What I've Learned In A Half Century In Business—
Twelve Rules For Building A Great Work Force

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I'm delighted with this opportunity to be with you to talk about my experiences in human resource management. While I'm not, as it were, a "human resource person" I've learned an awful lot about human resources during my long career simply by doing my best to understand, organize, and lead people, relying largely on common sense, intuition, and hard-won experience, and learning bit by bit from my mistakes.

I've been a businessman of sorts for 52 years now, and a chief executive for 30. First as the head of an investment management company most of whose 300-odd employees were well-educated, highly-compensated investment professionals, and then as founder and leader of a mutual fund organization whose original 28-person staff would grow to 10,500, including a relative handful of investment professionals and thousands of people engaged in accounting, processing, controls, technology, and telephone services, and, for that matter, a 275-person human resources department. Yet in the period since I relinquished my CEO position seven years ago, I've learned even more than I knew before (or at least *thought* I knew) about human resources.

Rather than giving you a formal address structured around grand themes and grandiose speculations about the role of human resources in the management of an organization, I'm going to present twelve simple rules for building a great work force—rules that I've found helpful in attracting, nurturing, developing, and retaining talented individuals for the benefit of the organization. At least equally important, these rules have helped us to enlist the full force of *the organization itself* for the benefit of those same human beings, for I believe that dual relationship has been essential to our growth.

But please be clear. The twelve rules I'm presenting today are mine alone, a product of my own character, my times, and the kind of enterprise I've done my best to build. Each of you is your own person; you live in different (and, I dare say, far more challenging) times; and you work in different businesses with different missions. What worked for me and for Vanguard may not work for you and your organization at all. So where my advice is appropriate, learn from it; where it is inappropriate, challenge it. Whatever the case, test it on the anvil of your own experience. Together, perhaps we can all learn from our meeting here today.

A Bit of History

Let me set the stage with a bit of history. In 1974, when I started Vanguard, my goal was to create a mutual fund company whose mission would be to serve as a good steward of the hard-earned assets entrusted to us by investors. The *structure* we chose for the company was then—and remains *now*—unique in the fund industry: A *mutual* company, owned by the fund shareholders, operated on an "at-cost" basis, and designed solely to serve their interests. While I'm not at all sure the connection was causal, that structure closely paralleled the ideal structure for a fund organization that I had called for in my Princeton University thesis on mutual funds in 1951, nearly a quarter-century earlier: A structure that would enable the mutual fund to *serve*—"to serve the needs of both individual and institutional investors . . . to serve them in the most efficient, honest, and economical way possible." Today, Vanguard is the lowest-cost provider of financial services in the world, and we have built *a company that stands for something: stewardship*.

I've always believed that strategy follows structure, and our low-cost, mutual *structure* led to an obvious *strategy*: Focus on funds in which rock-bottom costs would lead, in lock-step, to higher returns—(1) *index funds* that simply owned the entire stock market (we created the first index fund immediately after Vanguard began operations); (2) *bond funds* that would mirror the key sectors of the bond market (another industry first); and (3) *money market funds,* in which the low-cost advantage is transparent. It is the funds we created in those three sectors that have driven our growth. They account for $425 billion—nearly 80% of the $550 billion of other people's money that is invested in the Vanguard funds today, up from just over $1 billion when we began.

So our *business* strategy was the logical consequence of our mutual structure. But there remained the question of what kind of *human* strategy would best fit that structure. I was certain that we had the right investment ideas, and I quickly realized that it would take a highly-motivated, ethical workforce to properly *serve* the investors that these ideas were sure to attract. We knew that "if we built it, they would come." But we also knew that, once investors came, they would stay with us only if we served them well.

Although I hardly knew it at the time, what I sought to build was what servant-leadership pioneer Robert Greenleaf was describing, at almost that very moment, as a *distinguished serving institution*. In such an institution, he wrote, "all who accept its discipline are lifted up to a nobler stature and greater effectiveness than they are likely to achieve on their own or with a less demanding discipline." We wanted to create a company which focused on *the primacy of the person*, to treat each member of our staff in exactly the same manner in which we aimed to treat each individual and family that entrusted their assets to our care: *As honest-to-God, down-to-earth human beings, each with their own hopes and fears, their personal aspirations, and their financial goals.* It is this person-by-person approach to human resource management that has given us the extraordinary work force that has been responsible for the implementation of our core investment ideas. Together, these ideas and our focus on human beings constitute the well-spring of whatever success we have been fortunate enough to enjoy.

Twelve Rules for Building a Great Work Force

I recently read that "war is *waged* by *nations*, but *fought* by *men*." So is business *organized* by *companies,* but *operated* by *men* . . . and *women*. It hardly takes any genius to recognize that principle, so as an organization we've done scores of things to assure that we recognize the primacy of the person at Vanguard. At the risk of over-simplification, let me now narrow down these actions into twelve rules:

Rule 1. Forget about "employees." At the outset, I tried to capture the spirit of our new organization by eliminating the word *employee*—a word that hardly suggested teamwork and cooperation—from our lexicon, substituting "crewmember," one more nautical analogy arising from the name we had chosen for the new company, inspired by HMS Vanguard, Lord Nelson's flagship at the great British victory at the battle of the Nile in 1798. To me, *employee* suggested a person who came in each day at nine, left promptly at five, did what he or she was told, kept their mouths shut, and got paid, just like clockwork, when the work week ended. A *crewmember,* while it may sound sort of, well, corny, suggested to me an excited, motivated person who was part of a team in which everyone worked together on a worthwhile voyage, part of a chain that could be no stronger than its weakest link.

Truth told, and with all due respect, I'm not sure where "human resources" fits into this lexicon. The dictionary tells us that "resources" are "the available means of a business; computable wealth as in money, products, or property; something to which one has recourse in difficulties; an accounting asset." But the committed souls who do the organization's work constitute a far more vital organism than those mechanical words suggest, so I much prefer "human beings" as the defining term for our crew. But *never* "employees."

A curious oversight: A few years ago, in a speech at Harvard Business School in which I described *human beings* as the key to any good organization's success, I asked for a show of hands from those who had ever seen the phrase in a textbook on business management or corporate strategy. No hands went up, a truly startling indication of how we seem to have lost sight of the single most important asset of any enterprise.

Rule 2. Set high values and standards—and stick to them. Way back in 1980, at a celebration of our $3 billion milestone, I called on our crew to offer, "skill in what we do, imagination in what we create, integrity in what we produce, judgment in the goals we set for ourselves, courage in times of peril, and good humor in adversity." And I would not hesitate to set those same standards if I were starting over today. In the ideal, these qualities would come to constitute our core values. We had no manual in which they were written, a far cry from today's booklet of some 75 pages (now, of course, it's all on-line) in which so many proper business practices are spelled out in excruciating detail. Rather, I proposed a single over-arching but simple rule: "Do what's right. If you're not sure, ask your boss."

With the cooperation of our crew, we knew we could create a bond of trust between our firm and our owners. We would tell the truth about the returns our funds earned, the risks they assumed, the costs they incurred—a strategy of candor. The fact is that business is all about *trust*—trust *between* the highest and the humblest crewmembers, trust *among* the crewmembers, and a shared trust between our crewmembers and our clients. Trusting and being trusted are wonderful attributes . . . but not only because they're among the highest human virtues. Trusting and being trusted are the *only* basis for conduct of a business that wants to win in the long-run. "Good ethics," as I've said so many times, "is good business."

Rule 3. Make *caring* the soul of the organization. When I first spoke to our crew about caring in 1989, I used these words: "Caring is a mutual affair, involving: (1) Mutual respect from the highest to the humblest among us. Each one of you deserves to be—and *will* be—treated with courtesy, candor, friendliness, and respect for the honorable work you perform. (2) Opportunities for career growth, participation, and innovation: While Vanguard is an enterprise in which so many are asked to do jobs that are sometimes routine and mundane but always essential, the simple fact is that we need your enthusiastic participation in your job—whatever it may be—if we are to make Vanguard work effectively. After all, you on the firing line know a lot more about problems and solutions than the rest of us will ever know."

The list continues: "(3) Maintaining an attractive, efficient environment in which you do your work. (4) Keeping you informed with a meaningful communications program. The *Crew's News* we publish each month is but one of our attempts to make sure that you know what's going on in our organization and our industry; and *Crew's Views*, our regular—and anonymous—survey of your attitudes, is our attempt to make sure that *we* know how you feel about Vanguard and your work. (5) Paying you compensation that is fair." Today, nearly 15 years later, I'm not sure I'd alter a single one of those five common sense principles.

But, as I said in that very same talk, our success also depends on our crew having a deep sense of caring about Vanguard. Quoting from a speech that Dean Howard W. Johnson of Massachusetts Institute of Technology gave in 1972—even before Vanguard began—I cited his words:

> We need people who care about the institution. In an increasingly impersonal world, I have come to believe that a deep sense of caring for the institution is requisite for its success.
>
> 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.
>
> Caring, we know, is an exacting and demanding business. It requires not only interest and compassion and concern; it demands self-sacrifice, wisdom and tough-mindedness, and discipline. Every responsible person must care, and care deeply, about the institutions that touch his or her life.

This involvement is a lot to ask of human beings whose careers are only a part of their lives, but I don't believe it is possible to build a great work force without having *caring* at the organization's soul.

Rule 4. Talk the talk. Repeat the values endlessly. If building a great work force demands leadership, and if leadership requires virtue—and I have no doubt that the best leadership *does* require virtue—then a leader can then be defined *as a person who initiates and directs an endeavor in the principled pursuit of a project of consequence*. To lead at all levels—from chief executives, to human resource managers, to project directors, even to those souls responsible for the most mundane of tasks—requires inspiring and persuading other human beings—high and humble alike—to go along on a journey to a worthwhile destination. Building a great work force demands finding the right words to communicate the best ideas, and the larger the audience, the greater the challenge to find words that convey purpose and passion and vision. In the effort to do so, we have all been given a priceless gift: The English language. Let's use it!

Language is the tool by which leadership is *engaged*, and I've spent a career in trying to find the right words to communicate the values of the two firms I've headed. I've given, I suppose, hundreds of speeches, not only to our crew, but to our shareholders, to investor groups, to business leaders, to college students, to communities, to congregations, indeed, perhaps, to anyone who would listen. But I've come to believe that the discipline required in writing, to say nothing of the learning process that comes from putting one's ideas down on paper, has been a great asset in not only winning the investor acceptance of our core investment concepts, but in winning the commitment of our crew to our mission.

But if you must send the same message endlessly, for heaven's sake vary the words! Our language gives us an infinite variety of ways to get across the same basic message; the rhythms of speech, too, are infinite. And since the great men and women of history have expressed so many great ideas better than can we mere mortals, don't hesitate to call on them. (It doesn't hurt to keep *Bartlett's Familiar Quotations* on your bookshelf!) But whatever you do, communicate with your colleagues!

Rule 5. Walk the walk. Actions speak louder than words. There are few more self-defeating courses of action than "talking the talk" without "walking the walk." So whatever you *preach*, you jolly well better *practice*. People can spot a phony a thousand yards away, and the human beings you work with are much closer than that. (In human resource management, of course, those you are evaluating and hiring are right across your desk.) So, if you want to be trusted, be trustworthy. If you demand hard work, work hard. If you want your colleagues to level with you, level with them. It's not very complicated!

But there's another aspect to walking the walk—its literal meaning. Walk around your company, or department, or unit, or group. Personal visibility is one of the key elements of leadership, and it doesn't happen when you're sitting behind your desk. And if you're an executive—a "suit," in common parlance—don't limit your ambit to conference rooms filled with other suits. Get out and meet the people who are doing the real work—those in the mailroom, the security guards, the programmers, everyone upon whom your daily work depends.

Rule 6. Measure what you can. ***But don't confuse measures with objectives***. Especially in recent years, I have come to believe that excessive measurement is a major hindrance in building a great work force. Too often in business—and indeed in our society today—we dwell far too heavily on what can be readily measured—earnings per share, market share, productivity, efficiency, product quality, costs—and set internal controls to achieve numeric goals. But when measurements become objectives, they are too often counterproductive and self-defeating.

Think for example, about corporations that give "earnings guidance." Once they tell the world the earnings per share they expect to achieve, by God, they are going to achieve them—through hell and high water! Once a certain outcome is attributed to an *inevitably* uncertain business, the company may, as they say on Wall Street, "meet expectations" only by manipulating the numbers or, even worse, relying on cutbacks, overly-aggressive limits on promotions or raises, slashing research and development, false economies, and so on. Or more specifically, demanding increased productivity without considering whether the quality of the product or service will be diminished. Such a tragic consequence is all too likely to lead to reduced morale and convey to those on the work force that they really don't matter very much.

Please be clear I'm *not* saying that numbers don't *matter*. Counting is essential to measurement and communication of financial goals and achievements. The title of one of your later sessions, "If It Can Be Measured, It Can Be Managed," is of course correct. But never, *never*, think that "if it can't be measured, it *doesn't* matter."

Rule 7. Never forget that the most important things in life and in business can't be measured. It is character, not numbers, that make the world go 'round. How can we possibly measure the qualities of human existence that give our lives and careers meaning? How about grace, kindness, and integrity? What value do we put on passion, devotion, and trust? How much do cheerfulness, the lilt of a human voice, and a pang of pride add to our lives? Tell me please, if you can, how to value friendship, cooperation, and spirit. Categorically, the firm that ignores the intangible qualities that human beings bring to their careers will *never* build a great work force.

The Book of Proverbs demands that we, "get wisdom, get insight." And over my half-century career, I am more convinced than ever that those are the essential qualities required by companies that can stay the course in the face of economic change, and technological innovation, in a fragile environment and an uncertain world. We'd best not forget that wisdom and insight are the province, not of an enterprise's physical resources and financial resources, but of its human resources—its work force.

The great economist Lord Keynes got it just right: " . . . it is the merest *pretense* to suggest that an enterprise is based on an exact calculation of benefits to come . . . (we need) *animal spirits*, a spontaneous urge to action. If animal spirits are dimmed and spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, the enterprise will fade and die." And so it will.

Rule 8. Give judgment at least a fighting chance to triumph over process. After our early, difficult years, Vanguard began to grow, and grow exponentially. And I began to worry about bureaucracy. When I spoke to our 500-person crew in 1984, I described two axioms. One was the familiar, "nothing *succeeds* like success." The other was "nothing *fails* like success," the paradox that the triumph of an enterprise—or even an empire—often plants the seeds of its own destruction. Even then, I railed about "the stranglehold of red tape, the curse of corporate politics, and the impersonality of technology." And, quoting Carl Sandberg, I warned that, "when an institution goes down, one condition may always be found. It forgot where it came from."

Five years later, in 1989, the crew had grown more than three-fold to 1,600, and I was even *more* worried. "In my few dark moments, my greatest fear for Vanguard is that it becomes a giant, impersonal, boring bureaucracy where nobody cares about anything or anybody. It is incumbent on our entire management team to fight, to our dying day, to hold back the great tide of *process*—of paper and policies and regulations and procedures—that could overwhelm all that we have tried to achieve . . . Every time we replace common sense and sensitive judgment with formal policies and set procedures, a small part of the battle is lost. If we come to look exactly like a giant mutual life insurance company—my nightmare—both our personal enjoyment and our competitive success may well be lost. So for heaven's sake, let's all work to make Vanguard a firm in which judgment has at least a fighting chance to triumph over process." Today, even with the crew having grown *another* six-fold-plus, to 10,500 members, inspiring a great work force requires that judgment, not process, remains the driving force.

Rule 9. Recognize individual achievement. At Vanguard, our "employee recognition program" may be unusual: It began more than two decades ago, and remains intact and virtually unchanged today. Each quarter, I would appear before a group of crewmembers and present the Vanguard Award for Excellence to one of their inevitably astonished colleagues. The award, based on nominations from one's peers and reviewed by a committee of officers, is given for special team spirit, cooperation, exemplary service to clients and crewmembers, initiative, and resourcefulness. Some six to ten awards are presented each quarter, and include a $100 check, $500 to the crewmember's favorite charity, and dinner for two and tickets to a play, concert, or sports event. News of the award, including a photo of the winner, is included in *Crew's News.*

In this increasingly impersonal era, when bureaucracy and technology threaten to obscure the contributions of individual human beings, the Award for Excellence is a tribute to individual effort, to the potential of a single human being: The award includes a plaque with the motto, *"Even one person can make a difference."* My unshakable belief in that article of faith goes back even before Vanguard's birth, and my attitude toward the value of the individual remains undiminished. To this day, I sit down with each award winner in my office for an hour or so of conversation, at once learning and teaching, getting acquainted, and giving each winner a special signed copy of one of my four books with a bookplate commemorating the award. These human touches in a giant enterprise will, I hope, help preserve the legacy I've tried to create. Yes, employee recognition programs can be badly structured, and I understand you'll be warned about their "seven deadly sins" at a later session. But I don't think you would need to eavesdrop on more than one of the wonderful conversations I continue to revel in to realize how they can reinforce the spirit of a truly great workforce.

Rule 10. A reminder: Loyalty is a two-way street. Rare is the enterprise that doesn't call on its work force to display loyalty. But, as I told our crew back in 1988, "It is really *incredible* that it has taken most American companies so long to realize that it is simply *not right* to ask those who do the daily work to be loyal to the corporation without making the same commitment, with the same fervor, that the corporation will be loyal to them in return. And that concept of two-way loyalty must itself become a Vanguard tradition."

Talk without action is hollow and meaningless. So we acted to demonstrate the firm's loyalty to its crew. We began with the intangibles—caring and openness and respect for each human being on our crew. But by the early 1980s, when we had at last reached a firm financial footing, we added something more tangible: Money! *Financial* incentives. Through the Vanguard Partnership Plan, each and every member of our crew shares in the rewards we generate for our shareholders. I know of no other company in which every member of the workforce—without putting up one cent of capital—shares in its earnings.

These earnings are derived from: (1) our low-cost advantage (that is, our fund expense ratios relative to those of our major competitors); (2) the extent to which our fund performance exceeds or falls short of the returns of our competitors; and (3) the size of our asset base. So as our assets have grown, as our cost advantage has increased, and as the returns of our funds have exceeded those of their peers, our earnings have grown—substantially! Each crewmember holds a certain number of units, based largely on years of service and job grade level, and each June receives a check that now typically approaches 35% or more of annual compensation.

Rule 11. Manage for the *long-term*. Operating a business is a serious, rugged, flaw-ridden demanding task. Dog-eat-dog competition keeps a workforce on its toes, and the inevitable fluctuations and vicissitudes of an industry's affairs, as well as in the general level of economic activity, often seem to compel painful decisions and trade-offs to meet the exigencies of the day. But operating a business is also thrilling, challenging, and rewarding. The key to the difference, I believe, lies in doing everything possible to focus on *long-term opportunities* and ignore the inevitable short-term difficulties. Scores of times I've reminded our crew: "Once you decide whether you expect to be in business for a short time or a long time, the right decisions are easy."

Think about it: The *ephemeral perception* of business is all of those momentary challenges, all of those hiccups, all of those diversions that take our eye off the proverbial ball. The *eternal reality* of business on the other hand, is the ability to provide good products or services that meet customer needs at a fair price. Yet—and I've also said *these* words a thousand times over—*when there is a gap between perception and reality it is only a matter of time until it is reconciled . . . in favor of reality*.

So a great work force must be managed as a long-term asset. Some guidelines: Avoid layoffs in temporary downturns; beware of excessive stringency in compensation; don't slash benefits to meet budgetary constraints; and never demand that some arbitrary percentage of the workforce *must* unilaterally be rated "unsatisfactory." *Never!* If you focus on the long-term, you can create the right environment for building a great workforce. It isn't easy to ignore the noise of current events, but never forget that the best firms are built "on integrity, judgment, imagination, diligence, and common sense"—that is, on *character*—the title of one of the talks I gave to our crew ten years ago.

Rule 12. *Press on, regardless*. If there were a single phrase that best articulates the attitude of a business that both deserves and rewards a great workforce, it would be "press on regardless." It is a rule of life that my family has held high, my motto for as long as I can remember. Here's how President Calvin Coolidge put it:

> Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination along are omnipotent. The slogan "Press on" has solved, and always will solve, the problems of the human race.

Paraphrasing a quotation from John W. Gardner that I incorporated into my remarks in a commencement address at Vanderbilt University's Owen School of Management a few years ago, here's how I summed it up:

> The test for Vanguard is whether in all the confusion and clash of interests, all the distracting conflicts and cross-purposes, all the temptations to self-indulgence and self-exoneration, we have the strength of purpose, the guts, the conviction, the spiritual staying power to build a future worthy of our past.

If the human beings in a business can be recruited, trained, motivated, and mobilized to press on, *regardless* of good times or bad, *regardless* of calm seas or rough, *regardless* of thick circumstances or thin, then any enterprise that stands for something good and true will succeed. And so it is that "Press On Regardless!" best expresses the spirit of a great workforce.

Wrapping It All Up

All of you here today have a vital job: to help get the *right* human beings in the *right* places. Business is all about human beings, and human beings are what makes businesses go. Helen Keller was right on the mark when she said: *"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."* For it is those who do the real day-to-day hard work at a company who are largely responsible for whatever success a business is fortunate enough to enjoy.

As you go about the task of helping your firms to build great workforces, I hope my twelve rules will help. But I'm not sure, truth told, that you need more than *one* rule. It's several thousand years old, and was expressed this way: "Do unto others as you would have others do unto you." It is not for no reason that it is called *The Golden Rule*. If we honor that rule, if we challenge ordinary people to do extraordinary things, and if we provide a company with character as the vehicle for their career-long labors, we will build as great a workforce as we could ever imagine.

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