

**ON LEADERSHIP**

**Address at the 176th Commencement of Widener University**

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Too often we hear that, in our complex and impersonal modern society, young persons see and hear little that encourages them to feel they might exercise a role of leadership. But today our society needs leaders more than ever, leaders who can conceive and articulate goals that unite people in the pursuit of objectives—large and small alike—worthy of their best efforts. With the new millennium in prospect, I would like to take this opportunity to urge your generation to step forward.

Today, your Commencement marks a new phase of your life. You—each one of you—must go forth to play a role in building a better America. How so? In these next few minutes I'm going to urge you not only to be leaders, but to make some music, to dream some dreams, to become the movers and shakers, no matter how difficult it seems. This morning, I urge you to take on the task of creative leadership in whatever you do.

What can this aging warrior tell you about creative leadership? Honestly, I am not sure. For I am, like each of you, a peculiar balance of contradictions: a large ego and a deep humility; a decent intelligence (no more than that), albeit with periodic blind spots and stupidities; a strong presence along with a profound insecurity; an astonishing confidence, but one that is often punctuated with doubt; an intellectual bent that lacks an academic depth; an aspiring, passionate leader, but without the skills—or, for that matter, the interests—of a manager. I mention this litany to suggest that I'm no more, nor less than each one of you: just another human being.

Yet with examples based on my experience, perhaps I can tell you a bit about what brought me through a wonderful life and career, as I focus on the company I created, founded, named, and for which I've nurtured the values for nearly 23 years. (You've heard the name. Given my dislike for commercial messages, I shan't repeat it here.)

I'm going to briefly sketch out some of the key attributes of leadership that shaped our development, using highlights of our company's history in investing people's money for them. (That's what we do.) To one degree or another, all human beings—you and I alike—share these attributes. Perhaps what matters is only how strong they are, and whether they can be summoned at the opportune moments.

So, to begin with the big picture, how did this company move from a “mom and pop” enterprise managing investor assets of but \$1 billion when it was founded some 23 years ago, to the \$265 billion mutual fund complex it is today? Well, let's be fair. We started in 1974 in the worst of times—the bottom of the worst bear market since the Great Depression. Today, we find ourselves in the best of times—at the top of the greatest sustained bull market in U.S. history. I've said a thousand times, “never confuse genius with luck and a bull market,” and we've surely enjoyed both.

Indeed, luck also brought me into this business. In December 1949, I happened upon an article in *Fortune* magazine (“Big Money in Boston”) on the then tiny mutual fund industry, and decided on the spot to write my Princeton senior thesis on mutual funds. Walter L. Morgan, founder of Wellington Fund, read it, and gave me the first break of my incipient business career: he hired me. That's where it all began. So, let's mark *luck*—which I'll dignify by calling *opportunity*—as an unrecognized attribute of leadership.

But it is critical to be ready when opportunity knocks. And, when it did, we had a plan. As a result, today we are the second largest mutual fund firm in the world, and first both in long-term growth rate and in current inflow of investor dollars. How? Because when opportunity knocked at the outset, we posited, accurately as it turned out, a coming age of rising family incomes, financial savvy, and investor education. And so we set out to provide investors with the very best value that we could. Such a strategy would require exceptionally low operating costs and the elimination of sales commissions. And today we are, I think it is fair to say, the lowest

cost provider of financial services in the world, able to provide commensurately high returns to our investors. The strategy may seem obvious to you today; let me say that it seemed equally obvious to me in 1974. So, let's mark *foresight* as a second attribute of leadership.

A third attribute is, I think, *a sense of purpose*. In 1974, we had a conviction about where we wanted to go and a commitment to do so ethically, with a strong moral compass as our guide. Our purpose was solely to serve our shareholders, those who would entrust the stewardship of their financial futures to us. So, we created a corporate structure in which our clients literally *became* our owners—a structure that remains unique in the mutual fund industry to this day. The current aphorism, “treat your customers as your owners,” took on real meaning for us, as our corporation turned its ownership over to the shareholders of our mutual funds—not, as in industry practice, to a privately or publicly-held profit-seeking corporation. While I've been called a fool, a Communist, and even a Marxist (and in public, at that) for creating our corporate structure, it seems to me to represent the very essence of capitalism: the control of the corporation by its shareholders.

What flowed from our founding purpose was a simple business strategy: to earn the highest possible returns for our shareholders, taking care to invest their dollars wisely, and to operate at the lowest—all right, as the press would have it, the stingiest—cost structure in our industry. We operate a “tight ship,” with minimal extravagance. We do not provide lavish perquisites, first-class travel, or an executive dining room. We negotiate fees with our advisers at arm's length, and as a result we pay attractive, fair fees. We don't waste our shareholders' dollars on excessive marketing costs. Others in this industry just don't look at low costs as being very significant. But we are proving a logical and unarguable proposition: other factors held constant, the lower the costs, the higher the returns earned by the investors. Simply put: *costs matter*.

A fourth leadership trait is, I think, *caring*. With our clients as our owners, it should take no more than an enlightened sense of self-interest to care about them, to provide them with the services they require. There could be little question, then, that a sense of caring in our newly-created institution would be requisite for our success. The spirit of our caring ethic was beautifully captured in these wonderful words by Howard M. Johnson, former Chairman of the Massachusetts Institute of Technology:

“An institution must be the objective 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.”

In an institution, of course, it is real people who must share its values, and real leaders *at all levels* who must carry out that spirit of caring with human decency and compassion. With caring as our foundation, a myriad of logical consequences followed. To name but two: candor and loyalty. For example, we care about our shareholders as honest-to-God human beings with their own hopes and fears and aspirations, not as sterile dollars or target markets, and address them with candor always—in times good and times bad alike. And we care about our crew (we don’t much care for the term “employee”), another set of human beings, giving them the same commitment of loyalty that they give to the firm. This concept that loyalty must be a two-way street led us, more than a decade ago, to establish a Partnership Plan in which each and every crew member shares in the extra profits we generate for our shareholders. Never forget that a caring leader must also be the servant of both client and crew.

This next one may surprise you, but I have come to regard *failure* as another essential of leadership. It is often best if things do not come too easily in this life. Surely, when I was fired in 1974 from my job as the chief of the mutual fund company I had joined in 1951, I had somehow failed. But out of the ashes of that painful experience came the Phoenix that is “in the vanguard” of the mutual fund field today. And failure seemed to plague our every early step, too. We experienced net cash outflow from our new firm’s funds for eighty consecutive months—think of that!—but we learned and we grew.

If you must fail, then you must fight. Persistence was essential in our battle, for it was to take time to put our corporate structure and our business strategy into full flower. The deck was stacked against us at the outset, as our perhaps properly cautious directors were unwilling to create this mutual structure *de novo*. In 1975, we were allowed only to administer the operational, legal, and shareholder record-keeping affairs of our funds. But we persisted, and in

1977 we made the leap into fund marketing. We took the then-unprecedented step of eliminating all sales commissions, seeking to appeal to the financial advantage of investors rather than the financial advantage of distributors. And we took the final step in becoming the full-line mutual fund complex we are today by assuming our first investment management responsibilities just four years later, in 1981. After seven long years, our structure was at last in place. And in the ensuing 16 years we have built the assets we manage internally to some \$150 billion, about 60% of our total asset base. It wasn't easy, but I think we can mark *persistence*--call it *determination* if you will—as yet another attribute of leadership.

Paradoxically, our persistence had to be accompanied by *patience*, another trait of leadership. My favorite example is our pioneering foray into market index funds—today, sadly enough, the “industry darling” or, God forbid, “hot product.” (I cannot abide such concepts.) Struck by the insight that matching the stock market at minimal costs would over time give a low-cost passively-managed index fund a near-certainty of outpacing the vast majority of high-cost actively-managed funds, we formed the first index fund in 1975. This grand and pioneering idea was scorned by others—“Bogle’s folly” was said more than once—but patience and conviction were rewarded as our \$10 million in index assets at the outset two decades ago exceed \$75 billion today. (A personal note: I received just last week a letter from a shareholder who described me as “impatient for action, but patient for results.” That is probably fair enough.)

To wrap up this litany, I put before you—both tentatively and humbly—a final attribute of leadership: *courage*. Sometimes the enterprise has to dig down deep and have the courage of its convictions—to “press on,” regardless of adversity and even scorn. We have been a truly contrarian firm in our mutual structure, in our drive for low costs and a fair shake for investors, in our conservative investment philosophy, in market index funds, and in shunning hot products, marketing gimmicks, and the carpet-bombing approach to advertising you see elsewhere in this industry today. Sometimes it takes a lot of courage to stay the course when fickle taste is in the saddle, but we stood staunch by our conviction that, in the long run, reality will inevitably override perception.

*Opportunity, foresight, a sense of purpose, caring, failure, persistence, patience, and courage*—these are, I think, eight of the attributes of leadership that I’ve tried to inculcate in our enterprise. And, sort of paradoxically, in the waning years of my career, fate was to dictate that I best possess a few of these attributes myself. I drew deeply—as any one of you would—to deal

with a human failure (of a rather different kind—heart failure) with all of the patience, persistence, and courage that I could muster when, a little over a year ago, I endured a 128-day hospital wait, on life-sustaining intravenous fluid, before receiving a heart transplant. Believe me, you can't possibly imagine the sheer joy in my (new) heart as I speak to you this morning. How could I not exude energy, enthusiasm and delight in bringing you this message of challenge to you this morning: *Draw on your own God-given talents and be a leader in whatever you decide to do with your own life.*

Let me close by speaking on leadership with some words rather more poetic than my own, written more than a century ago by the poet Arthur O'Shaughnessy. He opened his "Ode" with this inspiring stanza:

We are the music makers,  
And we are the dreamers of dreams,  
Wandering by lone sea-breakers,  
And sitting by desolate streams;  
World-losers and world-forsakers,  
On whom the pale moon gleams:  
Yet we are the movers and shakers  
Of the world for ever, it seems.

I first used this verse in one of my periodic "sermons" to the Vanguard crew way back in 1986. But I was stunned just three weeks ago when I heard the poem again, in its entirety, in Sir Edward Elgar's inspirational musical version, composed in 1912. An orchestra and chorus from Haverford and Bryn Mawr Colleges—bright-eyed young souls just like so many of you—reminded me that the poem had been written from the perspective of an idealistic, aging warrior—"one man with a dream, at pleasure, shall go forth and conquer a crown."

Well, despite my dream, the crown hasn't been conquered—yet. But heed today the challenge of this warrior who speaks to you now, invigorated, enthusiastic, and energetic after miraculously being granted a second chance at life. And respond, if you will, to this challenge from my generation, using our poet's final stanza:

Great Hail! We cry to the comers  
From the dazzling unknown shore;  
Bring us hither your sun and summers,  
And renew our world as of yore;

You shall teach us your song's new numbers,  
And things that we dreamed not before:  
Yea in spite of a dreamer who slumbers,  
And a singer who sings no more.

So go now and lead, in any way you can. Make some music, whether you lead a world-class orchestra that shakes the rafters, or perform a solo in a quiet corner. Move and shake the world, in ways large and ways small. Hold your ideals high. Dream your own dreams. Make them come true. Just go out and do it.

May God bless each one of you.