the Drucker Institute?** The Drucker Institute is a social enterprise based at Claremont Graduate University in California. It was founded by Peter Drucker, widely regarded as “the man who invented management,” to carry forward his ideas and ideals. Its mission is strengthening organizations to strengthen society. Since 2007, the Drucker Institute has worked with thousands of leaders from major corporations, nonprofits, and government agencies to help make them more effective—that is, as Drucker defined it, “doing the right things well.”<sup>1</sup>
- 6. How did the Drucker Institute choose its measures of corporate effectiveness?** Much like human health, intelligence, or athleticism, corporate effectiveness is a “latent variable,” meaning that it cannot be directly observed. However, it can be inferred from other variables that are observable (known as “indicators”). The Drucker Institute scoring system uses a diverse set of third-party indicators to assess how well a company follows a core set of Peter Drucker’s principles.<sup>2</sup> These principles are organized according to Drucker’s management philosophy into five dimensions of corporate effectiveness: customer satisfaction, employee engagement and development, innovation, social responsibility, and financial strength. All potential indicators were judged against the following criteria: (1) they needed to be rigorously developed based on sound statistical methods; (2) they needed to capture the essence of a specific Drucker principle; and (3) they needed to have a sufficiently high correlation with the other indicators of the same dimension, providing assurance that each one was actually measuring the same aspect of corporate effectiveness.<sup>3</sup>
- 7. How does the Drucker Institute produce its corporate effectiveness scores?** The Drucker Institute produces its scores annually. It uses the most current trailing 12-month data available from each provider, up to and including June 30 of that year. Through an automated production system, companies are scored by: (1) standardizing all indicator raw scores to a mean of 0 and a standard deviation of 1; (2) for each of the five dimensions of corporate effectiveness, averaging the company’s two or more valid indicators; (3) re-standardizing the average dimension scores; (4) transforming these standard dimension scores to t-Scores having a mean of 50, a standard deviation of 10, and a typical range of 0 to 100; and (5) through factor analysis of these five dimension scores, computing a factor score for overall effectiveness for each firm (which is also then transformed into a t-Score).

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<sup>1</sup> For more on the Drucker Institute, please visit [www.drucker.institute](http://www.drucker.institute).

<sup>2</sup> For a complete list of these principles, please visit [www.drucker.institute/rankings-principles/](http://www.drucker.institute/rankings-principles/).

<sup>3</sup> For a complete list of all indicators, please visit [www.drucker.institute/data-sources-for-the-drucker-institutes-company-rankings/](http://www.drucker.institute/data-sources-for-the-drucker-institutes-company-rankings/).

- 8. How does S&P DJI produce its quality score?** Quality companies are identified using three attributes, all accorded equal importance: ROE, balance sheet accruals (BSA), and leverage. This method is detailed in [Quality: A Distinct Equity Factor?](#) (Ung and Luk, 2014) and was made the basis of the S&P Quality Indices in 2014.
- 9. How does S&P DJI combine its quality factor with the Drucker Institute’s effectiveness score?** An overall score for each stock is calculated as a weighted average of the four non-financial Drucker Institute dimensions (customer satisfaction, employee engagement and development, innovation, and social responsibility) and the S&P quality factor; the Drucker Institute dimensions together constitute 67% of the weighted average, while the S&P DJI quality factor constitutes 33% of the weighted average. This method maximizes the benefits of the quality factor’s contribution to the index’s performance without undermining its overall purpose by overshadowing the other long-term Drucker Institute dimensions. Philosophically, the quality factor is well aligned with Peter Drucker’s financial management principles. A detailed attribution analysis found that replacing the Drucker Institute’s financial strength dimension with the quality factor in this way boosted the index’s return without significantly altering its other characteristics.

## INDEX CONSTRUCTION

- 1. How is the S&P/Drucker Institute Corporate Effectiveness Index designed? How are stocks selected?** Each stock in the S&P 500 is assigned a weighted average score based on the Drucker Institute’s non-financial dimensions and the S&P quality factor (as detailed in Index Design Question 9.) The top 200 stocks by weighted average score are then assigned a consistency score whereby: (A) each of a company’s five dimensional scores is assigned a percent rank in relation to the other companies in the 200-firm sub-sample; and (B) the five dimensional percent ranks for a company are averaged to calculate its overall consistency score. The top 100 stocks—colloquially, “the 100 most consistent scorers chosen from the 200 highest overall scorers”—are then selected for inclusion in the index.
- 2. How is the weight of a stock determined in the final index?** Stocks are weighted by combined average dimensional and consistency scores. This recognizes the impactful differences in overall effectiveness underlying whether a company scores higher or lower than its peers when using this combined method.
- 3. Why did S&P Dow Jones Indices use the S&P 500 as the universe?** The Drucker Institute had already established brand and public awareness value in its company ranking system through its partnership with the Wall Street Journal that began in 2017. Each year, the Wall Street Journal publishes a “Management Top 250” special section based on the Drucker Institute’s data and model. Additionally, the Drucker Institute also writes a quarterly piece for the Wall Street Journal’s “C-Suite Report” about original research based on that data. There is thus value in an index designed around the Drucker Institute’s existing coverage, which includes all U.S. stocks with USD 10 billion in market cap or USD 3 billion in annual revenue as of each year’s reference date—typically capturing 95% or more of the S&P 500.

## INDEX DATA AND LICENSING

- 1. How often is the index calculated?** The index is calculated daily.
- 2. How much history is available?** History is available from Dec. 31, 2012. The index was launched on Feb. 4, 2019. All data prior to the launch date is back-tested.
- 3. How can I access data for these indices?** Index levels are available on Bloomberg and Reuters. Additional data for the indices is available via S&P DJI's FTP feed. The FTP feed provides four daily files: index levels, opening and closing stock-level data and weights, and daily corporate actions. Files including index-level fundamentals are available on a monthly basis.
- 4. Where can I obtain more information about the S&P/Drucker Institute Corporate Effectiveness Index?** Historical and current monthly index information, including a factsheet and index methodology, is available at [www.spdji.com](http://www.spdji.com). Additional information, such as constituents and weightings, is available by subscription only. For more information, please contact [index.services@spglobal.com](mailto:index.services@spglobal.com).
- 5. Do I need a license from S&P DJI in order to use the index and its data?** Yes, in order to access, receive, use, or distribute the index or any related data, you will be required to enter into a subscription or license agreement with S&P DJI. Questions regarding licensing the indices can be addressed to:

Dan Perrone  
[Daniel.Perrone@spglobal.com](mailto:Daniel.Perrone@spglobal.com)

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Dan Perrone  
[Daniel.Perrone@spglobal.com](mailto:Daniel.Perrone@spglobal.com)

- 7. How much does the index cost for subscription and usage?** Pricing information requests can be addressed to:

Dan Perrone  
[Daniel.Perrone@spglobal.com](mailto:Daniel.Perrone@spglobal.com)

- 8. Will S&P DJI calculate customized versions of the index?** Yes, custom indices can be developed and distributed at an additional cost. Custom index requests can also be addressed to:

Dan Perrone  
[Daniel.Perrone@spglobal.com](mailto:Daniel.Perrone@spglobal.com)

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