# Leadership: Creating a Firm with Character


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Given the list of outstanding business leaders who have participated in the Park Distinguished Lecture Series, it is with considerable humility that I appear before you this afternoon. My message, I suspect, will be different from what you might expect. I am aware that there are 10,912 books on Amazon.com that have either "leader" or "leadership" in their title, an intimidating array of advice that indicates that there are lots of experts out there who may have more ability than I to describe the effective leader. And I do not have for you, as some of these books do, 21 indispensable qualities of leadership, nor 50 leadership lessons such as Moses is purported to give us, nor can I tell you how to be a manager in one minute, nor, for that matter, do I know who moved your cheese.

But the more I consider the subject, the more I am persuaded that there are few secrets of leadership beyond those obvious qualities that our own common sense would suggest. Most leaders are intelligent; few lack determination; most trust their people and like to get things done; virtually all work hard; and their strong points usually include some courage and creativity. Doubtless 100% of leaders would say *integrity* is essential, although experience shows that less than 100% meet that standard. And surely significant levels of qualities such as self-discipline and judgment and knowledge and education and foresight are more the rule than the exception among leaders. But you already know that these are the characteristics of leadership. You've read about them time and time again; to a greater or lesser degree, you are doubtless endowed with them; and, even at your relatively young ages, you've already had occasion to put them into practice in your own lives.

There are two important qualities about which you *don't* hear very much, however, perhaps because many leaders don't like to write about them—or even *think* about them. One is the helping hands that virtually *all* individuals have received in their ascent to positions of leadership from bosses, mentors, and colleagues. The other is the sheer, unadulterated luck that has been essential to their career success. Once the obvious characteristics of leadership I've cited have been established in an individual, these two factors—which are of course, beyond our direct control—may be the most important of all.

If all of these qualities and circumstances are the conditions *necessary* for effective leadership, however, they are not by themselves conditions *sufficient*. I happen to believe that the central quality of leadership—the essential quality in the character of the complete leader—is *virtue*: The conformity of one's life and conduct with the principles of morality. While it is a word that tends to embarrass us today, virtue is the keystone that supports the arch of leadership.

## The Virtuous Leader

The virtuous leader, it seems to me, is a person who initiates and directs an endeavor in the principled pursuit of a project of consequence. If leadership has to do with the passion to undertake such a mission, and the ability to persuade other human beings to go along with you, the journey ought to be exciting and the destination worthwhile. The pursuit, then, ought to be one that will make a positive difference—large or small—in the world.

I'm not speaking solely of the entrepreneurial souls who create new businesses and improve existing ones, nor am I speaking of the chief executives that our society lionizes (to extremes) today. We need leaders at *all* levels of business, the department heads, the division managers, the directors of small projects, even the supervisors of a few menial workers. For as Helen Keller reminded us, "The world is moved along not only by the mighty shoves of its heroes, but by the aggregate of the tiny pushes of each worker." Make no mistake about it: For any corporation that strives to develop the kind of character that it will enable it to build, not a higher *stock price* in the short run, but a higher *corporate value* in the long run, virtue is a mighty force at all levels of responsibility.

## Character

Today, more than ever, we need companies with character, operated from the highest job levels to the humblest, by individuals with character. Yet, "character" is not a word I see used very often, at least in the sense of what I regard as its most important meaning. Paraphrasing the Oxford English Dictionary, character is: "the sum of the moral and mental qualities of an individual or an enterprise." The OED II then includes a lovely citation in which character is described as *the intellectual and moral texture into which all our life long we have been weaving up the inward life that is in us.*

So, how do we tie-in the attributes of virtuous leadership with the attempt to build a company with character? Perhaps recounting some of Vanguard's story may put a little meat on the bones of my generalizations. While I've never been very confident of my qualifications as a leader, truth told, I probably share with you, to a greater or lesser extent, most of those generic attributes of leadership that I reeled off at the outset. But I am absolutely certain that I'm a living monument to the role of luck in shaping a career, and equally certain that I benefited by having one of the great mentors in all business history. And I've spent the past 28 years of my long career trying to build a company with character.

Let's begin with the luck. Even being admitted to Princeton University in the late summer of 1947, let alone being given the scholarship and the student job (first as a waiter) without which I couldn't have attended—was a piece of remarkable luck. While I was a determined student, I was no academic star. What is more, I boasted few of the impressive extra-curricular achievements and none of the athletic talents that seem to be prerequisites for admission to Ivy League institutions today.

Once in the door, I did my best. Inch by inch, step by step, I gradually moved my grades out of the commonplace into an academic record of solid accomplishment. But it was an extraordinary, even miraculous, accident of fate that made the difference. In the late autumn of 1949—as an Economics major seeking a subject for his senior thesis and, ever the contrarian, rejecting any subject on which *any* earlier thesis had been written—I strolled into the University library, opened up the December 1949 issue of *Fortune* and, leafing through the magazine, found on page 116 an article about the mutual fund industry—"Big Money in Boston." When I read that "mutual funds may look like pretty small change" but constituted a "rapidly expanding and somewhat contentious industry that could be of great potential significance to U.S. business," I knew immediately that I had found my topic. After a year-plus of intense study, I completed the thesis, graduated (unbelievably!) with high honors, and sent it to several industry leaders. Princeton alumnus Walter L. Morgan, industry pioneer and founder of Philadelphia's Wellington Fund, liked what I had written and was later to write: "a pretty good piece of work for a fellow in college without any practical experience in business life. Largely as a result of this thesis, we have added Mr. Bogle to our Wellington organization." I started my new job right after my graduation in 1951.

I was lucky too that in those days, following the depression years of the 1930s, few young men had entered either the investment field or the then-tiny mutual fund industry. When I joined Wellington Management Company, which managed Wellington Fund, it too was tiny. I moved up rapidly; in less than a decade, I had become Mr. Morgan's heir apparent. This great man—whom, I was told decades later, thought of me as the son he never had—became my sponsor and mentor. He held me to high values and unsparing standards of performance, and we remained friends for a full half-century until his death, at age 100(!), four years ago. By the early 1960s, I was deeply involved in all aspects of the business, and, in early 1965, when I was just 36 years old, he told me that I would be his successor. The company was in troubled straits, and Mr. Morgan asked me to "do whatever it takes" to solve our investment management problems.

## A Merger and a Firing

In what I thought at the time was another piece of luck, I quickly found, in Boston, a merger partner that I hoped would provide the solution. We merged our firm with theirs in 1966. Alas, despite the early glitter, the substance proved illusory. The merger worked beautifully for about five years, but both I and the aggressive investment managers whom I had too opportunistically sought as my new partners let our fund shareholders down. In a bear market that saw stock prices decline by a devastating 50 percent, some of our funds did even worse. Not surprisingly, my new partners and I had a falling out. But they had more votes on the Board, and it was *they* who fired *me* from what I had considered "my" company.

I had failed our shareholders and I had failed in my career—not in getting fired, but in jumping on the speculative bandwagon of aggressive investing in the first place. I can only be embarrassed about the fact that my determination to move quickly, my naivete, and my eagerness to ignore the clear lessons of history led me into such an error of judgement. Life was fair, however: I had made a big error and I paid a high price. I was heart-broken, my career in shambles. But I wasn't defeated. I had always been told that when a door closed (this one had slammed!) a window would open. I decided that I would begin not only a new career, but one that held the promise of changing the very structure under which mutual funds operated. I would make the mutual fund industry a better place to invest.

## The Source of the Idea

Amazingly, that idea of creating a new structure for mutual funds may well have had its genesis in my Princeton senior thesis of a quarter-century earlier, which I had concluded with some ideas that I thought would accelerate the industry's future growth: Reducing sales loads and management fees, toning down excessive claims of stock-picking ability, and focusing on *management* rather than peripheral activities like marketing. I had also asserted a higher purpose for the industry: "The prime responsibility of mutual funds must always be to *serve* . . . to serve their shareholders in the most efficient, honest, and economical way possible." Simply put, I argued, the mutual fund industry would do better for itself if it gave its shareholders a fair shake. That concept would became the rock on which a new firm was founded a quarter-century later.

But how could that goal be accomplished? Again, with the essence of simplicity. Why should mutual funds retain an *outside company* to manage their affairs—then, and now, the *modus operandi* of our industry—when, once they reach a critical asset mass, funds were perfectly capable of managing *themselves* and saving a small fortune in fees? Our mutual funds would, uniquely, be truly *mutual*. They would be run, *not* in the interest of an external adviser—a business whose goal was to earn the highest possible profit for *itself*—but in the interest of their own shareholder/owners, at the lowest possible cost.

## Steps and Stumbles

Just as lightning had providentially struck in the form of an article in *Fortune* in 1949, so it struck again in the pages of an antique book during the summer of 1974. I happened upon *The Naval Achievements of Great Britain—1789-1817*, and read for the first time the saga of the great British victory over Napoleon's fleet at the Battle of the Nile in 1798. When I read Lord Nelson's inspirational congratulatory dispatch to his crew, signed on the deck of his flagship, *HMS Vanguard*, I knew immediately that I had found the name for my new company. The Vanguard Group of Investment Companies was launched on September 24, 1974. Just as during the Napoleonic wars, Nelson's fleet had come to dominate the global seas, I hoped that, under its unique mutual structure, our new flagship would come to dominate the mutual fund seas.

Vanguard, owned by the mutual funds we managed, began with a narrow mandate: To handle solely the *administration* of the funds, a function that comprises but one of the three sides of the triangle required for mutual fund operations. Our tiny staff numbered only 28 members, and we were in no position to undertake the two more critical sides of the triangle—*investment management* and *share distribution.* Yet I fully realized that our destiny would be determined by what kind of funds we created, by whether these funds could attain superior investment returns, and by how—and how effectively—the funds were marketed. So we quickly set out to capture the two remaining sides of the triangle.

The fact that investment management was outside of Vanguard's mandate led me, within just four months of our start, to an action, then unprecedented, that today seems obvious. Based on anecdotal evidence on mutual fund performance that I accumulated as I prepared my Princeton thesis, I had concluded that funds could "make no claim to superiority over the market averages." When I wrote those words in 1951, it may well have been the moment the seed was planted that was to germinate into Vanguard's formation of the world's first market index mutual fund. The simple solution to the problem of market-lagging performance was all too obvious: *We would form an index fund that would simply match the stock market itself.*

## An Index Fund, a New Distribution Network, a Novel Bond Fund

Within three more months, we had formed the fund and put together a group of Wall Street underwiters to engage in an initial public offering. It raised a puny $11 million dollars, but First Index Investment Trust (now named Vanguard 500 Index Fund) had been born. If we were right about the power of indexing, it would begin to grow. While the pace of acceptance was glacial—at the outset it was called "Bogle's Folly"—today "Index 500" is the largest mutual fund in the world. And by starting and operating the index fund, we had edged into the *second* side—the investment side—of the fund triangle.

Only a few more months had passed when we took our second crucial step to expand our investment mandate. Just as I had come to believe that precious few stock managers could outguess the stock market (hence the index fund), so I had come to believe that precious few bond managers could outguess the bond market by accurately forecasting the direction and level of interest rates. Yet our peers were offering "managed" funds that implicitly promised they could do exactly that. Here was an opportunity to depart from the crowd and form not a *single* tax-exempt bond fund, but a *three-tier* bond fund with a *long-term* series; *short-term* series; and—you guessed it!—an *intermediate-term* series. All would be available without sales loads and at minimal cost. It's difficult, in truth, to imagine a more obvious and banally simple idea. *But it had never been done before.* Almost overnight it changed the way investors would think about bond investing. Today, this structure is the industry standard.

Taking control of the third and final side of the triangle—share distribution—demanded an equally unconventional approach. We would do away with our reliance on the network of broker-dealers that were responsible for the lion's share of mutual fund industry sales, and eliminate the very *need* for distribution. We would rely, not on sellers to *sell* fund shares, but on buyers to *buy* them. In February 1977, we took that step, marketing the shares of Vanguard funds directly to investors and free of all sales loads, another decision without industry precedent. And by taking control of our marketing, we had completed the triangle and become a full-service fund organization—all within 22 months from the day we opened our doors.

## Strategy Follows Structure

Our low-cost, mutual structure, then, played not just a vital, but essential, role in shaping our investment strategy and our marketing strategy alike. It established us as industry leaders not only in index funds and bond funds, but also in the then-burgeoning money market fund arena, where the link between lower cost and higher yield is virtually dollar for dollar. The (no-load) direct-distribution channel was clearly its logical, investor-friendly correlative. *Strategy follows structure*. Long before the movie *Field of Dreams* popularized a phrase that inspired the creation of a *baseball* diamond in Iowa, our corporate strategy was based on this now familiar tenet: *If you build it, they will come*. While it took years for the financial world to recognize the intrinsic value of the *investment* diamond that our new structure represented, and of the particular brand of mutual funds fostered by that structure, the investors finally came. And they came by the millions.

Despite the tough early years (82 consecutive months of capital outflows), we grew as the stock market recovered from the depths of 1974. But by 1980 our assets had doubled, from $1.4 billion to $3 billion. Assets doubled again to $6 billion in 1983, again to $12 billion in 1985, again to $24 billion as 1986 ended, *again* to $48 billion in 1989, once *again* in 1992 to nearly $100 billion, then to $200 billion by mid-1996, and doubled yet *again* to $400 billion in 1998—a 24-year period which saw our assets double, with remarkable consistency, every three years. No one thought that remarkable record could continue. It didn't. Nonetheless, despite the tough financial markets since the stock bubble burst in March 2000, our assets now exceed $600 billion. Today, the 56(!) Vanguard funds following our three simple, basic strategies—stock index funds, three-tier bond funds, and money market funds, all structured to reflect our low-cost advantage in the most obvious, most favorable light—are the powerful engines that drive our growth, now constituting 75% of our asset base and more than 100% of our net cash inflow. *The majesty of simplicity*, writ large.

## Developing a Corporate Character

By dint of lots of luck, a wonderful mentor who taught me much about leadership and values, a common sense structure, and a strategy that logically followed, we had a firm ready, willing, and able to take on, in the crucible of competition, the very mutual fund industry whose values I had challenged in my thesis. We had established a *business* strategy that was the logical consequence of our *corporate* character. But there remained the question of what kind of *human* character the firm would rely upon to implement that strategy. While in retrospect this character seems innate, even organic, naturally flowing from Vanguard's genetic heritage of service to investors, it still had to develop on its own terms.

While it didn't occur to me when Vanguard came into existence, we would come to resemble, albeit imperfectly and in our own halting way, what Robert Greenleaf was describing when he spoke about building a model institution. Greenleaf, the driving force of what we now know as the Servant-Leadership movement, was inspired by the idea of leading the nation's large institutions to better performance for the public good. He spent most of his long career with AT&T, and in August 1974—as it would happen, *at the very moment Vanguard was being created*—he gave a speech about building a model institution, identifying these four cornerstones. Here's what Mr. Greenleaf said:

- First, *An understanding of leadership and followership*, since everyone in the institution is part leader, part follower. If an institution is to achieve as a servant, then only those who are natural servants—those who want to lift others—should be empowered to lead.
- Second, *An organization structure* focusing on how power and authority are handled, including a discipline to help individuals accomplish not only for themselves, but for others.
- Third, *Trustees*, persons in whom ultimate trust is placed, who stand apart from the institution with more detachment and objectivity than insiders can summon.
- And fourth, *A concept of a distinguished serving institution* in which all who accept its discipline are lifted up to nobler stature and greater effectiveness than they are likely to achieve on their own or with a less demanding discipline.

It was not until 1998, nearly a quarter century later, that I read Robert Greenleaf's speech. I was *thunderstuck* by how each of those four powerful points echoed my vision for Vanguard. While I cannot say that we began with an understanding of leadership and followership, I *can* say that much of my career has been spent developing similar concepts. In one of my early talks to our tiny 28-person original staff, for example, I said, "I want every one of us to treat everyone else here with fairness. If you don't understand what that means, stop by my office." I constantly stressed the values that I wanted Vanguard to exemplify, above all the need to recognize that both our clients and our staff be treated as "honest-to-God, down-to-earth human beings, with their own hopes, fears, ambitions, and financial goals."

Over the years, I have come to love and respect the term "human beings" to describe those with whom I serve and those clients whom we at Vanguard together serve. In a talk at Harvard Business School on how our focus on human beings enabled us to become what HBS saluted as a "service breakthrough company," I challenged the students to find the term "human being" in any book they had studied on corporate management. As far as I know, none have met the challenge. But, it is *human beings* who are at the core of both our service strategy and our corporate operating strategy.

## Organization Structure

In our organization structure, power and authority would rest, not with the managers (as is the mutual fund industry convention) but with the fund shareholders. Of necessity, to be sure, much of the power would be delegated to the managers, but the ultimate authority would be vested in the collective power of those we serve. One rule set forth in modern-day business books is, "treat your clients as if they were your owners." It is a rule that is particularly easy for us to observe: Our clients *are* our owners.

That said, it's easy for me to imagine that, especially in our early years, Mr. Greenleaf might have looked at my leadership style with a jaundiced eye. The going was tough, and my vision so crystal-clear about what I wanted Vanguard to be—what funds we should have, how they should be managed, how to drive our costs to rock-bottom-levels—that I may well have been closer to benevolent (I hope!) despot than servant-leader. But there was work to be done, and by God, we'd get it done together.

As to trustees, our Board was comprised of truly independent trustees from the outset. They would be able to provide objectivity and detachment, and the ultimate trust would be placed in them. Of our ten trustees at the outset, I alone was a Vanguard officer. As Board Chairman, a role I filled from our inception to 1998, I'm sure I was not regarded as a shrinking violet, but I had no doubt that it was my duty to justify to this higher authority my every major move.

And surely our original concept echoed Mr. Greenleaf's idea of a distinguished serving institution. Our goal was to transform the very focus of a mutual fund business from serving two masters—something the apostle Matthew describes as, well, impossible—the fund shareholder and the owner of the funds' external manager-adviser alike. We would be the servant of the fund shareholder alone. In effect, our fund shareholders would become the beneficiaries of the entrepreneurial rewards that managers traditionally arrogate to themselves. If this concept can be said to lift a fund enterprise to nobler stature, so be it.

## Greenleaf on Leadership

Even when he talked about his dream of a model institution, Robert Greenleaf had the characteristics of the leader very much on his mind. He was fond of quoting Polaroid founder Edwin M. Land, who spoke of the opportunity for greatness for the many: "Within his own field—large or small, lofty or mundane—he will make things grow and flourish; he will grow happy helping others in his field, and to that field he will add things that would not have been added had he not come along." But, Greenleaf added, greatness is not enough. "Foresight is crucial. The lead that the leader has is his ability to foresee an event that must be dealt with before others see it so that he can act on it in his way, the right way, while the initiative is his. If he waits, he cannot be a leader."

> Describing such leaders, Greenleaf added, ". . . The great leaders are those who have invented roles that were uniquely important to them as individuals, that drew heavily on their strengths and demanded little that was unnatural, and that were right for the time and place they happened to be.

> "Caring for persons, the more able and the less able serving each other, is the basis of leadership, the rock upon which a good society is built. In small organizations, caring is largely person to person. But now most caring is mediated through institutions—often large, complex, powerful, impersonal, not always competent, sometimes corrupt.

> "To build a model institution, *caring* must be the essential motive. Institutions require care, just as do individuals. And caring is an exacting and demanding business. It requires not only interest and compassion and concern; it demands self-sacrifice and wisdom and tough-mindedness and discipline. It is much more difficult to care for an institution, especially a big one, which can look cold and impersonal and seem to have an autonomy of its own."

While in 1986 I had not read the essay by Robert Greenleaf from which those wonderful, inspirational words were excerpted, I *had* read an earlier speech which echoed those ideas—a speech given in 1972 by Howard W. Johnson, chairman of the Massachusetts Institute of Technology. It inspired me profoundly, and in a speech I gave to the Vanguard staff in 1986 I quoted from it as follows:

> The institution must be the object of intense human care and cultivation. Even when it errs and stumbles, it must be cared for, and the burden must be borne by all who work for it, all who own it, all who are served by it, all who govern it. Every responsible person must care, and care deeply, about the institutions that touch his life.

That 1986 speech was but one of many times when I spoke of the importance of caring. Again and again, I reminded our crew (I found the word "employee" distasteful, and banned its use at Vanguard, substituting "crewmember," a play on the naval theme that became part of our heritage) that "only if we truly care about our organization, our partners, our associates, our clients, indeed our society as a whole, can we preserve, protect, and defend our organization and the values we represent." I re-emphasized our responsibility "to faithfully serve the honest-to-God human beings who have trusted us to offer sound investment programs, with clearly delineated risks, at fair prices. We must never let them down."

I assure you that our philosophy goes far beyond high-minded words. *Talking the talk without walking the walk* will not get any leader very far. Caring for our clients has been reflected from the day we began, with a corporate structure that puts them in the driver's seat, providing our services on an "at cost" basis to assure them of their fair share of whatever returns the financial markets are generous enough to provide, a strategy that focused on funds that leveraged that cost advantage, and complete candor in our communications with them, describing not only the rewards of investing but the risks and the costs. It's hard to imagine that our standard-setting hasn't provided us with a huge competitive advantage. Indeed one of our industry rivals was moved to publicly state that, "Vanguard sets the standards by which we should all measure ourselves."

## Communicating the Message

Never forget that without implementation, ideas—even common sense ideas that involve a healthy measure of virtue—get *nowhere*. From the outset, I was well aware that it was crucial for our crewmembers not only to understand our mission, but to believe in it. What is more, they had to believe that our caring would encompass their own careers, their lives, their hopes and dreams. Among the ways we hoped to do this was in recognizing individual achievement through our Awards for Excellence. This program recognizes that, in one of my favorite phrases, "Even one person can make a difference." Begun in 1982, it provides modest financial rewards but strong recognition from the top. (I still spend an hour with each winner, presenting him or her with an autographed copy of one of my books.) Another is a regular (and anonymous) survey of their attitudes about their work at Vanguard. Another is our "Crewnet" website, where our crewmembers can learn about almost everything that is going on in their company, at almost every moment.

But the most tangible way we show that we care about our crew—and that we want them committed to delivering our services at low cost—is the Vanguard Partnership Plan. Through this plan, installed in 1984, each and every crewmember receives a share of the extra earnings we deliver to our fund shareholders, based on our cost savings and our ability to outpace the returns delivered by our mutual fund peers. Each June, we hold a celebration to announce the earnings, and every crewmember shares in them, based on his or her salary grade and years of service, with a maximum bonus equal to 40% of annual compensation. Yes, money *talks*. But it tells precisely the message we want to deliver to our crew. *We work to serve our clients*.

There's also *another* kind of talk going on at Vanguard. Ever since we began, I've given scores of speeches to our crew, driving home our mission, assuring crewmembers of our concern for them, describing competitive challenges and industry developments, and trying to give them some sense, not only of our goals and strategies, but of the character and values of the firm, and, for that matter, the character and values of its founder. I revel in the opportunity to talk to our crew, to let them see who I am, to thank them, and to encourage them to think deeply about our company and our mission.

These speeches—I hope that I don't need to tell you that I write them myself!—have covered a multitude of themes, and perhaps just a few of their titles will make the point: *A Time to Dance* (the first celebration, at the $3 billion mark). *A Course Made Good Upon God's Ocean* (1983). *Vanguard and Victory* (two of Lord Nelson's flagships, at $10 billion in 1985). *Tradition* (1988). *The Impossible Dream* (the same year). *If You Build it, They Will Come* (1990). *Creative Destruction* (1991). *Character* (1993). *A Company that Stands for Something* (2000). (All 42 speeches have just been published as part of my new book, *Character Counts*.)

I cannot overstate how important communication is to the leadership of any group, of any size, with any task. By fantastic luck and with a gracious mentor, perhaps a good measure of determination and some common sense, and what one writer described as "the uncanny ability to recognize the obvious" (now *there's* a paradoxical description!), I had been given the opportunity and the responsibility to create, to shape, to direct, and to build an enterprise. I was darned if I wasn't going to make the most of it! But I realized that, however powerful were the simple investment ideas and fundamental human values that I wanted to put into place, I couldn't possibly do it alone. I had to bring the crew along with me, not reluctantly, not even willingly, but enthusiastically.

## The Superior Company?

Again, Robert Greenleaf's ideas provide a remarkable echo of what I was trying to do: He talked of "the superior company," and described it this way:

> What distinguishes a superior company from its competitors are not the dimensions that usually separate companies, such as superior technology, more astute market analysis, better financial base, etc.; it is *unconventional* thinking about its dream—what this business wants to be, how its priorities are set, and how it organizes to serve. *It has a radical philosophy and self-image.*
>
> The company's unconventional thinking about its dream is (often) born of a liberating vision. Why are liberating visions so rare? Because *a powerful liberating vision is difficult to deliver*. That difficulty of delivery, however, is only half of the answer. The other half is that so few who have the gift for summarizing a vision, and the power to articulate it persuasively, have the urge and the courage to try. But there must be a place for servant-leaders with prophetic voices of great clarity who will produce those liberating visions on which a caring, serving society depends.

I leave to far wiser—and more objective—heads than mine the judgment about whether or not Vanguard meets the definition of a superior company. Of course, I hope it does. But I have no hesitancy in saying it is the product of unconventional thinking about what we want to be, about how we set priorities, and about how we organize to serve our clients. While I'm sure that our competitors—even the most successful of them—look with a sort of detached bemusement and skepticism at our emergence as an industry leader. But we have dared to be different, and it seems to be working just fine.

Let me close—and perhaps surprise you—by coming full circle, and listing what I hope you will remember as my own seven secrets of effective leadership:

(1) Remember virtue, and be as virtuous as you can.
(2) Be yourself. People can spot a phony a mile away.
(3) Don't forget humility, and acknowledge the role that luck and mentors have played in your success.
(4) Character Counts. If you want to build an enterprise, build one with character.
(5) When a door slams, have faith that a window will open.
(6) Human beings are what business is all about. Communicate that idea both in word and deed, endlessly.
(7) And never, never forget that the best leaders are servants too.

Thank you.

Note: The opinions expressed in this speech do not necessarily represent the views of Vanguard's present management.