

RESEARCH INSIGHT

Interpreting Persistent Profitability

A stronger position against changing peers does not necessarily signal more durable advantages.

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Do firms stay ahead because their competitive advantages are becoming more durable, or because the competitors around them change? Our study shows that the answer depends on which firms are compared and how their peers are defined. Using 15,918 U.S. listed firms from 1990 to 2025, we compare the changing population of listed companies with groups observed in both endpoint periods and groups continuing between adjacent periods. We also separate enduring performance differences from temporary shocks that fade over time.

Profitability rankings become more persistent in the overall population, but less persistent when firms present in both endpoint periods are ranked only against one another. These continuing firms gain ground relative to current industry peers. However, evidence that enduring differences among these firms have become more important is uncertain. Across adjacent periods, durable differences account for a larger share of performance variation, while temporary shocks generally fade faster among continuing firms.

An example makes the distinction concrete. Among 121 continuing firms in a manufacturing sector, median return on assets is about 5 percent in both 1990–1996 and 2018–2025. The sector median falls from 2 percent to –32 percent. The continuing group therefore looks stronger against its current peers even though its own median profitability is unchanged. This does not mean that each firm's returns stayed the same.

The practical lesson is to evaluate profitability alongside two benchmarks: current competitors and a consistent group of firms. For researchers, the findings qualify interpretations of rising persistence as evidence of entrenched advantage. For managers, they show why a stronger relative position can reflect changes in the comparison group as well as changes in the firm.