

Social Programs Are at Risk as Charles Schwab Departs

The brokerage firm Charles Schwab is a company whose founder is in the process of stepping aside, and whether the firm's ethical and social focus will survive is an open question. Billionaire founder Charles Schwab, now 66, gave up his co-CEO position in May 2003, retaining the chairman role. The firm's ethics-grounded brokerage practices are well known, and since they permeate the firm's DNA, they are likely to persist. At risk, however, are the company's less well known initiatives in progressive employee relations and corporate social responsibility.

In ethical customer relations, Schwab eliminated conflicts of interest by taking several key steps to put customer interests first. It refrained from offering investing advice (always conflicted, in Schwab's view); it prohibited selling investment products (which often means "pushing" products); and it paid Schwab brokers by salary instead of commission on sales. If other brokerages had embraced Schwab's values and practices, they would have avoided the scandals that brought multi-million-dollar fines to Merrill Lynch, Bear Stearns, Goldman Sachs, and others.

But Schwab has still more to its social mission. When the meltdown in high tech stocks forced Schwab to shed jobs in 2001, the Schwab Foundation set up a \$10 million fund that paid the tuition (up to \$20,000) so affected employees could go back to school. This was in addition to the company's generous severance policies: three to 10 months of base salary, outplacement help, stock options, and cash to cover continuing insurance premiums.

From the beginning, Schwab's San Francisco-based brokerage welcomed people no other brokerage would consider. No college degree? No problem. People of color? Welcome. Gay, lesbian, transgendered? Can you do the job? Over the years, the company built a community committed to the company's goal of providing the most ethical financial services in the world. It was a community so cohesive that it enabled Schwab to survive multiple crises that would have swamped other organizations. The culture enabled employees to take on charitable activities, and people up and down the organization formed formal relationships with organizations such as Habitat for Humanity and programs for the homeless.

As Chuck Schwab retreats from personal involvement with the company, it is likely that the company's social responsibility will diminish. If his successor does not step up to the plate with an equal commitment, the company will have a harder time maintaining its reputation as a progressive, values-based organization. Thus far the evidence is ambiguous. On the one hand, the company continues to match on a two-for-one basis the charitable contributions of employees. Schwab's personal wealth will likely still flow to his foundation, which will continue to do good work in education, teaching, and research on dyslexia. On the other hand, the brokerage firm has cancelled its program of matching employee 401(k) retirement contributions. The \$10 million employee education fund has been depleted, and Schwab will not replenish it.

When Schwab retires or dies, the organization will be at a crossroads faced by all founder companies: will it maintain its founder's identity and values (think Walt Disney), be swallowed up by a competitor (Data General, bought by Digital Equipment), or fail by mismanaging the succession issue (Wang Laboratories)?

—John Kador

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