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Lessons From My Years at Edward Jones

Robert L. Virgil
Edward D. Jones

Thanks very much. That is very special to me. I deeply appreciate this opportunity, this invitation to speak to this group. It is especially nice to see so many old friends here.

Frankly, one of the reasons I welcome being here is it gives me an opportunity to acknowledge the very important role of the Weidenbaum Center, and in particular Murray, and the part that they played in helping me when I was Dean of the John M. Olin School. During that time, it is ancient history now, 1977 to 1993, the Weidenbaum Center ─ I remember the name of it as the Center for the Study of American Business ─ but the Weidenbaum Center and the Business School worked very closely together. That work was to the enormous advantage of the Business School and to me as Dean. I could site many examples but I will just mention two.

One was the Annual David R. Calhoun Memorial Lecture that we jointly sponsored. It brought to the University such distinguished speakers as George Schultz, Reg Jones, Marina Whitman and Prime Minister Edward Heath. It was a great lectureship and great for the school.

The other example I think of is a joint research seminar that the Center sponsored on the subject of the regulation of financial reporting. Frankly, that seminar probably was not as much benefit to the Center. It really benefited the faculty, accounting and finance in the Business School; but it had a profound effect on the development of the faculty at the Business School because it was one of the key steps that we used to eventually attract Nicholas Dopuch to join our faculty, an accountant from the University of Chicago. That was a very important milestone in the new development of the school.

There is one more thing and I hope Murray will not mind my talking about this. His main faculty base, of course, is economics but he also was a member of the faculty at the Business School. As Dean whenever I had a vital matter coming up at a faculty meeting and I was not sure I had the votes, I would go across the soccer field to see Murray with my hat in hand and ask him to come to the meeting. Now, you do not tell Murray Weidenbaum how to vote, but we would discuss the issues of what was at stake, and he always came through lending his support and his enormous credibility. I will never forget Murray for that as well as a number of other things. I reciprocate, it is great to be here.

The subject I suggested to Jim Schiele when he called and asked if I would talk with this group is "Lessons Learned From Edward Jones." That is a subject that has been on my mind for the last few months or so as I have decided to wrap up my active time with the firm. I guess, as of the end of 2005, I am retired.

Just to refresh you, I joined Edward Jones on September 1, 1993 after thirty-five years at Washington University. John Bachman, who at the time was our managing partner, had approached me earlier in 1993 about my possible interest in coming to the firm to help out in management development. Edward Jones had been growing steadily up to that time and it was on the cusp of what turned out to be nearly a three fold growth in the firm over the next eight or nine years.

I think John, at that point, sensed that that was coming, and he and his colleagues on the management committee – which is the operating committee of the firm – rightly saw the need for attention to management development because there really is nothing that taxes a management like growth. In due course, I decided to say yes. I really did not know what I was getting into but it felt right to me.

In the ensuing twelve and a half years I have had responsibility at the firm for management development. This basically means I have worked with John and Doug Hill and our management committee on identifying, and evaluating and developing the firm's management talent.

It has been a tremendously satisfying and enjoyable opportunity for me. Edward Jones is a wonderful firm, great people. I would not trade those twelve and a half years for anything. The way I like to say it, and I mean it, is I have been privileged to have two great careers with two great institutions. I have learned a tremendous amount at Edward Jones. I probably could talk for a long time about that, but I wanted to limit myself to three lessons that I have learned.

First, let me tell you a little bit about Edward Jones so you have a sense of the scope of the firm. The soul business of Edward Jones is the individual investor. We are a retail firm, as it is said. We do know institutional business. As we like to say, we have only one source of profit, only one profit center and that's our broker. We call our brokers investment representatives. Our profit center is that investment representative sitting down across the table with the individual investor talking about their financial needs over the long term.

We are a very substantial firm. A little difficult to measure it but we are about the fifth or sixth largest retail investment firm in the country. We have about 9,800 IRS investment representatives, brokers. In the United States, about 9,100. In Canada, about 650 to 700 and in the United Kingdom, about 150. We have over six million clients, six million individual investors, about 30,000 employees or associates, and our revenues, our total revenues in the year just completed – 2005 – are just slightly ahead of three billion dollars.

There are, as I think you know, some unique elements to the Edward Jones business model. These are of enormous strength to us. They do differentiate us in the industry and we think in total our unique strengths probably cannot be replicated, at least to the scale we've been able to obtain. Undoubtedly the most unique of those is the fact that we do not operate by a branch management system but instead we put one broker in one office. We have about 9,800 brokers, and we have about 9,800 offices. Those investment representatives are employees of Edward Jones. They are not agents. We tend to attract, as an investment representative, people who value independence, would like the challenges of basically running their business, and so they are people who are entrepreneurial. We give them great latitude to develop their business as they think best. Obviously they do that within guidelines that we set but it results in a superb model, really.

We follow that model, incidentally, both in our rural locations and in our urban locations. While Edward Jones is perhaps noted historically for the one office in the small rural towns of America, the majority of our offices today are in urban markets. The vast majority of the new offices we open are in the urban markets.

One final thing I would note about Edward Jones is that it is a partnership. This is an industry that historically grew up around the partnership form of organization. We're about the last of the major partnerships left in the industry. It has been fascinating for me to be part of a partnership. If I were to write an article about my experiences, I probably won't, but if I were I think what I would write about is partnership. One of the things I would say, one of my themes would be, is try as they might through options and other incentive programs, there's no way that the corporate form of organization can replicate the kind of culture we have at Edward Jones where the workers and the owners are the same, where people are partners and there's an attitude that we are in this together. If we do well, we share in that and if we don't do well, we share in that also.

Now we come to three lessons that I have learned at Edward Jones. Lesson one: what business schools do surely does matter. This has been an important lesson for me because I spent thirty-five years in a business school and you sort of like to think that what you did for thirty-five years had some meaning and relevance. When I was Dean of the Business School, I heard mighty infrequently that business schools are not relevant. That they put too much interest on the quantitative and not enough on the so-called soft side. They do not do enough of this or that. They do not do enough of what managers deal with. I have talked recently from time to time with Mahendra Gupta who now is the Dean of the Olin School and who is sitting back here next to Keith Miller, and

Mahendra tells me that again right now this kind of examination and questioning of the relevance of business schools is taking place.

The heart of what a business school does, it seems to me, is to educate the students, the BSBA, the MBA, the Executive MBA in the basics and principles of business. Things like macroeconomics, microeconomics, accounting, finance, marketing, operations, human resources management, strategies and information technology. These basics are not terribly glamorous. They are not the current topics in *Business Week* or *The Wall Street Journal*. They are not in the headlines, but they are the foundation of management.

What I have seen over the past twelve years, time and again, associates at Edward Jones with whom I have worked, worked on their development, talked about their career, that if one does not have these basics, if one does not understand these basics at some point it becomes a barrier. At some point it becomes a ceiling on how far they can go in their career. This is important, I think. It is a barrier that can be overcome only by education. There are some things better learned on the job by experience. Interestingly, I find that many of the things that business schools are criticized for not doing, are things that probably are better learned on the job; but the basics cannot be learned on the job. They are better learned in the classroom. Accounting, for example, my field, one cannot learn accounting on the job.

My message to business schools and business school deans on the defensive about relevance, it is something like the following. You are relevant. Do not sacrifice attention to the basics. They are absolutely essential. If your graduates do not have them you have failed them. Incidentally, the basics probably are your comparative advantage. That is lesson one.

Lesson two, I have learned that management is one of the most challenging important professional endeavors that there is that I know of. We hear much about the so-called learned professions – law, medicine, engineering and others – and they tend to be placed on a higher pedestal than management. Indeed there are some who say management is not a profession. As Peter Drucker tells us, management is a profession and what managers do is every bit as important as the learned professions and maybe more so. Drucker says, "Without management there is no institution. Management is the specific organ of a modern institution. It is the organ on the performance of which the performance and the survival of the institution depends."

Now being at Edward Jones has immersed me in management. Without that, I do not think I ever would have appreciated as much as I do today, just how challenging and taxing and complex management is. You cannot get that sense in the classroom anymore than I suspect in legal education you can get a sense of what happens in the courtroom sitting in a classroom. But in a classroom, management almost seems straightforward: plan, structure, execute and control. In reality getting results through people in a complex organization, what Drucker calls performance, taxes every fiber and every ability that one has. I suppose this is why relatively few are truly superior with managing and why relatively few companies reach their highest potential. Edward Jones has given me something else with respect to gaining a deeper understanding of management and that is an introduction to Peter Drucker.

Drucker, unquestionably, is the leading thinker on management of all time. As you know, Peter recently passed away at the age of 95. For more than thirty years Peter Drucker was a close adviser to Edward Jones. He liked to say that he was an intermittent member of our management. In this way, I had the opportunity of getting to know Peter and visiting with him often. I consider that one of the highlights of my life. At Jones we call our approach to management responsibility based management, RBM, and that's all Drucker. We think this grounding in Drucker is a significant plus for us.

Now lesson three, and this is a lesson born out of the regulatory problems the financial services industry and Edward Jones has had since late 2004. This lesson is actually in two parts. First, one of the things that effective managers do is to correctly anticipate change, and they prepare or adapt the firm to that change. In this way they get out in front of the curb. I see Dick Mahoney sitting here and Dick's a good example of what that means as he saw the need to transition Monsanto from being the industrial chemical company to what it is today. We see the results of his anticipation of that today. What our regulatory problems have revealed to me, is the most difficult kind of change to anticipate, is when subtle change has taken place in the public's perception and what the consequences of that change in public perception might be. This is in effect the seat of Edward Jones' regulatory problems.

Here are the conditions. Everything is going well. Everything and everyone is telling you that you are doing well and doing things right. The feedback from industry leaders, from clients, from the auditor, and even from the regulator is positive. In short, to the extent one can know the public's perception of you, it's all positive, but beneath the surface there's a cacophony of events and cross currents taking place starting to take on a life of their own that are going to result in a dramatic change in perception such that what was once seen to be positive and right, now is perceived negatively and as wrong. What was once right and proper now threatens to bite. Anticipating, sensing that kind of change in perception and its consequences is tremendously difficult. Indeed, it may be well nigh impossible because there are no signs, no clues.

We didn't see it coming. We were caught completely by surprise and we were rocked to the foundation. I am pleased to say we are emerging from these difficulties, and we're emerging in good shape. We're going to emerge a better firm.

Now the second part of what I've learned from our regulatory problems is this. We know that whenever business management makes an important decision or it goes over things, there are certain criteria that are always top of the line. We always ask what are the numbers? What will be the financial results? What will the competitors do? What's the competition doing? Do we have the people? Do we have the resources? How will the customers react? These criteria are second nature. They just happen. They're considered automatically. It's almost like breathing.

Now I think there's another criteria that must stand on equal footing with those, become second nature, and sometimes maybe even bring greater weight than the others, and that's the criteria of what will be the public's perception. How will the regulators see it? Will the regulators understand? I think companies act at their own peril and managers shirk their professional responsibility if they do not continuously take the public regulatory smell test. What will be the public's perception? What will the regulators think? In short, does it pass the smell test?

Well I have had a great twelve and a half years at Edward Jones, wouldn't trade it for anything, very proud of it. I have learned a lot including those three lessons I just talked about. I will be glad to answer any questions you have. Well, maybe I should clarify the ending. There are limitations to me on what I can say about our regulatory issues and you will respect that I assume.