Human Beings: Essential Link in The Service-Profit Chain

A Vanguard Perspective

Remarks by

John C. Bogle, Founder and Senior Chairman

The Vanguard Group of Investment Companies

ξ ξ ξ

Harvard Business School

December 7, 1999

Way back in 1990, at our traditional Christmas/Holiday Party, the title of my speech to our organization was "If You Build It, They Will Come," a theme borrowed from that wonderful film "Field of Dreams," the story of baseball old-timers who appear on a diamond carved out of the cornfields of Iowa. I used that theme to reinforce Vanguard's philosophy of creating solid mutual funds with sensible strategies, providing first-class service to our shareholders, holding a tight lid on operating costs and minimizing marketing costs—of doing it all *right*—and then waiting patiently for investors to come.

Amplifying my theme, I then asked the question of who the *you* is that builds, what the *it* is that we build, and who the *they* are who come. My answers: *you* are our employees; *it* is our products; and *they* are our customers. Before my audience had a chance to reflect on those answers, I sprung my trap: *Employees* and *products* and *customers* are words we simply don't use at Vanguard.

An *employee*, it seems to me, is a person who works for someone else, who does his or her job from nine to five each day, who asks no questions and makes no waves, and who then picks up a paycheck at the end of the week. So we use *crewmember,* a designation tied to the omnipresent nautical theme we established when we named our new firm after HMS Vanguard, Lord Nelson's flagship at the great victory over Napoleon's fleet at the Battle of the Nile in 1798. But much more importantly, *crewmember* suggests teamwork, interdependence, and the realization that we're all in the same boat. We will sail on to victory, or we will sink in the struggle.

And the word *product* has nothing to do with what we provide. We do not think of ourselves as selling products—Campbell's Soup, or Ivory Soap, or Packard Motor Cars, all remarkably successful consumer products at one stage in their history, products to be heavily marketed until times and fashions change and then replaced by something else that is saltier or softer or sleeker. We would offer *financial services*, or simply *stewardship*, durable *mutual funds* with sound investment philosophies, prudent strategies implemented with simplicity, and rock-bottom costs to investors, the better to enhance their profits. The idea: *We would not make what we could sell. We would sell what we made.*

Finally, we did not seek *customers*, those who would move from one product to another depending on fad or whim, location or price. We had no interest in creating an investment version of Poke'mon or the Barbie doll or the pet rock. Long-term investors, not short-term speculators, would be the focus of our strategy. We sought *clients*, those who would enter into a long-term investment relationship with us, trusting in our investment skills and our stewardship.

That anecdote, I think, says a great deal about Vanguard's view of the service-profit chain. While the chart in Harvard Business School Professor Michael Porter's 1996 article, "What Is Strategy," nicely *describes how* Vanguard works (Chart 1), my story *explains why* Vanguard works so well. In any event, for an enterprise that began without a single employee, or a single product, or even a single customer 25 years ago, we have come a long way. Our assets, $1 billion at the outset in 1974, now total $530 billion, marking us as the second largest mutual fund firm in the world and the fastest-growing company in the industry, with the highest level of client loyalty; and the lowest costs of any provider—by far—of financial services on the face of the globe.

Patterns of Industry Growth

Since our inception, we have grown at a 27% annual compound growth rate—and a steady one at that. Charting our mutual fund assets on a semi-logarithmic chart results in something akin to a straight line. Our huge base in recent years has grown at essentially the same rate as our tiny base grew in the early years. Just a decade ago, when our assets totaled $40 billion, I drew a chart that projected what our 1999 assets might be, based on various future rates: 30% ("inconceivable," I said); 20% ("unlikely"); and 10% ("easy"—our investment returns *alone* ought to do that job, with new investments from investors adding incremental assets). Well, with $530 billion as 1999 ends, our 27% historic growth rate hasn't yet gone away (Chart 2). Nonetheless, I was ever fearful of the challenge of unbridled growth both on investment strategy and on organizational effectiveness back in 1989. So I entitled the chart, "The *Tyranny* of Compounding."

Driven by the long bull markets in both stocks and bonds, the ever-market-sensitive mutual fund industry too has burgeoned, growing at a 17% annual rate since 1986 and increasing assets eight times over. Vanguard's 26% growth rate since then has multiplied 19-fold. To be sure, we found ourselves in the most rapidly growing segment of the fund industry—the direct marketing (largely no-load) sector—which became the industry's largest distribution channel in 1996. This growth reflects an increasingly cost-conscious breed of self-motivated investor. Happily, we had sensed this trend years earlier, and were well prepared. For in 1977 the Vanguard funds abandoned their 50-year dependence on stock brokers and made an unprecedented leap forward to no-load distribution. Direct marketing has grown at a 21% annual rate, resulting in an 11-fold asset growth. The runners-up in the growth sweepstakes, growing at a 16% rate, were independent firms offering load funds, largely sold by stock brokers. Their assets grew seven-fold. In a poor third place, growing at just 12%, with but a four-fold asset increase, were the proprietary load funds, managed *and* distributed by the brokers. Despite the obvious and innate competitive advantage held by broker-sold funds, their notably high costs and notably low returns (not entirely unrelated!) were too much for even their dedicated distribution systems to overcome.

Market Share and Client Loyalty

The very first sentence in the 1994 Harvard Business Review article, "Putting The Service-Profit Chain to Work," noted, "outstanding service organizations spend little time setting profit goals or focusing on market share." Nor do we. From the time Vanguard began, my two fundamental rules were: "1) Market share is a measure and not an objective; and 2) Market share must be earned and not bought." Nonetheless, Vanguard's market share has grown. And grown. And grown. From 9% of direct marketing assets in 1980, we topped 10% in 1984, 15% in 1988, 20% in 1992, and 25% in 1998, reaching a 29% share in late 1999 (Chart 3). Since 1986, significant market share growth has been achieved by just two firms: Vanguard (+14 percentage points, from 15% to 29%) and Fidelity (28% to 31%, +3 points). In the meanwhile, T. Rowe Price (-3 points, to 5%), Scudder (-3 points, to 2%), and Dreyfus (-14 points to 2%) all tumbled sharply. With a total share of 72% in 1986 and 70% in 1999, the "Big 5" are clearly swapping shares with one another. In fact, of the 25 largest firms in the direct marketing field, 19 have lost market share since 1986, with only six gaining.

What can we learn from the success of the two peerless leaders in gathering market share? Only this: *There is no single route to success.* One leader has had the benefit of long-term performance success, a reputation that hangs on despite the tough sledding that has characterized its returns in recent years; and the most aggressive and expensive marketing and advertising programs in the industry's history. ("If you sell it, they will come," apparently.) The other leader, by contrast, has spent little on marketing and less on advertising, relying instead on the word-of-mouth recommendations of its shareholders—they are truly our apostles—and conveying our story through the financial news media. (Truth told, there are a few apostles there too!) "Earned and not bought" seems to work just fine.

It is our well-deserved reputation for low costs and shareholder service, part of a truly distinctive business strategy, that lets us stand out in a field populated largely of firms that all seem to do the same things, make the same claims, and produce, over time, the same returns; fund returns that are typically driven down by the high costs of acquisition and ownership incurred by their investors. Professor Porter had it right when he spoke to the Investment Company Institute in 1993: "The mutual fund industry has grown fat and lazy, a 'me too' industry with most companies stuck in the middle. Only Vanguard has differentiated itself from the pack by having a genuine, unique, sustainable competitive advantage." He did reassure industry executives, however, by telling them that our "measured, careful, gentlemanly competition" gave them some protection. But that's the way I've always wanted to play the game.

While it has seldom been noted by industry observers, our growth has been importantly fostered by what is measurably the highest level of client loyalty in the mutual fund industry. Vanguard shareholders have consistently redeemed their shares at only about one-half the industry rate—about 10% of assets per year, versus almost 20% for the other fund complexes (Chart 4). Investors who purchase a Vanguard fund stay at Vanguard for an average of 10 years, compared to just five years for those who invest with our peers. Consider this example of what this has meant to our growth: This year our share redemptions will be about $55 billion dollars. With new share purchases of $105 billion, our net cash flow will be about $50 billion (before dividend reinvestment). Had our shares been redeemed at the industry rate—i.e., doubling to $110 billion—we would have actually experienced a cash *outflow*. Repeated year after year, then, an industry redemption rate for Vanguard would have radically vitiated our market share gain. Client loyalty, in short, is one of Vanguard's major assets.

Low Costs Produce High Performance

The attraction Vanguard obviously holds for long-term investors has been driven by two main factors. First are our hallmark low-costs. In an industry where costs have soared over the years, Vanguard is distinguished by driving its costs ever lower, even as the industry's costs have soared. (Bear in mind that the industry costs reflect fund expense ratios only; they ignore sales charges, paid on the purchase of shares in almost one-half of all mutual funds. Since we offer only no-load funds, Vanguard's cost advantage is in fact substantially larger than it appears.) The impact of cost is greatest where the time horizon is longest. If a low-cost complex operates at a cost of ¼ of 1% (assuming a market return of 10%) over 25 years, it captures 95% of the market's return. A high-cost complex (at 2%), would capture but 63%. So here is another form of the tyranny of compounding—cost compounds, too!

Since 1980, the expense ratio of the average Vanguard fund has dropped from 59 to 28 basis points, even as the industry's expense ratio has *risen* from 99 basis points to 125 (Chart 5). Thus our margin of advantage has risen from 40 basis points to almost 100—by two and one-half times—an 80% competitive advantage in unit costs. This advantage is pervasive—in our U.S. and international stock funds alike; in our balanced funds; in our tax-exempt and taxable bond funds; and in our money market funds. After all, given Vanguard's unique mutual structure, we have two ways of earning profits for our shareholders: Investing in portfolios of securities that provide generous long-term returns; and minimizing the drag of intermediation costs so as to provide the highest possible portion of those returns. Within this structure, in our service-profit chain the profits of investing go to our shareholders.

As the world has slowly come to learn: *costs matter*. Costs matter because the benefits of lower costs are huge: a 100 basis point advantage applied to our $500 billion-plus asset base produces annual savings of $5 billion for shareholders. Costs matter because they represent a diversion of the returns of the financial markets from investors to investment managers. (Where are the customers'—or should I say, *clients'*—yachts?) And costs matter because *lower* costs lead directly to *higher* returns—a link that is readily calculable.

Investment Strategy and Low Cost

The magic of low cost—and it *is* no less than magic—is the core of our service-profit-stewardship mission, a crucial link in the chain. For our long-term investment philosophy, combined with our simple investment strategies, depends on cost-effectiveness. We are the innovators of the two investment strategies that have come to dominate our asset base, now representing $350 billion, or nearly 70% of our $500 billion-plus total (Chart 6). Both strategies, in essence, represent the classic difference between the hedgehog and the fox. "The fox knows many things," Archilochus told us 2200 years ago, "but the hedgehog knows one *great* thing." In an industry filled with brilliant, sly, ambitious, impatient, high-cost investment manager-foxes, trading portfolio securities with a vengeance and ever seeking the holy grail represented by outpacing the financial markets, we are the principal hedgehog. We know the one great thing: that the closest we will get to that holy grail will come by owning a widely-diversified portfolio of high-quality stocks (or bonds) that effectively represents the market, trading those securities only when absolutely necessary, and operating at low-cost.

Our best-known strategy, of course, is stock market indexing. We now manage 28 index funds (including four bond index funds and six balanced index funds), but more than 75% of our $210 billion in index fund assets is represented by two funds modeled on the S&P 500 Index, and one modeled on the Wilshire 5000 Total Stock Market Index. We pioneered the first index mutual fund in 1975; our level of conviction reflected in the fact that, following our commencing operations in May of that year, it was Vanguard's very first business decision. As it has turned out, indexing was a transforming decision for the firm, the apotheosis of all we stand for in linking cost and value—*low* cost and *high* value, inextricably intertwined.

Our defined-asset class fixed-income strategy, while far less renowned, has been equally effective for investors. Our bond and money market funds now constitute $140 billion of our assets. Just as our indexing strategy reflects, finally, a skepticism that *any* firm, including ours, can discover the holy grail of outpacing the stock market—and then hang onto it for decades, which is every bit as important—so our bond strategy strongly manifests a similar skepticism about the ability of *any* firm, including ours, to consistently and accurately forecast changes in interest rates. As a result, when we joined the wave of firms offering new municipal bond funds in 1977, we followed, not the conventional path of forming a "managed" municipal bond fund, but created, for the first time in mutual fund history, a three-tier bond fund—a long-term series, a short-term series, and (this will hardly surprise you!) an intermediate-term series. We would win by approximating the pre-cost returns of the benchmarks of each sector of the bond market, then keeping our costs at the industry nadir and maintaining quality at the industry pinnacle. Result: The delivery of outstanding bond returns to our shareholders.

If this simple strategy hardly sounds to you like genius at work, you are very perceptive! No more genius, indeed, than the basic mathematics of indexing: *Earning the market's return at low cost trumps earning the market's return at high cost*. It's been said that all I've ever had going for me is, "the uncanny ability to recognize the obvious." For better or worse, I accept that criticism. (Or was it intended as praise?) But our indexing and bond strategies, radical for their time and once considered heresy, have now become dogma. And in the marketplace, they have proven, using the current lingo, to be the "killer apps" of the mutual fund business.

Our huge cost advantage has the effect of nicely elevating Vanguard fund performance relative to the performance of our peers. In U.S. equity funds, over the past five years, for example, our average ranking rose from the 41st percentile to the 28th, and international funds, from 68 to 54 (Chart 7). For balanced funds, from 29 to 21. (It gets harder to improve when a fund is already near the top quartile.) For taxable bonds, from 33 to 11; tax-exempt bonds, from 74 to 31. And for money market funds, our percentile soars from the 61st to the 4th. "Out of the commonplace into the rare" might be a fair description of the thrust that low cost delivers to our performance leadership.

Given what we observe in most competitive industries—and the mutual fund industry is ferociously competitive in all respects save one, the setting of prices—we might expect our competitive edge in cost to be challenged. But it is not. No fund leader, as far as I can tell, has looked at the market share numbers, called a meeting of his senior officers, and said: "These guys are eating our lunch! Let's take them on, toe to toe! Now!" That hasn't happened. Why? Because taking on Vanguard would require aggressively challenging us with low-cost index funds, low-cost bond and money market funds, and low-cost conservative stock funds focused on long-term investing. The fact is that the returns of the clients of our rivals—their fund shareholders—would be markedly enhanced, but the returns of their own management firms would be slashed—*no matter how much their market share improved*. In the face of the competitive edge we have created, the industry's silence has been, well, deafening. Their service-profit chain, simply put, is different from ours. For there's no profit for fund managers, or so it seems, in giving their clients—the *owners* of their funds—a fair shake.

Low Cost Fosters Service Leadership

But what of our service leadership? The fact is that our service leadership in the mutual fund industry has been achieved, not *despite* our low costs, but *because* of our low costs. To explain this seeming contradiction, I must explain the basic economics that underlie our cost advantage. It will cost about $1.150 billion to operate Vanguard this year. With average assets in the $480 billion range, our ratio of expenses to assets will be 0.28%. The average mutual fund complex, as we have seen, operates at a ratio of 1.25%. I'm going to sketch out very roughly (there is no reliable industry data) where that 97 basis advantage point is derived:

- About 45 basis points, *very* roughly speaking, is derived from the fact that under our mutual structure, we operate on an at-cost basis for our fund *investors*, while our competition operates at a pre-tax profit margin estimated at 40% to the fund *managers*.

- Another 25 basis points reflects the enormous marketing expenditures of our peers, compared to our nominal efforts. (Why spend the shareholders' assets on a function that provides no value to them?)

- We probably pick up another 15 basis points by managing 70% of our assets internally, and by vigorously negotiating the fees we pay to our external advisers, while our peers negotiate fees with themselves (that situation, in Warren Buffett's words, "seldom produces a barroom brawl").

- The remaining 12 basis points comes from administration, reflecting some combination of the economies of scale that go hand-in-hand with our giant size, and the sheer cheapness that underlies our low-cost philosophy

Voila! A staggering 97 basis point cost advantage—one, as I have noted, that truly *matters* in the results we deliver to investors (Chart 8).

The resulting $5 billion that our shareholders save annually reflects a cost advantage so stupifeyingly large that we have the flexibility *to spend as we must* in order to provide top-quality services to our shareholders. We all *know* what quality is in this business: accuracy, timeliness, responsiveness, problem resolution, presentation, simplicity, courtesy, professionalism, empathy, are some of the words that come to mind. In this day and age, investor expectations of quality service are staggering, and the number of different ways that different individuals want different accounts in different funds handled is almost beyond belief. But in a shareholder-owned organization like Vanguard, our investors are entitled to have their expectations not merely met, but exceeded. In a world where the desideratum is "treat your customer like an owner," an organization in which the client actually *is* the owner is king.

"Penny Wise and Pound Foolish"?

Let me put some dollars-and-cents meat on the bones of these ratios to show you how much we have had to spend to handle our present growth, to invest for our future growth, and to maintain our cutting edge in service quality. Five years ago, our annual expenditures were about $480 million—$400 million for operations plus $80 million of fees to our external investment advisers. This year we will spend about $1.3 *billion*, some $1.150 billion for our own operations and $150 million in advisory fees. Our own budget, then, has risen by $750 million, nearly tripling in just five years—hardly a sign of being, as the old saw goes, "penny wise and pound foolish."

Much of this increase arises from providing services to 14 million shareholder accounts rather than six million. But it also reflects the huge increase required to maintain and enhance service quality, including heavy spending on technology, now approaching, in very rough terms, one-third of our budget. We have been blessed by having our average assets burgeon during this bull market period—rising from $150 billion to $485 billion—enabling us to support our efforts without impinging on our low expense ratio. Indeed, our weighted fund expense ratio, 28 basis points in 1999, has eased downward from 30 basis points in 1994. That two point decline, coming in a period in which the expense ratios of our major competitors have *risen* by 20 basis points (to 125), we are doing just fine. But if we had to spend, say, an extra $100 million on technology this year, it would raise our expense ratio by only two basis points, a change that the world would little note nor long remember. (But *we* would notice. So I assure you that our severe cost discipline remains intact.)

The point is that our huge expense ratio advantage enables us to spend what is required to provide state-of-the-art financial services—services that meet and, ideally, exceed the ever-growing expectations of our clients. It also enables us to pay our crewmembers fairly, for our success depends on a terrific effort from each of the 10,000-plus human beings who serve on our crew. We offer competitive salaries, to which we add an extraordinary benefit program. On top of *that*, we provide the Vanguard Partnership Plan, affording each crewmember, from his or her first day on the job, ownership in units in a partnership. Earnings are based on a formula driven by the dimension of our cost advantage and the performance of our funds relative to their peers. By so doing, we share a small portion of our clients' extra earnings with those who labor ceaselessly in their behalf. The Partnership Plan reemphasizes to our crew the low-cost mission that is central to all we do, focuses crewmembers on operational efficiency and cooperation, and drives home the message that providing more-than-competitive returns to our shareholders is essential to our growth, indeed to our survival.

Human Beings

For to build a successful firm, it takes more—yes, it does!—than killer apps like index funds, structured fixed-income funds, and low-cost actively-managed equity funds. And the second factor—in addition to our low cost structure that is essential to our investment strategies—that makes Vanguard attractive to long-term investors is the investment services we provide. Not just the services themselves, but the fact that they are focused on human beings. Please never forget that it takes a focus on *human beings*—as I've said 1000 times over, "honest-to-God, down-to-earth human beings with their own hopes and fears and objectives."—to implement a winning corporate strategy. The first step is to recognize that each one of our *clients* is an individual human being. We may know much about our client's investment goals, but we must never forget that investment success is as much based on human *emotions* as on *economics*. So, it is our responsibility to explain with complete candor what investing is about: investment returns, which we must acknowledge we *cannot* control; and asset allocation, risk, cost, and time, the control of each of which lies at our fingertips. A focus on human beings, furthermore, requires that we act with integrity, earning the confidence of our clients that we will place their interests ahead of our own. Add to that list fair-dealing, not only fair prices and fair limitations on how and when and in what portfolios clients may invest, but focusing our energies on activities that serve clients—management, investing, administration, financial controls—rather than those that do not, such as marketing and peripheral business ventures. If we truly respect the human beings who are our clients, they will come to entrust us with the stewardship—a word too seldom used in this industry today—of their hard-earned assets.

Placing service to the human beings who are our clients at the top of our priority list is easily said. It may even seem obvious, although rare indeed does the phrase "human beings" appear in a book on corporate strategy, or on competitive advantage, or even "killer applications." But I confess that back when Vanguard began a quarter-century ago, I never thought very deeply about human beings as the central focus of our corporate strategy. Nonetheless, for as long as I can remember, I've held high the ideal of respecting all of the souls one meets along the long and winding road of life—from the highest in rank to the humblest—with respect, decency, and kindness. This spirit must not encompass only clients, but crewmembers as well, and with equal fervor. When Vanguard's maiden voyage began—almost from ground zero, with just 28 crewmembers—it occurred to me that, in a fiercely competitive field, there was only one way we would ever accomplish our novel and challenging mission: *Together*.

That philosophy has been at the core of everything we've done since. It's called loyalty. But however loyalty may be inculcated into a firm's values and character, the one message that must come through is: *Loyalty is not a one-way street*. No enterprise, no matter what endeavor it pursues, has any right to ask for loyalty from those who do the hard work required for its success without a reciprocal commitment that the enterprise will offer its own loyalty in return. If an institution is to care for its clients, it must care too about the human beings who assume the responsibility for serving them. The members of the crew are the heart and soul of the enterprise; without their care and effort, the enterprise will fail.

Caring—And Caring Deeply

In my frequent speeches to our crew, I have often cited this marvelous quotation from Dean Howard M. Johnson, former Chairman of the Massachusetts Institute of Technology, on the need for individual human beings to care for the institutions of which we are a part:

> "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—by all who own it, all who serve 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 life."

So, if we ask those who work at Vanguard to treat their institution with care—the better to ensure that it meets the needs of the human beings we serve as clients—we must in turn treat our crew with care.

The Human Organization and Service

In our efforts to create a *human organization*, our compensation strategy, as I've noted, plays a key role. Yes, our Partnership Plan serves to assure that the crew focuses on our corporate goals, but, equally important, it also generates a powerful sense of loyalty among the crewmembers by emphasizing that they are the human beings who are the key to our success. Similarly, our Award for Excellence program, now going into its 16^{th} year, has had the same focus. In this increasingly impersonal era, an era in which bureaucracy and technology threaten to obscure the contribution of the individual human being, the Award for Excellence is a tribute to individual effort. Numerous tokens accompany the award—a pin, a check, theater tickets, a contribution to a favorite charity. But the most treasured symbol is a plaque, on which remains the saying that I placed there 15 years ago*: "I believe that even one person can make a difference."* One person—now multiplied 10,000 times over—still can, and still does, make a difference at Vanguard.

The simple fact of the matter is that unstinting service has, by driving client loyalty, driven Vanguard's growth. Included in our service goals is providing mutual funds that satisfy the client's need for, and right to, the highest possible *investment* value, the highest possible profits, if you will. While we've done all in our power to win the loyalty of our crewmembers as well, a sort of virtuous circle has emerged: The constant expression of client satisfaction about performance and service to our crewmembers has reinforced *their* satisfaction that they are working for the right kind of company. (And not only for those on the front-line. In 1987, we developed a program under which virtually *all* crewmembers are trained to handle telephone inquiries from shareholders when call volumes soar. Mindful of European history, I named it "The Swiss Army.")

From my experience with our Vanguard crew, I'm shameless in my belief that innumerable numbers of America's superb force of working men and women are, finally, idealists. They enjoy serving their fellow human beings; they revel in a sense of mission; they seek a career in an enterprise where integrity and candor are the watchwords; and when they interface with clients, and fellow crewmembers, and friends who know of our reputation, they feel proud of their life's chosen work. No matter what the enterprise, please never underestimate the importance of pride as a driver of the commitment of the members of its crew. I'm an idealist too, and, shameless though it may be, I don't apologize for it. It really seems to work.

The Right Thing to Do

As Vanguard's founder, my leadership role has changed dramatically over the years. I'm not sure that I ever could have articulated the concept described in "Putting The Service-Profit Chain to

Work" in the *Harvard Business Review.* Nor did I ever coherently attempt to build what that article describes as, "a corporate culture centered around services to customers and fellow employees." But as I look back over some fifty speeches I've given to our dedicated crew over a quarter-century—"If You Build It, They Will Come" is but one example—it seems clear in retrospect that that is precisely what I was doing. But the reality is that I only did what came to me naturally as a human being. It was the *right* thing to do. There just may be an important message here!

At the outset, my focus was on providing the right types of funds that would meet investor needs. If no one else had thought of them, well, it would be up to us to create them—the first S&P 500 stock index fund, then the defined asset-class bond funds, then more stock index funds and the first bond index funds, then the tax-managed funds. All were ideas that anyone could have implemented, but, given our focus on low-cost, we alone had both opportunity *and* motive. Offering "the majesty of simplicity in an empire of parsimony," is one way that I have described our strategy. For focusing heavily on controlling costs was also at a top priority. We knew that we had to reach low-cost provider status (it took only about five years) both because it would *work* in assuring outstanding relative investment returns, and because it was the right thing to do for our clients. And our Partnership Plan served the purpose—and not a moment too soon—of making it clear to crewmembers that while low cost was crucial, it wasn't antithetical to their own financial interests. The Plan provided a clear link between crew satisfaction and client satisfaction, with crewmembers earning incentives step-by-step with enhanced profits for our shareholders as our expense ratio declines and our asset base grows. Yes, the Plan built loyalty. But it was also the right thing to do for our crew.

Today, I am still brimming with investment ideas. Most of them, as ever, are founded on skepticism about the existing financial canon. But the original ideas on which Vanguard has been built will remain at our core. *For all their simplicity, these investment ideas and human values are not only enduring, but eternal.* Today, my self-appointed role is to carry on the mission to give fund investors everywhere a fair shake, writing, speaking, teaching, and dreaming of ways to improve their lot. But, as I've done from Vanguard's first day, I continue to do my share in forging key links in our "service-profit chain" by corresponding with shareholders, sitting down with them, exchanging ideas, encouraging them, and, increasingly, talking to them over the Internet. The "Bogleheads" web-site at Morningstar is hard to resist.

And, as our empire of crewmembers burgeons in number to 10,000 and beyond, I continue to spend time each day with individuals and small groups. What a joy! To meet and talk and get to know one another just a little better, to do my best to hold back the inevitable rush of bureaucracy, to keep the Vanguard character as close as possible to the human values that have, well, "made a difference" over the years. To this day, I eat virtually every luncheon in our "Galley"—no executive dining room there!—among our crewmembers. And I spend a full hour, one-on-one, with each Award for Excellence winner. It is my way of trying to be that "one person who can make a difference" to those I meet.

My biggest thrill in recent years was providing each crewmember with a copy of "Common Sense on Mutual Funds" when it was published, and then offering to sign copies for any crewmember that wished. Well, "I" wrote "it," and "they" came. Nearly 5,000 signatures, and 5,000 exchanges of a few kind words, and 5,000 handshakes later (plus more than a few hugs and kisses for the veteran women on the crew), the task, to my eternal regret, was complete. While my mission—at Vanguard and in this industry—is anything *but* complete, that single book-signing event encapsulates a great deal of what the human values at Vanguard's core for a quarter century have meant to our success. In the powerful chain of "products," "service," and "profits" that we have provided to the human beings who have become our clients, it is the human beings on our crew who represent the essential link.