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The CEO's Secret Handbook

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Imagine a lifetime's worth of executive wisdom, boiled down to a handy pocket-size guide. Corporate leaders swear by it -- but it's not for sale. Lucky for you, we've excerpted the best parts.
By Paul Kaihla, July 2005 Issue

It started decades ago as flashes of insight scribbled on loose scraps of paper. Then it morphed into a PowerPoint presentation that distilled years of business wisdom into a handful of easy-to-remember aphorisms. Last year it became a 76-page spiral-bound booklet clad in a plain gray cover. Eventually, Warren Buffett received a copy -- and liked it so much that he asked for dozens more to give to his CEOs, friends, and family.

The tiny handbook has become an underground hit among senior executives and management thinkers. Written by Bill Swanson, CEO of aerospace contractor Raytheon (RTN), Swanson's Unwritten Rules of Management is part Ben Franklin and part Yogi Berra, with a dash of Confucius thrown in. Former General Electric (GE) CEO Jack Welch says there's something about both the man and his management style that makes the gray book a worthwhile read for any CEO. "It's a neat little manual, and each of these rules makes sense," Welch says. "It covers almost everything, and I like Swanson's feet-on-the-ground approach." Bruce Whitman, president of FlightSafety International, a Berkshire Hathaway (BRK) company that's one of the world's largest aviation training firms, goes even further: "The book is something you can carry around with you like a Bible and live by every day."

It may not be the Good Book, but it's already done a lot of good. Swanson relied on it to set the tone for the turnaround he's orchestrated at Raytheon. Since landing the company's top job in 2003, he's been cleaning up the messes he inherited -- including investigations into accounting practices, the forced exit of the company's CFO, and costly asset write-downs. Swanson handed out copies of Unwritten Rules to 300 of his top managers, and under his leadership Raytheon has put its operations on a more solid footing while delivering revenue and profit growth for six quarters in a row. Today, Raytheon is a $20 billion company with 80,000 employees.

Swanson has a knack for making complex ideas easy to grasp. His folksy rules may seem simplistic, but they point to proven management data. For example, psychologist Daniel Goleman, author of the landmark book Emotional Intelligence, notes that Swanson's imperative to have fun at what you do is a useful way to highlight the fact that the brain's mirror neurons condition us to respond to smiles and laughs. "Research shows that when people are in a good mood at work, it builds emotional capital and enhances productivity," Goleman says. "The art of leadership is getting work done well through other people, and laughing together is one of the best ways to do that."

Swanson never intended to publish a management book, which explains why you won't find this text in any store. The only reason it's in print at all is that a number of people who saw his PowerPoint talk later asked for copies of the presentation. The sayings of Chairman Swanson began with a modest first printing of 500 copies last year. After several reprintings, more than 10,000 copies have now been distributed to executives who liked what they read and requested more to give away.

One of those gift copies made its way to the Sage of Omaha when FlightSafety's Whitman sent a copy to his boss, Buffett. "This is really one of the best books I've seen," Buffett later wrote in a letter to Swanson. He wasn't just being nice. Says NetJets chairman Richard Santulli, "In all the years I've worked for [Buffett], this is the first time he's ever sent a book to read."

So where can you get your copy? Until now, you had to know an insider to learn the unwritten rules. We got our hands on the book, though, and asked Swanson to elaborate on a dozen of the best parts. It took the better part of a lifetime to get these thoughts on paper, but at last his secret rules are accessible to the rest of us.

You can't polish a sneaker.

› My apologies to those who cherish their sneakers, but my point is that even if you polish a hollow shell, it's still nothing more than a hollow shell. When I was growing up, we used white Kiwi polish to make our sneakers look new, but no matter how hard we tried, an ugly sneaker remained an ugly sneaker. Now when I see a briefing that's heavy on style but short on substance or focus, I say, "You're not gonna be able to polish that sneaker." It's a polite way of saying you haven't started out with anything meaningful. Trying to polish a sneaker can actually be dangerous, because it may inadvertently convince others that the sneaker has a value that it doesn't really possess. This can lead organizations down unproductive dead ends.

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"My own version of this rule is that you can't polish a cannonball. No matter how perfect its surface finish, a cannonball has an aerodynamic speed limit because of its shape. What the rule telegraphs is that you have to think differently about your base processes and products to get to another level of performance. There was a time when we were trying to improve the pressure ratio of a turbine, and every time we did we ran into either material or stress limits or speed limits. We gave up and went to a different design entirely, which was more expensive per unit. But it allowed us to get a lot more power out of the turbine and gave it a lighter weight. We had to think completely differently and get power out of a new design."

-- Steve Loranger, chairman, president, and CEO, ITT Industries

Learn to say "I don't know." If used when appropriate, it will be used often.

› How many times have you been in a meeting with someone who felt compelled to contribute, even though he obviously had no idea what he was talking about? In those circumstances, silence is golden. As a CEO, you know that everyone wants to impress you, so I sometimes ask a question to which I already know the answer as a way to test someone's character. Confident people know their strengths and weaknesses, and they don't try to b.s. you. You are not expected to know the answer to everything. Smart people simply say "I don't know" -- and go get an answer.

WEB EXCLUSIVE "The only way to be successful is to be able to say 'I don't know,' both to yourself and to others. You have to know the parameters of your own competence. I've said 'I don't know' in front of a group of people where I'm embarrassed to do so but then discovered that they respect you for it. When you try to kid yourself or others, you always get a bad result. The truth always surfaces. A lot of people in business these days trap themselves by putting on a facade. I remember my father telling me when I was 11, 'It takes you 30 years to build a reputation, but you can ruin it in 30 seconds.' That could be another rule."

-- Howard Buffett, director, Berkshire Hathaway; president, Howard G. Buffett Foundation

You remember 1/3 of what you read, 1/2 of what people tell you, but 100 percent of what you feel.

› If a parent tells a young child not to touch a lightbulb, the child generally won't remember. But after the first time he touches a lightbulb, he'll never forget that it's hot. A leader needs to communicate in a way that makes people feel what they need to do. I was reminded of this a couple of years ago during a visit to Nellis Air Force Base. I introduced myself to a pilot, and he looked me in the eye and said, "If it wasn't for what you all do, I wouldn't be here today." A missile had been launched at his F-15, but we make a decoy, which he deployed. The decoy didn't come home -- but he did, to his family. I use that feeling to remind everyone that people's lives depend on the reliability of our products.

WEB EXCLUSIVE "We have a workforce of about 8,000 people, and as a leader of a large group you have to keep in mind that people need to believe in you and know that you're behind any given message. It's not only what you say but truly what you feel and believe. This rule reminds all of us, and leaders in particular, that emotions are a powerful motivator – or, in some cases, a de-motivator. We're social creatures who need interaction, and you use that to make points when they're important enough. When you deliver a message face-to-face, it's strikingly different than when you do some kind of mass communication. If we're going to have impact as leaders, we have a responsibility to communicate directly, eyeball-to-eyeball, and with authenticity."

-- Jim Guyette, president and CEO, Rolls-Royce North America

Look for what is missing. Many know how to improve what's there; few can see what isn't there.

› This is one of my favorites. It hit me in the middle of the night. It isn't an obvious lesson; it only came to me later in my career. When people look at a design or a problem, they're good at refining the details -- it's human nature to focus on what's in a presentation. But sometimes what isn't there is even more important. This idea becomes especially critical as you take on more responsibility, because it speaks to the importance of strategic thinking.

WEB EXCLUSIVE "It's not what people say; it's what they don't say. Good leaders have to look around corners: What are we not talking about that we should talk about? Here is an experiment: If you're working on an important contract, a 'must-win' program, give your team a much shorter deadline than what actually exists. Afterward you tell your team, 'I just got a phone call from the buyer today and he told us that we lost -- he didn't tell us why.' You ask them why you lost. You'll be amazed at how they come up with things that they hadn't thought about before. It forces people to think about what was not said instead of what was said. As soon as you capture what your team is guessing, you use those points to rework your proposal. That's worked for me on many occasions. I tell them, 'I was just kidding. We have six months to improve, so why don't we incorporate those as product or proposal improvements.'"

-- Steve Loranger, chairman, president, and CEO, ITT Industries

Never direct a complaint to the top; a serious offense is to "cc" a person's boss on a copy of a complaint before the person has a chance to respond.

› I learned this in the 1970s -- long before e-mail. I'd graduated from Cal Poly San Luis Obispo and was working on antennas and microwave assemblies at Raytheon's Santa Barbara facility. We had a manager and seven young engineers on the team, so we were called Snow White and the Seven Dwarfs. I was one of the dwarfs. One of the others wrote a complaint to a supervisor outside the team, and cc'd the world on his letter. That made a lot of people angry -- it was a big mess. With e-mail, of course, this problem has only gotten worse. If you have a complaint, take it directly to the relevant individual, privately and professionally, to give him or her a chance to work it out. You'll lose respect if you write one of these cc'd zingers, and, even worse, that kind of behavior sucks the energy out of an organization. Conflict adds no value.

WEB EXCLUSIVE "We have about 3,500 employees, and I encourage everyone to look at any complaint as a gift. But I certainly do not want anyone embarrassed by having their supervisor receive a copy of a complaint. The person the complaint is directed toward will feel that they're not going to fare well in the system. Their boss then knows something about them that they'd prefer the boss didn't know. So we have a rule here that you own the problem until you solve it. If the person who identifies the problem can't solve it at their level, they can take it as high up as they want, but that's really rare around here. We operate with open doors. We don't have egos or bureaucracy, and we get along with each other. As another one of the rules in the book says, you can't choose your family members, but you can always choose your boss."

-- Bruce Whitman, president, FlightSafety International; director, Congressional Medal of Honor Foundation

Treat the name of your company as if it were your own.

› My father always said, "You were given a good name when you came into this world; return it the way you got it." A company's reputation is built on the actions of each employee. I spend a lot of time emphasizing ethics and integrity, but I humanize those issues by asking people to treat the Raytheon name the same way they do their family name. Anyone who would bring embarrassment to our name should find work somewhere else.

WEB "I played my last NBA game in 1969, and I'm as proud today as I was then that I played for the Boston Celtics. We created a brand out of this notion: We called it 'Celtic pride.' When you create this kind of atmosphere in your company, it's bulletproof. In

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order for a team to be successful, every player has to do what they do within the framework of your organization. I played with the Celtics for 13 years; we won 11 NBA championships and made only one trade that whole time."

-- Bill Russell, former Boston Celtics superstar

Have fun at what you do. It will be reflected in your work. No one likes a grump except another grump!

› We all spend plenty of hours at work. It's much more pleasant to spend those hours with people who have a bounce in their step and a smile on their face than with those who mistakenly associate professionalism with a dour disposition. I don't like being around depressing people because they make me depressed. The best managers give of themselves by having fun at what they do -- and I look for that in those around me.

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"Having fun is not a waste of time, because any good leader makes people feel good about what they do. By having a good time together, you build the kind of emotional capital that means people will be there for you when the pressure is on and you need them the most. There's a scientific explanation for this: The human brain has cells called mirror neurons, and they do nothing but scan for smiles and laughs. When they see one, they make a smile and laugh in return. When people are in a good mood at work, research shows that they have better access to optimal cognitive efficiency. I would predict that it enhances both productivity and creativity. The art of leadership is getting work done well through other people, and laughing together is one of the main instruments of that."

-- Daniel Goleman, author of Emotional Intelligence and coauthor of Primal Leadership; Ph.D. in clinical psychology, Harvard University

When faced with decisions, try to look at them as if you were one level up in the organization. Your perspective will change quickly.

› This is analogous to how much smarter my mom and dad suddenly seemed when I emerged from my teenage years and found myself in my 20s. When you see the world from a higher perch, you take in more of the landscape. In 1984, I was put in charge of 7,000 people at a missile facility in Massachusetts. Before that, I'd been in smaller, more individual roles where I could get my arms around the whole job and do most everything myself. Making the leap to leadership means learning to delegate. You receive inputs, and you make decisions. You find out how brilliant your boss really was when you follow him or her into a position. I may have criticized my bosses once or twice, but when I got their jobs, I generally found that they'd made the best decisions they could have with the facts they had at hand.

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"One has a tendency to get very wrapped up in the work they're doing. In every presentation I can think of, there has always been someone in the audience who is not intimately involved in the project and who has asked a question the presenter hadn't thought of. This includes the presentations I myself have given. There's a good reason for that: They can see the forest for the trees because they're not in the trees. This happens at all levels in an organization. Early on in my career, I was a financial analyst at Goodrich. I had to make recommendations [that had] to do with selling a business, closing a plant, or making an acquisition. What I learned is that while I was making a pure financial case, my boss was acting on a broad range of issues -- the effect on people and our market position, or the effect on shareholders if we sold a particular unit at a given price. And sometimes he wouldn't follow the recommendation in my report. There is no one aspect of an issue that tells you the whole story, and the better you get at looking at problems from a variety of viewpoints, the more likely you are to do the right thing. You'll do a better job as an individual if you think like you're in the position above you."

-- Marshall Larsen, CEO, Goodrich

If you are not criticized, you may not be doing much.

› When someone assumes a position of responsibility for the first time, it's common to avoid decisions -- and the risk of criticism. But that only creates different risks. Problems are not like wine and cheese; they don't get better with age. In 1998 we undertook the largest rationalization in the history of our industry. We closed a third of the company's square footage and let go more than 25 percent of our 90,000 workers. We had five missile plants. We now have one. I know that many people were hurt by the consolidation. But if we hadn't done it, Raytheon might be out of the missile business today. Instead, we've become a $20 billion powerhouse.

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"Some people who believe that academia doesn't have to be accountable criticize us. Accountability is a problem in academia, especially when it comes to budgets. Just because a dean likes the way things have been done for the past 30 years doesn't mean it's a good reason to keep doing them that way. Twice in the past five years, I've insisted that we reallocate our budget -- not because we had to but because we wanted to ensure that we're serving the highest priorities, which is a big deal when you have a $240 million budget. In the past year, we folded five different marketing, advertising, and public relations programs into one. At the same time, we put $45 million into a fund for new technology and also provided money for staff retirement benefits. We were criticized, but we accomplished these things without doing it on the backs of students and increasing tuition costs."

-- Andrew Benton, president, Pepperdine University

When something appears on a slide presentation, assume that the world knows about it and deal with it accordingly.

› When people assure you that proprietary or confidential information you are looking at on the screen will never leave the room, assume that it already has. In fact, you should assume that it will be published in the New York Times, the Los Angeles Times, or the Washington Post. My first experience with this was a funny one involving a small local paper. The roof of our Andover, Mass., plant was resurfaced with a white membrane. It must've reminded seagulls of a beach, because they liked to leave garbage up there. My guys showed me a slide presentation that included a picture of a dead seagull in the report. Twenty-four hours later, it showed up in the local newspaper. They claimed that we were poisoning seagulls, which wasn't true. It taught me a valuable lesson: Always assume that the four or five people briefing you have already talked to four or five people -- and that the circle of people in the know already includes at least 40 others.

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"I take this rule even further: I never use slides at all. I make speeches all the time, but I keep it verbal. If I'm saying something orally, I assume people can understand what I'm talking about without a visual aid or I just don't say it. It's the same with e-mails

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now: Just assume that your e-mail's going to be in the New York Times tomorrow morning."

-- Richard Santulli, chairman, NetJets

A person who is nice to you but rude to the waiter -- or to others -- is not a nice person. (This rule never fails.)

› Watch out for those with situational value systems -- people who turn the charm on and off depending on the status of the person with whom they're interacting. Those people may be good actors, but they don't become good leaders. There's a consistency in leadership that's greater than mere situational awareness. I was reminded of this recently while dining at a high-end restaurant with several other CEOs. One guy's meal didn't come out right, and he decided to take the waiter down a peg or two. The poor server didn't prepare the food -- he simply carried it from the kitchen! I looked across the table and thought, "What the hell is this guy trying to prove?" He was trying to show who was in charge, but really he was just being an ass.

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"If a new hire treats everyone they perceive as subordinate poorly, you'll have discord in the ranks. The more senior the new hire, the wider the ill effect. Likewise, salespeople who fail the waiter test are also the kind of people who pay lip service to the idea of treating customers with respect but are more often looking for ways to maximize the money they extract than trying to deliver maximum value. That can be a very big problem for everyone. The possibility of being sued is another thing you can reduce the risk of by looking for that type of behavior."

-- Paul Graziani, co-founder, president, and CEO, Analytical Graphics

When facing issues or problems that are becoming drawn out, "short them to ground."

› This metaphor comes out of my engineering training. "Shorting issues to ground" means finding the quickest path from problem to solution. If you sense that your organization is spending more time on the bureaucracy of problem-solving than on actually solving problems, it's time to simplify the process. This came up when my division was developing the Patriot air defense system in the 1980s. We were having problems with the radar, and there were lots of meetings and reports but no solutions. I shorted the issue to ground by going down to the shop floor and talking to the people who had soldering irons and circuit boards in their hands. In the end we were able to eliminate weeks from the product's test cycle.

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"My take-away on this one is that in our business there's always a problem. In fact, that's what you mostly hear about are the problems. And inevitably you're going to see some gnarly, nasty, vague, gray problem that a whole bunch of smart people have been spinning their wheels over, floundering and not coming to a resolution. They want more detail, they want more work done on it, and with various levels of excitation, they come in and throw it on your desk and ask, 'What do we do now, boss?' Most decisions are made with incomplete information, and you can't always afford the luxury of taking more time. You short it to ground by simply making a quick decision for them. Other times what you'll find is that all of the information is actually there but the reason that a decision is not being made is because it's so unpleasant or costly. Again, you can short it to ground by simply making the decision."

-- Clay Jones, chairman, president, and CEO, Rockwell Collins

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