In their book, *Built to Last*, Collins and Porras produced a groundbreaking study that highlighted the performance characteristics—and significant positive performance differences—between companies they termed visionary or built to last (BTL) and a control group of comparison companies.¹ Their study was based on data from the founding of each company to the early 1990s, with some companies in business for as long as 100 years. Collins and Porras compared 18 large-capitalization “visionary” companies identified in a survey of chief executives to a set of comparison companies matched to the visionary companies by industry and time of founding.

Visionary companies, according to Collins and Porras, are “built to last.” They attain outstanding long-term performance through institutional mechanisms that support what the authors called “clock building” as opposed to “time telling.” Shattering many myths, particularly about the goal of maximizing profits, *Built to Last* provides significant insight into what it takes to succeed over the long term. Built-to-last companies, conclude the authors, are not just organizations, they are institutions² in the richest sense of that word, for, as Collins and Porras put it, “they have woven themselves into the very fabric of society.”³

Collins and Porras show that visionary companies have performed well for shareholders over long periods. The question remains, however, the extent to which these companies also attain

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their extraordinary performance by working productively and positively with other primary stakeholders\textsuperscript{9} such as customers, employees, and communities, as well as the environment.\textsuperscript{5} Recent empirical research has suggested that there may be a positive link between the overall quality of management in a firm and its social performance, defined in terms of stakeholder relationships.\textsuperscript{6} Called the good management hypothesis, this research suggests that the quality of management is associated with the ways companies treat certain key stakeholders on an ongoing basis. In this view, positive treatment of stakeholders is also, by extension, related to better performance outcomes, typically measured in financial terms.

In this article, we extend the work of Collins and Porras by assessing the stakeholder, as well as financial, performance of Collins and Porras’ visionary and comparison companies. We explore the differences between visionary and comparison companies in their treatment of primary stakeholders. Thus, we attempted to determine whether visionary companies really did focus on “more than profits” by treating their multiple stakeholders more generously than did the comparison group.

**VISION, VALUES, AND SOCIAL/STAKEHOLDER PERFORMANCE**

Collins and Porras define visionary companies:

Visionary companies are premier institutions—the crown jewels—in their industries, widely admired by their peers and having a long track record of making a significant impact on the world around them. The key point is that a visionary company is an organization—an institution. All institutional leaders, no matter how charismatic or visionary, eventually die; and all visionary products and services—all ‘great ideas’—eventually become obsolete. Yet visionary companies prosper over long periods of time, through multiple product life cycles and multiple generations of active leaders.\textsuperscript{7}

According to Collins and Porras, the success of visionary companies results from their adherence to an immutable core ideology while stimulating progress with audacious goals that change over time. The core ideology is an established purpose and vital set of core values. In visionary companies, the core ideology remains the
essence of the company’s existence over time and drives operations and strategy. Visionary companies simultaneously stimulate progress and dynamic change through a mutable set of audacious goals brought alive by rich descriptions (strategies), cult-like cultures, and constant experimentation geared to meet (or create) changing needs and competitive conditions.

Core values of visionary companies encompass themes such as 3M’s emphasis on innovation and integrity, Johnson and Johnson’s hierarchy of responsibilities to a range of stakeholders, and Merck’s emphasis on “preserving and improving human life.” Collins and Porras concluded that “the critical issue is not whether a company has the ‘right’ core ideology or a ‘likable’ core ideology but rather whether it has a core ideology that gives guidance and inspiration to people inside the company.” Here we disagree. It appears to us that the core values on which visionary companies are based tend to be those that James MacGregor Burns, who wrote about transformational leadership, would have characterized as “end values.” For example, it is hard to disagree with values of integrity, service, helping humanity, meritocracy, valuing people, improving the quality of life, making contributions, and alleviating pain and disease, as end values, all associated with one or more of the visionary companies.

Still, Collins and Porras concluded from the range of values they uncovered that no specific ideological content was necessary to becoming a visionary company. Visionary companies, they noted, exhibited “consistent alignment with the ideology.” That is, visionary companies clearly stated what their core values were and made extensive efforts to live up to those values, especially as compared to the non-built-to-last (non-BTL) companies that served as the comparison group. But no consistent set of core values was found among the BTL companies. We believe that it is not so much the content as the nature of the vision to which visionary companies adhere that makes the difference. To wit: it appears to us that the end values contained in these visions can inspire commitment to the company from a range of different stakeholders.

For example, it is clear that the values embedded in core ideology are among the set of end values that most people would find acceptable and positive, even when the company’s product is repugnant. Take, for example, Philip Morris as a visionary company. One might legitimately claim that the company’s participation in the tobacco
industry indicates that it is pursuing the “wrong” values (harmful products). But the values expressed in its core ideology are stated not in product terms, but rather in end value terms that many individualistic Americans would likely find appealing: the right to personal freedom of choice, winning, encouraging individual initiative, opportunity to achieve based on merit, hard work, and continuous self-improvement. Note that these are all positive values and that the core values of the visionary companies all tend to be expressed along similar end value lines.

Other recent thinking about strategic management has also begun to focus on the importance of a powerful (and positive) vision integrated with a strong set of core values in generating positive economic performance. For example, Hamel and Prahalad highlighted the critical role of “strategic intent” in the success of the companies that they studied. More recently, Carl Anderson highlighted the importance of “values-based management” in driving organizational performance. Anderson explained the need for integrating four interdependent values-driven goals to achieve organizational success: “Over the long run, competence and learning are necessary to sustain economic performance. A strong community is fundamental to all three.”

Although Anderson decries the neglect of values-based management in recent management practice, others have highlighted the linkage of dominant management tools in use in recent years with underlying values that seem likely to result in better performance. For example, Jeanne Liedtka has noted pointedly that many of the recent fads in management are in fact based on a common set of underlying values that influence operating practices. These approaches to organizational improvement include Senge’s learning organization, total quality management (which as been described as “just what the ethicist ordered”), re-engineering, and strategic thinking as discussed by Mintzberg. As articulated by Liedtka, the values common to all these management systems include creation of a shared sense of meaning, vision and purpose, developing a systems perspective, emphasizing business processes, localizing decision making, leveraging information, focusing on personal and organizational development, and encouraging dialogue.

As Liedtka points out, the failure of so many companies in using any of these methods appears to be that, unlike Collins and Porras’s visionary companies, too little has been done to assure
organization-wide implementation of this common set of values-based approaches to management. Too frequently, for example, TQM, participative management techniques, reengineering, learning organizational strategies, or strategic thinking methods are tacked on to what already exists, without fundamentally changing the organization. It is possible that what the visionary companies have done is develop the organizational capability to implement and hold to their articulated vision, which incorporates both the desired picture of the future the core values support and the achievement of that vision. Working positively and productively with primary stakeholders would seem to be a core element of successfully implementing vision.

**OPERATING WITH INTEGRITY: STAKEHOLDER RELATIONS**

The types of visions and values embedded in the visionary companies suggest an internal consistency that sustains a company over time, through whatever strategic, competitive, or operational problems arise. Values-driven, visionary companies must also sustain positive relationships with those stakeholders who matter most to the successful realization of the vision. Operationalizing a vision may mean, for instance, ensuring high morale and productive employees, gaining the trust of customers by providing products or services that meet expectations, and working with communities so that problems are resolved mutually rather than adversarially.

Scholars have also recently noted that operating with integrity with respect to important stakeholders appears to be vital not only to successful financial performance but also to a company’s broader reputation with respect to its overall quality of management. Further, comprehensive reviews of the literature on the links between corporate social performance and financial performance have begun to indicate that there is potentially a positive (or at worst neutral) relationship between social performance and financial outcomes. Corporate social performance (CSP) can be defined as the on-going relationships that a company has with its primary stakeholders. The definition places emphasis on day-to-day operations. That is, positive CSP means positive implementation of stakeholder relationships.
Such a definition moves understanding of CSP towards a stakeholder framing rather than a set of predominantly discretionary activities associated with philanthropy, volunteerism, or “doing good” for its own sake or, as companies like Cisco Systems have discovered, for competitive advantage. Implementing daily operating practices through stakeholder relationships is likely to derive directly from the values embedded in a company’s vision, that is, from what Collins and Porras termed its core ideology. Core values that are positive end values provide a sense of meaning and structure to stakeholders associated with the company. If companies are values-driven in this way, then it makes sense that BTL companies would focus on sustaining positive relationships with important stakeholders like owners, employees, customers, communities, and the environment.

One of the more interesting items of evidence adduced by Collins and Porras is the striking long-term financial performance difference between visionary (BTL) and comparison (non-BTL) companies. Vision-driven BTL companies dramatically outperform the comparison group in terms of market performance, generating more than six times the comparison group and fifteen times the general market in terms of cumulative stock returns over the period of Collins and Porras’ study. What this means in practice is that one primary stakeholder, the owner, receives great satisfaction from visionary companies because of their long-term financial performance. Although Collins and Porras point out that many of their visionary companies, including IBM, Disney, and Motorola, have experienced hard times, the significant point is that, considered over long time periods, those companies with a “clock building” orientation will continue to outperform other companies with a “time telling” mentality.

While the BTL companies have financially outperformed the comparison group, it is important to note that the BTL group was not selected or identified on the basis of financial performance. The companies that Collins and Porras identified were to be visionary, not simply companies with superior stock performance. Collins and Porras identified the BTL group from a survey of CEOs taken in the late 1980s. In that survey, they asked the CEOs to nominate up to five “highly visionary” companies. Collins and Porras then used these nominations to compile their list by identifying the 20 most frequently mentioned companies.
were founded after 1950. Collins and Porras had a final list that included 18 visionary companies. They then identified comparison companies that were founded in the same era, had similar founding products and markets, had fewer mentions in the CEO survey, and were themselves respected companies.

Most of these companies have been through peaks and valleys of performance, as noted above. Our task here, however, is to evaluate the average performance of the surviving members of these groups of visionary vs. non-visionary companies using data from a time period considerably later than that of the original selection. If positive values are actually embedded in visionary companies, then it makes sense to think that they will outperform non-visionary companies in their treatment of primary stakeholders. As noted, there is already some evidence to suggest that well-managed companies outperform less-well-managed companies in their treatment of various stakeholders. Extending this logic supports our hypothesis that companies that are visionary (the BTL companies), will outperform others both financially and in the ways that they treat other primary stakeholders.

**HOW WE DID THE STUDY**

Data on corporate social performance (CSP) are from Kinder, Lydenberg, Domini (KLD), an independent social research firm that develops social performance ratings for interested business and investor communities. KLD’s primary business is the assessment of company social performance and not investment management, although a separate investment firm does maintain a passive fund comprised of firms that have “passed” all KLD screens. To do the study we used five of KLD’s stakeholder-related measures to assess primary stakeholder relationships: community relations, employee relations, treatment of the environment, product (as a surrogate for customer relations), and diversity. KLD rates each of these five variables on a five-point scale from −2 to +2 and reports the data annually. Our data set covers the seven-year time period 1991–1997, the full period for which KLD had been reporting at the time of this study.

All financial performance data are from COMPUSTAT. Accounting measures of financial performance were return on equity (ROE),
return on (total) assets (ROA), and return on sales (ROS). Market measures used included: 10 year relative total return to shareholders (a firm’s 10 year total return divided by the 10 year return of its industry group), 10 year total return to shareholders, long term debt to asset ratio, and Beta (a measurement of the sensitivity of a company’s stock price to the overall fluctuation in the Standard and Poor’s 500 Index). The COMPUSTAT financial data are also annual, and cover the latest available eight-year time period, 1989–1996.27

Firms in this study are classified as either Built-To-Last (BTL) or non-Built-To-Last (non-BTL), as taken from Collins and Porras. The original Collins and Porras study included 18 BTL and 18 non-BTL firms. These were matched pairs, with the non-BTL firms serving as a control group. We have maintained that relationship in our study, but some of the 18 pairs are no longer complete. After the effects of mergers, bankruptcies, and unavailable data for one or more of our variables, we were able to retain 11 of the original 18 pairs. Companies studied are listed in Table 1, although not every one of these pairs is present in every year of the analysis. For example, the second pair, Boeing-McDonnell Douglas is lost in 1997 when the two firms merged. For any given year of the analysis, however, a minimum of eight pairs is represented.

Three types of analysis were undertaken. First, we look at the raw results in Figures 1–13, noting the immediately observable differences between visionary and non-visionary companies on both financial and stakeholder measures. Then, considering our data as a sample from a larger population, we test for statistical significance of these observed differences. Finally, we look for general trends in the companies’ CSP performance over the period of the study.28

VISIONARY COMPANIES DO BETTER . . .

Financially

Given the long-term performance differences uncovered in the original Collins and Porras study, we expected that the BTL companies would continue to outperform the non-BTL companies financially, and we were not disappointed. As Figures 1–7 dramatically illustrate, in almost all years and on all of the measures of financial
performance that we used, with the exception of beta, BTL companies outperformed the non-BTL companies. Each chart shows the average performance for the BTL group vs. the average performance for the non-BTL group. Let us explore the ways in which these two groups of companies perform with respect to the owner stakeholder.

We consider financial performance to be the fundamental way that companies “treat” their shareholders or owners. The results are striking and consistent across all measures. For example, Figure 1 shows the performance of each group for return on equity over the period 1989 to 1996. The BTL group outperforms the control

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<th>TABLE 1 Collins and Porras Visionary and Comparison Companies**</th>
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*As noted in the text, some of the original pairs are no longer available because of bankruptcies, acquisitions, and mergers.

** For the sake of completeness, we note the reasons why some companies are no longer in the study. The Norton Company was acquired by Saint-Gobain, a France-based world leader in the manufacture of engineered materials. Burroughs merged with Sperry in 1986 to become Unisys Corporation. Howard Johnson was acquired in 1990 by JFS, Inc., which then merged with CUC International to form Cendant Corporation. RJR Nabisco was taken private in a leveraged buyout in 1988 by KKR. Kenwood International is still operating, but is based in Tokyo and not listed in Compustat. Ames filed for bankruptcy protection in 1990, emerged in 1992, and returned to profitability in 1993. Columbia is now CBS Records Group, which was acquired by Sony and is today known as Sony Music Entertainment.
group in seven of the eight. On average, the BTL group’s ROE is 9.8% higher than the comparison group. Performance differences continue when we look at return on assets (ROA), a second way of assessing shareholder treatment. As Figure 2 shows, the BTL group outperforms the control group in every year, with an average advantage of 3.55%. Similarly, the return on sales (ROS) comparison in Figure 3 shows the BTL firms outperforming non-BTL companies in each year, with an average advantage of 2.79%. Clearly, in terms of financial performance as assessed by traditional accounting-based returns, the visionary companies are treating their owners very well compared even to the excellent group of companies included in the comparison group.

Market-based measures, which emphasize explicit returns to shareholders, show similar striking results, continuing the performance pattern identified in the original study by Collins and Porras. We used ten-year relative total return to balance out both the vagaries of the market and industry performance differences. For ten-year relative total return, shown in Figure 4, the BTL group outperforms the non-BTL group in all but one year, with an average

FIGURE 1 ROE Comparison
FIGURE 2 ROA Comparison

FIGURE 3 ROS Comparison
FIGURE 4 10 Year Relative Total Return Comparison

FIGURE 5 10 Year Total Return Comparison
FIGURE 6  Long Term Debt Comparison

FIGURE 7  Beta Comparison
advantage of 63.5%. (Note that the very high value for the non-BTL group in 1990 results from one extremely high value for Wells Fargo for that single year. Without this point, the value would have been much lower, about 46.75%, which is consistent with the pattern evidenced in other years and would be well below the performance of the visionary company group.) Another measure of interest to shareholders is long term return, ten-year total return. Figure 5, shows that the BTL group exceeds the non-BTL group in every year on this measure as well, with an average advantage of 5.33%.

We also wanted to assess the comparative risk of visionary vs. non-visionary companies. We used long-term debt/assets and Beta, a measure of share price volatility. Here the results are conflicting. For the long term debt ratio shown in Figure 6, the difference between the two groups is small, with the non-BTL group showing a slightly higher (average difference 4.5%) debt ratio, than the BTL. Built to last companies, that is, are less risky in terms of debt load than are non-built-to-last companies, perhaps providing a sense of greater stability to shareholders. The last of the financial measures, Beta, shown in Figure 7, is the only one in which the non-BTL group shows an advantage over the BTL group. Here we see that the non-BTL group has a consistently smaller Beta (average difference 0.047), indicating a slightly lower stock market-related volatility in their share prices.

For Stakeholders

Next we turn to consideration of differences between the visionary and non-visionary companies with respect to other primary stakeholders to see whether other stakeholders also benefit more in visionary than non-visionary companies. This way of viewing CSP, as treatment of stakeholders, once again exhibits a remarkable consistency over the period of the study. In general, Figures 8 through 13 show that BTL companies do, in fact, seem to relate better to primary stakeholders than do their counterparts. This finding is particularly remarkable given the fact that all companies included in the comparison group are considered to be strong, healthy, and productive corporate citizens.

The first of the five stakeholder measures, community relations, is shown in Figure 8. Here we see that the BTL group outperforms the non-BTL group in six of seven years, with an average advantage
FIGURE 8 Community Relations Comparison

FIGURE 9 Employee Relations Comparison
FIGURE 10  Environment Comparison

FIGURE 11  Product Comparison
FIGURE 12 Diversity Comparison

FIGURE 13 CSP-overall Average Comparison
of 0.315 on the five-point CSP scale. (We note that these two curves do not cross over in 1994 as the eye is led to believe, but that in 1994 the groups achieved the same overall average result, then once again diverge in ensuing years.)

For employee relations the findings are even more dramatic in support of the contention that visionary companies treat primary stakeholders better than non-visionary companies do. Figure 9 shows that the BTL group outperforms non-BTL companies in each of the seven years with an average advantage of 0.917 points, a fairly dramatic difference given the scale of the measurement. Similarly, for treatment of the environment, as Figure 10 highlights, the BTL group again outperforms the non-BTL in all seven years, with an average advantage of 0.178 points, less dramatic than for the employee stakeholder but still remarkably consistent from year to year.

Since there is no direct measure for treatment of customers, we have used the product category in the KLD ratings to assess treatment of customers, in part because the measure is largely built upon product quality issues, which figure greatly in customer satisfaction. Figure 11 gives the product category for both groups, showing a large performance difference between the BTL companies and non-BTL group in each of seven years. The average advantage is 0.740 points. The last of the five CSP variables, diversity, is illustrated in Figure 12, which shows that the BTL group outperformed the non-BTL group in each of seven years, with an average advantage of 0.740 points.

Finally, we wanted to assess overall CSP so we combined all five of the stakeholder categories in an unweighted average and once again compared the performance vis à vis these stakeholders for visionary and non-visionary companies. The final comparison, Figure 13, shows that for this overall CSP measure, the BTL firms outperformed the non-BTL firms in each of the seven years, with an average advantage of 0.578 points.

SOME STATISTICS PROVE THE POINT . . .

We have provided mainly descriptive results based on observed financial and stakeholder scores. It is possible, however, to test for statistically significant differences between the visionary and
non-visionary companies if we consider them to be samples from a larger population. When we perform the $t$-tests for differences in means, we are able to provide some strong statistical evidence that the relationship we have been discussing is real, rather than random.

Results of these $t$-tests are reported in Table 2. Here again, we find strong evidence that BTL companies outperform non-BTL firms in both accounting and market-based measures, extending their long record of excellent financial performance. The pooled $t$-tests show that visionary companies outperform non-visionary companies in terms of ROE, ROA, ROS, ten-year relative total return, and ten-year total return. As might be expected from the closeness of the curves shown in Figures 6 and 7, in terms of long-term debt and Beta there are no significant differences.

Among the remaining variables, we see the strongest significant difference in ROE, ROA, and 10-year relative total return. Each of these measures is strongly significant in the pooled data and visionary companies significantly outperform non-visionary companies in three or more of the eight individual years, again with the BTL companies doing better than non-BTL. Among all of the financial variables, the strongest significance is for 10-year total relative total return.

When we look at stakeholder relationships explored in this study, we see a similar pattern with respect to the statistical tests shown in Table 2. BTL companies significantly outperform non-BTL companies in most stakeholder relationships studied. BTL companies evidence significantly better scores on employee relations, community relations, product (treatment of customer), and diversity measures than do non-BTL firms. The only measure for which visionary and non-visionary companies show no difference in treatment is the environment (and that result might be considered marginally significant). Further, the year-by-year results for environment are consistent with the pooled results, with environment insignificant in all seven years. After environment, the next weakest result is for community relations. The strongest results are for employee relations, for diversity, and for overall CSP, the unweighted average of the other CSP variables.

Looking once again at the figures, we consider whether the external evaluations of stakeholder relations performed by KLD show any significant trends during the period of the study (see Table 3).
Here we can see that two of the individual variables, employee relations and diversity, show a significant positive trend, suggesting that both groups of companies have improved their relationships with these stakeholders during the period of the study. The finding on diversity, in particular, makes sense in that a great deal of attention has been devoted to diversity management programs in recent years, with numerous companies implementing programs and
paying attention to the status of minority groups in both the executive ranks and on their boards. Notably, none of the stakeholder-related variables shows a statistically significantly decreasing trend over the whole period of the study.

BEYOND “BUILT TO LAST...”

We titled this article “Beyond Built to Last...” because we expected, in starting this study, that the excellent performance of visionary companies studied by Collins and Porras (1994) would spill over into stakeholder arenas. That is, the vision and values that comprise the core ideology that drives visionary companies also conceivably drive operating practices that link companies positively to their manifold stakeholders. The “beyond” implies that not only do visionary companies do well for stockholders, using traditional financial performance measures as an assessment, but that visionary companies also have better relationships with other important primary stakeholders through the operating practices that are assessed in determining corporate social performance. These positive relationships with stakeholders, and the underlying operational practices that support them, we posit, result in the overall long-term better financial performance of the company, just as Collins and Porras suggested. We will speculate below on the importance, implications, and possible meaning of these findings.

BTL companies clearly outperform non-BTL companies on all of the measures of stakeholder and financial performance. Further, despite the small sample size, most of the differences are statistically significant, though visionary companies appear to be a bit more volatile in stock performance. The impact of values-driven visionary “clockbuilding” does indeed seem to sustain itself over time as is evidenced in traditional performance measures, despite the normal bumps and hurdles of everyday competitive life. Companies, however, don’t just achieve long-term financial success, as the Collins and Porras study and these findings illustrate, by focusing on financial goals alone. The stakeholder evidence is, in our opinion, most compelling.

Indeed, Collins and Porras devote an entire chapter of their book to debunking the myth that the core purpose of the corporation is to maximize shareholder—or any other form—of wealth. Highlighting
the “genius of the and” rather than the “tyranny of the or,” Collins and Porras emphasize that “a fundamental element of the ‘ticking clock’ of a visionary company is a core ideology—core values and sense of purpose beyond just making money—that guides and inspires people throughout the organization and remains relatively fixed for long periods of time. [Core ideology] exists paradoxically with the fact that visionary companies are also highly effective profit-making enterprises.” The stakeholder evidence strongly support the notion that living out values—the practices inherent in implementing strategies related to stakeholder performance—is related to the by-product of strong financial performance.

It is this commitment to a higher purpose—a set of values that allows for the building of community spirit, a sense of integrity that goes beyond mere wealth maximization, that, we believe creates the type of organization that one calls visionary. The living out of these values through stakeholder relationships that are positive simultaneously inspires commitment and performance. Thus, having a core ideology does matter, as Collins and Porras argue. But we argue that the content of that ideology matters as well. The visionary companies demonstrate that the chosen core ideology must be capable of bringing a range of stakeholders together for a common purpose that goes beyond the trivial or the mere material and provides a common basis for doing this work together.

In looking at the ways that visionary companies treat their primary stakeholders we believe that we have added an important new dimension to Collins and Porras’ argument. Bringing a range of different important stakeholders into alignment with the vision through the adoption and implementation of progressive operating policies, which manifest the way stakeholders are treated, is a critical element, we believe, of long-term corporate success. Far from being marginal considerations, developing and maintaining good relationships with stakeholders through the positive internal and external relationship building implied by positive stakeholder relationships appears to be a key to long-term success. It appears to be the implementation of vision into daily practice that makes the sustainable difference for the visionary companies.

One conclusion that can be drawn from this study is that the BTL companies do, in fact, seem to have avoided what Collins and Porras termed the “tyranny of the or.” Not only do these companies continue to perform better for shareholders in financial and market
terms, but they also carry less debt, which can be viewed as a measure of risk, and they evidence significantly better treatment of a range of stakeholders. These data thus provide more evidence for what is termed the “good management hypothesis:” that companies that treat their stakeholders well are well-managed companies. That is, we posit—and these results confirm—that there is a positive relationship between the overall quality of management of a firm and the way it treats its critical stakeholders.

Further, remember that all of the companies in this study are considered to be good, strong, and well managed companies. Collins and Porras point out that the comparison group would be like the silver and bronze medal winners in the Olympics, not just a randomly selected group of companies. With that fact in mind, the differences with respect to financial and stakeholder performance are particularly striking.

NOTES

5. Mark Starik has articulated a perspective incorporating environment as a primary stakeholder in “Should Trees Have Managerial Standing? Towards Stakeholder Status for Non-Human Nature,” Journal of Business Ethics 14 (1995), 204–217. While we do not believe the environment is a stakeholder, we treat it as an important part of a company’s responsibility.
10. The terms visionary companies and “built to last” companies and their comparison counterparts are used interchangeably throughout the rest of this article.
12. Collins and Porras, 70.
20. For example, see the articles by Waddock and Graves, cited above.


25. Waddock and Graves cited above.

26. See Waddock and Graves, “Quality of Management and Quality of Stakeholder Relations” article cited above.

27. The collection cycle for KLD begins on July 1st, and ends June 30th of each year. The date associated with the KLD data is the ending year. For example, 1991 KLD data were collected over the period July 1st 1990 to June 30th, 1991. The COMPUSTAT data is reported depending on the individual company’s fiscal year. The reporting year for each company is the year in which a majority of the months of the company’s fiscal year fall. For example, if a firm’s fiscal year ends in March, the data from April 1990 to March 1991 would be reported as 1990 data. If the same firm had a fiscal year ending in July, the August 1990 to July 1991 data would be reported as 1991 data. For the companies included in this study the average firm has a fiscal year ending in month 10.1, so the data as reported should correspond fairly closely to the reporting year for most firms. When KLD and COMPUSTAT data are merged by year in this study, the correspondence should be fairly close, with the KLD data leading the COMPUSTAT data by just a few months for the average firm.

28. For the COMPUSTAT financial data the analysis covers eight years, while the KLD social performance data cover seven. Some of the analyses were performed year by year, and some were performed on the pooled data for all years. The analysis is broken into three parts. In the first part we look only at the BTL and Non-BTL companies without any attempt to make inferences beyond these observed groups. That is, we consider these groups as the entire population(s) of interest in the study. When the groups are viewed this way it is necessary only to present and observe descriptive statistics to determine whether or not differences exist between the groups. Under this interpretation, tests of significance are neither necessary nor meaningful. In the second part, we take the view that the observed firms are a sample from a larger population (the population of all visionary firms) about which we wish to make an inference. Under this interpretation, tests of significance are necessary. A technical problem arises here, however, in that the
firms studied are not a random sample from the populations, but carefully
screened groups, constructed according to Collins and Porras’ criteria for
visionary firms. This fact introduces the potential for unknown biases in the
significance tests. In the third part of the analysis, we analyze the CSP data,
looking for trends, to see whether the observed groups of companies are
showing any overall improvement (or degradation) in their performance on
the social dimensions measured.

29. To perform significance tests, we take the view that the observed
data are samples from a larger population about which we wish to draw an
inference. Consider the data for ROE, for example. If we wish to make an
inference about the difference between ROE for all visionary companies vs.
all other companies (BTL-type companies vs. non-BTL) we must perform a
test of significance to determine whether the observed difference is statisti-
cally significant. To do this we will use t-tests (of the paired difference vari-
ety, since we have paired observations). Since these observations do not
result from a random sample from the populations of interest, a bias of un-
known size may be introduced into these tests. Nonetheless, for those read-
ers who may wish to draw inferences beyond the observed companies, we
provide the t-tests. The t-tests are approached in two ways, first using
pooled data for all years, then performing separate t-tests for each year.
When the data are pooled for all years, two assumptions are required: first,
that the observations (for each measure) are randomly and independently
drawn from a normal distribution; and second, that there is independence
between years. When conducting the year by year t-tests, this second
assumption may be dropped. The results from these t-tests are shown
in Table 2. The apparent disparity between the pooled figures and the
individual year-by-year figures results from the large difference in degrees
of freedom. For the year by year results, with only 10 differences per year,
quite a large average difference is necessary to reach a level of statistical sig-
nificance. Nonetheless, one can see some consistency and draw some
inferences from looking at all of the tests together.

30. The reason that Table 2 shows that only some of the years are sta-
tistically significantly different relates as much to small sample size as to
the actual differences between the groups.


32. See the two studies by Waddock and Graves, cited above, for addi-
tional empirical research behind this argument.