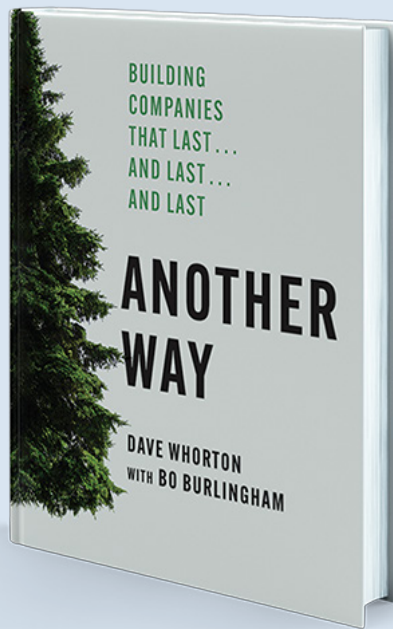


# Book Snaps™

In-depth reviews of best-selling business books.



## Another Way

### Building Companies That Last and Last and Last

By Dave Whorton and Bo Burlingham

Dave Whorton is the founder of Tugboat Institute, where he works to support entrepreneurs and leaders in building enduring, purpose-driven, people-first, and profitable Evergreen companies—while aiming to make Tugboat Institute one itself. A former Silicon Valley entrepreneur and venture capitalist, Dave now champions the Evergreen movement with a mix of wisdom, perseverance, and heart. When not focused on his work, he enjoys hiking in Idaho's Sawtooth Mountains and pondering his next big idea—often over his third or fourth cup of coffee.

Bo Burlingham has spent the past 45 years writing about entrepreneurs and entrepreneurship, primarily for Inc. magazine, where he served as executive editor and editor-at-large. He has also written for *Forbes*, *Esquire*, and *Harper's*, and is the author of five books, including *Small Giants*, which was a finalist for the Financial Times and Goldman Sachs Business Book of the Year award. He has coauthored three other books, including *The Great Game of Business*, widely considered one of the 100 best business books of all time, and *Street Smarts: An All-Purpose Tool Kit for Entrepreneurs*.

A Book Review by Soundview

## The Case for Evergreen Companies

After spending the early part of his career working in Silicon Valley, Dave Whorton started to think that there was a better way to do business. Surrounded by people who were interested in fast profits and no long term commitment to the success of the businesses they worked on, Whorton was shocked when he learned of an alternative way of doing business that was going on around the country, far from the world of venture capital and private equity. He discovered companies that had been around for decades and even centuries that not only had never gone public but that had no interest in ever doing so. He termed these companies Evergreen. Those at the helm of these companies sought slow growth that would help them stay viable for many years, providing opportunity and enrichment not just for those at the top but also for employees throughout the company and citizens of the communities in which they do business.

In his book he wrote with Bo Burlingham, *Another Way: Building Companies That Last and Last and Last*, Whorton walks his reader through the trajectory of his education and his career so readers can understand how he came to value this different way of doing business. In doing so, readers may come to see their own companies and business practices in what he describes. There are like minded people out there.

### The 7 Ps

In his first appendix, Whorton lays out the seven principles that define the companies he centers his entire book about. The first of these is Purpose. Evergreen companies know why they exist, and they use this purpose to guide decision making at all levels. Second is perseverance. Obstacles present themselves to all companies, but employees at Evergreen companies demonstrate “ambition and resilience to overcome obstacles and keep pursuing the Purpose indefinitely into the future.” The third principle is People First. Evergreen companies take care of their employees because they understand that it is the employees who will take care of all the other stakeholders throughout the community and the world. Leadership seeks to motivate employees with quality overall compensation packages, and they seek to ensure that all employees believe in both the company's

purpose as well as its culture. The fourth principle Whorton focuses on is Private. Evergreen companies find an advantage in the fact that they are not public because their private nature provides the space in which to focus on the long term; it gives them flexibility, and it allows them greater confidentiality than their public counterparts enjoy. Fifth, Evergreen companies focus on Profit. While they see profit as being separate from purpose, Evergreen companies understand the importance of profit in maintaining a viable business. Profit also works as a gauge as to how much value the company is giving to customers. Paced Growth is the sixth principle of Evergreen companies. These companies balance both “short-term and long-term performance, and grow steadily and consistently year to year.” This differs from the culture Whorton was used to where investors attempted to make as much money as quickly as they could, sometimes at the expense of employees and the very business itself. Finally, Evergreen companies are concerned with Pragmatic Innovation. They seek continuous improvement. They are able to take more risks because they do not face the constraints of public companies and those relying on private equity or venture capital.

Whorton not only believes in these principles and in the value of Evergreen companies, he focuses much of his career around these principles. He does this through his “Tugboat Institute, a [for profit] membership organization for the leaders of companies that [he] has named ‘Evergreen companies.’” The Tugboat Institute is open to leaders of companies at the helm of like minded organizations. They meet regularly at the Tugboat Institute Summit where they can network and meet other company leaders with similar values.

## Whorton’s Early Career

Whorton considers the 1990s to have been “the most exciting and transformative period of new business creation in the past fifty years.” It was at this time that Whorton was enrolled in the Stanford Graduate School of Business. While in school, he received a telephone call from a woman at Kleiner Perkins Caulfield & Byers, telling him that John Doerr, a venture capitalist, wanted to meet with him. This was quite the phone call because at the time KPC&B was “the hottest venture capital firm in Silicon Valley,” and Whorton credits Doerr with making it that way. Whorton took the meeting, learning that Doerr wanted to speak with him to learn what he knew about Hewlett-Packard.

Whorton had worked in an HP factory in high school and college, a job he took because he wanted to pay his way through college. Whorton, having worked in all three divisions at the Santa Rosa factory, knew HP well, both manufacturing and engineering. Whorton remembers that Hewlett and Packard, both people he admires, found out that a manager had locked away supplies from employees that employees were using to tinker around with. Upon learning about this, Hewlett and Packard had the employees break through the locks, stating “that will never happen again. We don’t treat people that way.” Hewlett and Packard wanted curious people and wanted those

people to be able to have the tools necessary to grow. Their philosophy of doing business would impact Whorton for years.

## Years with KPCB

Doerr was interested in learning about Whorton’s other ventures. At Doerr’s encouragement, Whorton took a job at Netscape over the summer, allowing the two to stay in touch since Doerr was on the company’s board. Whorton became convinced that e-commerce was the place to be and started thinking about possibilities for e-commerce. As Whorton was completing business school, he was given an offer from Doerr whereby he would work for his venture capital firm for two years and Whorton could use a small amount of his time on his own e-commerce business. At the end of the two years, Doerr would help Whorton launch his own company. Despite not wanting to work in venture capital, Whorton took the offer. He was tasked with making sure Doerr’s company never again missed an opportunity like they previously had with eBay.

Whorton spent countless hours reading business plans and going to meetings. He soon found himself overwhelmed and feeling underqualified for what it was he was tasked with doing. He was assured, however, by Doerr, that he was doing better than other people he had previously tasked with doing the job. During this time, Whorton came up with the idea of an online drugstore, and he followed Doerr’s advice to work with Jeff Bezos on the idea. As Whorton’s second year at Doerr’s company was coming to a close, Doerr convinced him to stay on one additional year during which time he was instrumental in helping KPCB work successfully with Google, ensuring “that KPCB did not ‘miss the next eBay.’”

Whorton believes the time he spent at KPCB “was at the fork between old and new roads.” New ways of business were emerging, “but the old way was still very much present.” The old way was based in part around Kleiner’s Laws which listed the four types of risk involved in company building: “market, tech, team, and financing.” It was the job of founders and venture capitalists to identify, reduce, and/or remove these risks. Additionally, startup funding would occur in very specific stages which included specifying when a company “could go public.” “An IPO was regarded as the pinnacle of startup success.” Things started to change after Netscape succeeded beyond anyone’s imagination despite flouting traditional wisdom such as they contained in Kleiner’s Laws. Despite the lack of proof of viability for Netscape, it tripled its opening price on the first day. Whorton writes, “Unprofitable ventures weren’t supposed to be worth billions of dollars, but how could you argue with that share price?” People began to realize that exit “valuations could be three to ten times (or more) larger,” something Doerr called “get-big-fast.” With this new way of doing business that Doerr was firmly behind, profitability did not need to be a concern for entrepreneurs. Venture Capital was capable of covering risk. The goal was to get quick before any other companies had an opportunity to emerge in new markets.



## Evergreen companies are concerned with Pragmatic Innovation. They seek continuous improvement.”

### Changing Belief System

After experiencing disappointment in a sour business relationship, Whorton read *The Power of Myth*. This book explained the hero's journey that underlies the world's best stories across all cultures. In this hero's journey, a mentor calls a hero on an adventure where he or she “faces unexpected challenges and temptations,” falls into despair and ends up achieving victory thanks to “revelation that leads to a decisive victory.” Learning about this hero's journey helped Whorton realize that contrary to what Silicon Valley titans promoted, even the greatest entrepreneurs fail. Whorton was also influenced by Nietzsche's *Thus Spoke Zarathustra* in which Nietzsche describes young people as camels who must be loaded up with instruction and act in obedience before they run “out into the desert” and become “transformed into a lion.” The most powerful lions carry the heaviest loads. These lions kill the dragon of ThouShalt. After killing this dragon, “the lion is transformed into a child, an innocent child living out of its own dynamic.”

Whorton saw himself as a camel because he worked hard developing himself educationally and professionally. He had no desire to rejoin venture capital, but he joined with a private equity firm TPG that he eventually left because he was interested in “high-risk, high-reward, early-stage companies” which was not in line with TPG's goals. Whorton decided to start his own venture capital firm. He met with a former classmate from business school, Jessica Herrin, who was embarking on a new business. When Whorton asked her about her exit strategy, she insisted she would stay with the company throughout her entire career. Additionally, she insisted that she could build a successful company without the aid of venture capital. She turned down Whorton's offer to work with Tugboat Ventures, his venture capital firm, because she said eventually a venture capital firm would push her to sell the company, something she would not do. Instead, he invested some of his own money in her venture, but he did not believe he would receive any return because he did not believe her way of seeing things was valid.

When working on his own fund, Whorton realized that he had a “desire to work with great entrepreneurs like Bill Hewlett and Dave Packard – founders with high character and high capability.” He did not believe he could be like either Packard or Hewlett, so he sought after others who were. He writes, “I was searching for another way to build great, long-lasting companies.” At the time, he was competing with those who believed in “spray-and-pray,” which involves investing in many companies knowing that it only takes one to succeed in order to make money. These people were not trained in VC, but they did have money. They could make investors more money this way that Whorton could with his slower paced investing. When

talking to mentor Burt McMurtry, Whorton proposed employing spray-and-pray, but McMurtry reminded him that he “can't adopt a strategy you don't believe in.” This is different from the predominant model today which Dave Strohm described by saying, “Today, companies are being built to raise cash, not to generate cash.”

### Company Research

Whorton had long seen “businesses as entities doing important things for society and as places where people could go to work and be treated well.” He had seen examples of companies over the years that did this, but it is not what he saw in Silicon Valley. Warren Buffett and Charlie Munger were doing business in a different way, however; taking a long, sometimes forever, view of the companies they invested in. Because they invested for the long term, they achieved tremendous profit because of compounding value. Additionally Herrin's company, Stella & Dot, was succeeding without venture capital. Whorton spent a year interviewing “company owners and CEOs, and several thought leaders,” realizing that there were people out there leading successful companies without the interference of venture capital or private equity. He realized these companies were centered around people and purpose. Roberta Katz coined Whorton's purpose statement when she told him “we've lost track of the importance of human beings coming together to build meaningful companies to change the world.” Whorton and Chris Alden developed the aforementioned Tugboat Institute which would house “an umbrella of services to offer companies on an Evergreen path.” One of Whorton's priorities was a meeting place for leaders of these companies to gather. Considering all of the people Whorton had interviewed, he came up with the seven principles he found in Evergreen companies. He planned and led the first Tugboat Summit which was a resounding success, and the Institute announced their existence formally after the success of their second summit.

Whorton was able to learn about how different companies worked to provide Evergreen value to their customers, communities, and employees. One of these was the SAS Institute. SAS invited Whorton to visit for two days to learn how things are done there. Whorton was interested in learning specifically how SAS focuses on people and pragmatic innovation. He learned that SAS “does not offer equity or stock options to employees,” but that employees stay because of all they offer them including an onsite daycare and private offices for all employees. When reducing the length of the workweek failed, SAS brought quality food that employees could purchase for \$2. SAS leaders are also interested in “digging a lot of little holes” where individuals can create new products and can launch them if they can convince

relevant department heads to give them the resources they need. This is different from the only paradigm Whorton knew which was for someone to write a check to finance new products.

Another company Whorton visited was Missouri-based SRC Holdings Corporation. CEO Jack Stack had been at the company since 1983 and believed deeply in the 7 principles of Evergreen companies. Whorton spoke with multiple employees at SRC who told him about the company's objective of having \$100 million in reserve so they would be able to weather the next recession. Going into the factory's cafeteria, Whorton noted that the walls were papered in costs and revenues for all employees and customers to see. This was shocking to Whorton because the information is proprietary, but Stark insisted that the point that SRC competes on is the intelligence of their employees, not these numbers. Therefore they are not concerned about sharing the numbers. An additional insight Whorton received at SRC was that the company honors two different types of employees. Some come in and do their work and leave. Others have larger ambitions and may even want to leave the company one day to begin their own ventures. Stark supports both types of employees much to the surprise of Whorton because Silicon Valley sees those who leave to start their own ventures as being traitors. Whorton took these and other ideas he encountered at SRC back to Tugboat.

While Whorton originally believed these Evergreen companies were few and far between, he began to learn that they were everywhere. They simply do not draw the same attention as their public counterparts. He interviewed leaders at In-N-Out Burger, Radio Flyer, Enterprise, White Castle, and the St Louis Trust Company among others. He learned how deeply committed the people at these companies were to both their purpose and to cultivating a company that will last for decades or centuries, companies they hope will outlast them.

## Genre Bending

Whorton's book reads as a type of business memoir where he details the evolution of his own thought process as he starts out entrenched in the world of venture capital and private equity, believing this to be the only way that business is done through his journey to discovering the wealth of companies throughout the country that abide by different principles. Leaders at these companies are committed to growing companies that take care of their employees as well as the communities around them. It took Whorton a while to fully understand this different way of doing business because it was so foreign to him, but the more he spoke to people at the helm and in the trenches of these companies, the more he began to believe in the way they did business. His earliest working days in a factory at Hewlett-Packard made an indelible impression on him because he saw first hand a company that sought to take care of its employees, and he could never shake the idea that this is the way to do business.

Whorton's *Another Way: Building Companies That Last and Last and Last* is more than a memoir, however. It is also an exploration of 7 key principles that Evergreen companies focus on. Whorton discusses these in order to draw the attention of more

Evergreen companies. Whorton ends his book with a list of innovation lessons he learned from these companies. Among those already listed, these lessons include the importance of constraint, the value in continuous learning, the need to look to others for ideas, and the necessity of protecting ideas in their early stages. Whorton's life's work is centered around the Tugboat Institute which seeks to draw leaders of these companies together to form a community and to share principles and ideas. Other people leading and working in these types of organizations will likely see their principles shared by other companies in Whorton's book. While this is not strictly a practical book providing lists of detailed plans to overcome specific business-related problems, Whorton provides ample examples of ways business leaders have put people and innovation first and have achieved great success in the process, providing both inspiration for readers as well as showing other Evergreen owners that they are not alone in their desire to do business a better way.

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