

Yale Symposium on Law and Technology

Fall 2000

Growing (with) a Company: Lessons in Leadership Learned at Yale Law School [†]

Larry Stupski^{††}

Cite as: 3 YALE SYMP. L. & TECH. 5 (2000)
<http://lawtech.law.yale.edu/symposium/00/speech_stupski.htm>

I. INTRODUCTION

^{¶1} When I was thinking about how to begin my remarks, I thought about the lessons I had learned in a thirty-year long career, and which of those lessons I could tie to the Yale Law School. I was reminded that if I had learned anything as a law student, it was that by the time you graduate you could find a relationship between any two things in the universe, and you could also find that no relationship existed between any two things in the universe.

II. LAW SCHOOL AT A GLANCE

^{¶2} I graduated from Yale Law School in 1971, and when I left here, I thought I could do two or three things a lot better than when I came. I thought I could parse things better than when I arrived here as a recent graduate of college. I could break things down and analyze issues a lot better than when I started. I thought I was a better, clearer writer, and I thought that I was marginally better at presenting my ideas verbally and defending a point of view. What I promptly did when I left here was to forget about law school. It was understandable given the times. I started law school in the late 1960s. In the spring semester of both my second and third years, we did not bother with exams—we mailed them in from home during the summer time. If you are wondering why, for at least one of those years there was tear gas from the New Haven Green up to Grove Street. So, it was a time of great fomentation. There were lots of issues on people's minds: Cambodia, Kent State, Viet Nam, civil rights. The place was very, very yeasty. I was pulled out in the middle of my law school career to go into the service, and, when I came back, I was married and had a child. Right then, I wanted to get as far away from law school as I possibly could. I was twenty-six years old, and I felt that I needed a job.

^{¶3} When I look back thirty years later, I feel that this place had a tremendous effect on me. There were a number of serendipitous circumstances that brought me to Yale Law School. When I arrived here, I arrived as a recent graduate of college. I had been an athlete at Princeton. I first applied to Yale Law School about February or March of my senior year in college. I did not think about where I was going. I came up and had one interview with a wonderful man named Jack Tate, who was the Dean of Admissions at the time. He asked me what I enjoyed reading, we talked about Thomas Mann for about an hour, and a week later I got a letter inviting me to join the class.

^{¶4} I was the butt of jokes for my entire first year because I had played football for Princeton and Princeton had beaten Yale. I writhed and was terrified of Guido Calabresi, who whenever I hesitated giving my answer in first-year torts would say, "What are we going to do now, Mr. Stupski, shall we punt? Shall we huddle? You don't get thirty seconds to give the answer in court, Mr. Stupski! It's not like football where you can decide the next play!" He remembers it as a gentle teasing; I remember it as an unmerciful teasing throughout my first year. Also, I carried the scars of *Marbury v.*

Madison.¹ Louis Pollak, who was the Dean at the time, taught constitutional law. I think we took a break for Thanksgiving, and we may even have left for Christmas, without getting beyond that one case. I have been assured, however, that with Bruce Ackerman teaching constitutional law now, we never even get to that case.

III. LESSONS LEARNED

⁹⁵ I will discuss three other things that I carried from Yale Law School and then a word about Schwab. First, I really hated the case method. I was so repulsed that I even remember the name of the first case, *Ives v. South Buffalo Railroad Company*.² Just like college, I wanted an expository lecture. Tell me *why* the Civil War started. Or, tell me something about it, but do not ask me to figure out something from an old case. Well, it only occurred to me about 20 to 25 years later what the parallel to the case method was in business—the concealment of the real issue at the heart of a problem. Things always come to you with a spin, with a view, with a partial set of facts. I came to believe that the relentless, questioning effort of the case method, a kind of pounding for three years, really helped me better understand issues and problems in the business world. After all, one good definition of work is making decisions. If you are not making decisions, you may be occupying yourself, but you are not really working as a lawyer, as a doctor, as a professional, or in a management capacity. In making decisions, the key questions typically are: What is the problem we are trying to solve here?; what is the real question? Furthermore, I eventually concluded that trying to divine or extract general principles or rules out of a series of decisions—as obscure and as poorly written and as funny as they were—was wonderful training for trying to do something which I rely a lot on, creating a mental model of a series of problems, of an industry, of a situation or a series of situations.

⁹⁶ The biggest downside of my experience here was that it heightened an already unhealthy sense of perfectionism. The fact that so many smart people around here could find so many holes in everything tended to create an expectation that things could be made perfect and that I was given the right to criticize the work of my colleagues at work. After all, I had had this wonderful education, and I could figure out how to poke holes in everything. It took a few years and a number of confrontations for that really to be brought home.

⁹⁷ One more thing I learned here, which I had never realized I learned at the time, was courage. When I was a law student, I spent a lot of time away from the law buildings. I became the captain of the Yale Rugby Club. To me, Yale's greatest assets were the athletic fields out by Yale Bowl and Paine Whitney Gym, and 127 Wall Street was somewhere below those things. However, I thought about and saw the kinds of things my classmates were doing, and the courage that it took to do some of those things, whether it was to be active in civil rights or to be part of the start of a legal services organization, or to really be at the beginning of the clinical program, or leaving law school and starting a firm. I saw tremendous confidence and courage, and those examples have stood me in good stead.

IV. FINDING A NICHE

⁹⁸ Thinking about all of my experiences in law school and how they applied to me in business, I decided that I carried one thing, in particular, away from here that prepared me for my business career. That is, and I do not mean this blithely, surviving three years here gave me confidence. I use the word "confidence," but the real word is "arrogance." It gave me an arrogance that I could tackle virtually any problem I was handed. That was not something I had when I arrived here as a law student, and I became crazed with it.

⁹⁹ When I left here, I wound up working in an aggressive, entrepreneurial company, and I would gladly be thrown into anything. I worked there about five-and-a-half or six years in New York, and I think I was on the buy-side or sell-side of thirty deals during that time. I was not practicing law; I was a committed, confirmed generalist. I remember one night when I lived in Fairfield County and was taking the train home from Manhattan at about eleven o'clock. A former classmate came and sat next to me. He asked, "What are you doing?" I spent about fifteen minutes trying to explain to him what my job was, and he repeated, "Are you a lawyer?" Well, not exactly. "Are you an investment banker? Are you a trader?" He went through all the standard labels, and none fit me. I was automatically in a funk, in a depression because I could not explain what I did. But I stayed close to my intuition, stayed close to my heart, and I became a confirmed and committed generalist.

¹⁰⁰ I worked between my second and third years at a law firm in Manhattan. When I went to interview as a third-year student who needed a job, I interviewed with a partner who now practices law in Paris and New York. It was one of those idyllic days. He had a big office in one of the towers on the West Side of Lower Manhattan, the sun was setting over New Jersey, and we were talking about the law and about what I did, what I liked, and what I did not like. He looked at me and said, "Son, you don't really want to be a lawyer, do you?" I said, "No, but I need a job. I have a wife and a child and a lot of loans. I need money." He introduced me to two or three of his small clients, and I loved the idea of working in a small business.

¹⁰¹ As I mentioned earlier, the first company I worked for was a crazy company in New York. I worked in the area where money and information and paper and people all meet. The industry did not even have a name at that time, but it later became called computer services. That was the field, and I really loved it. I found that I liked the subject matter. It sounds silly, but you have to like what you are doing. I really liked the idea of trying to figure out how one could make a stew or put these ingredients in a Cuisinart and make things work faster, more cheaply, more accurately, and take the white space out. There were very few people working in it at the time. Although I liked it, it was not very remunerative. The 1970s was a tough time for the economy generally, and in the financial services, which accounted for most of our clients, it was a terrible time. I was in the business for ten years before I had any idea what the words "bull market" meant.

V. STARTING AT SCHWAB

¹⁰² Serendipitously, I wound up at Schwab in 1980. Chuck Schwab needed someone to do a certain job. He asked how he could find such a person at a cocktail party, and they told him they would call someone on Monday morning. By Monday morning, he had forgotten about that conversation. He called Korn/Ferry, a leading executive-search firm. When he called Korn/Ferry, he got the one guy on the desk who had ever met me. A year earlier I had sent out over 200 resumes, and the only person who had responded to it was this guy at Korn/Ferry. So, it was entirely serendipitous.

¹⁰³ I was at Schwab a total of about eighteen years, thirteen of them as the Chief Operating Officer. For those thirteen years, Chuck and I worked extremely hard at building the company. The company had 18 branches, 300 employees, and \$30 million in sales when I joined it. I think it has about 300 branches and \$6.5 billion to \$7 billion in sales now. Back then we tried to sell one-half of the company at a market cap of \$30 million and could not do it. In 1980, we wound up selling about one-fourth of the company with a post-deal market cap of \$20 million. We sold the company later to Bank of America for \$53 million. We were the geniuses who sold it for \$53 million and bought it back four years later for \$320 million with \$18 million in equity capital. It was the first non-hard asset leveraged buyout (LBO) that we ever found, and we have the second quickest LBO to initial public offering (IPO) to that point in time. We closed the LBO on March 31, and we were public in the third week of September. A month later, the crash happened, and if we had not had the money from the IPO before the October correction, we would have lost the company. We came within three or four weeks, and a hair's breadth a couple of times, from losing the company.

VI. GROWING WITH TECHNOLOGY

^{¶14} The company has relied a great deal on technology as a strategic weapon. We actually came to rely on technology through a strategic look at our company. We realized that we did not have very many options because we were trying to find a new way to deliver financial services to the average, individual investor, our target market. Doing it through the traditional, commissioned-broker route had great cost inefficiencies, not to mention the fact that there was a problem creating a corporate identity. There were conflict of interest issues as well. So, we decided to go another way. Once we decided to go another way in trying to distinguish our service package and our service features from other packages offered by our competitors, it was important for us to continue to rely on technology. So, we got a perpetual license on a computer system in about 1979.

^{¶15} The system was already there when I arrived at Schwab, though it was not working very well. We worked very hard to improve it, and then another thing happened. We started trying to make decisions based upon the data that this system was collecting almost as an afterthought. One of the first things we did back in the early 1980s was to collect an enormous amount of customer data and to improve our data collection techniques. At that point in time, someone made me aware of the discounted cash flow model, and I thought I had died and gone to heaven. I finally had an academic tool which I could apply to all this data. Jeremy Rifkin wrote a piece in the *L.A. Times* yesterday looking at how a service provider can get enough data to predict the lifetime purchases of a customer and, discounting the cashflow from that, figure out what the break-even point is on getting that customer.³ We were trying to do that fifteen years ago, and it took us over five years to get good at it. Although simple by today's terms, then it was a break-through use of technology.

VII. CONCLUSION

^{¶16} The whole effort around Schwab's electronic services, Internet trading, and looking up your accounts on-line started in 1981. Schwab was like a musician who is an overnight success, but who has been playing one-night stands for fifteen years. The first three products that we came out with all failed, but they were introduced largely from a defensive posture. We felt that there was no option but to do it because it would provide a competitive advantage and make the service delivery a lot less expensive; we anticipated a time when there would be compressed prices. Thus, we tried to use technology as a strategic weapon at Schwab, and it worked for us.

[†] Edited transcript of remarks delivered to the Yale Law and Technology Society on April 25, 2000.

^{††} Mr. Stupski is a Mechem Fellow and the Former Vice Chairman of Charles Schwab.

¹ *Marbury v. Madison*, 5 U.S. (1 Cranch) 137 (1803).

² *Ives v. So. Buffalo R. Co.*, 94 N.E. 431 (N.Y. 1911).

³ Jeremy Rifkin, *Cradle to Grave, You're a Customer First: Your LTV-Life-time Value-Has Already Been Calculated. Now All You Have to Do Is Wait for the Pitch*, L.A. TIMES, Apr. 24, 2000, at B7.