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THE CEO'S SECRET HANDBOOK

WARREN BUFFETT SENT IT TO 100 FRIENDS.
JIM COLLINS CALLS IT GOOD TO GREAT.
AND YOU CAN'T BUY IT.



WE HAVE **EXCLUSIVE** EXCERPTS.

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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, *Swanson's Unwritten Rules of Management* is part Ben Franklin and part Yogi Berra, with a dash of Confucius thrown in. Former General Electric 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 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. — PAUL KAIHLA

CEOs of Berkshire Hathaway companies and other executives discuss their favorite Swanson rules in an extended version of this article. Visit www.business2.com/swanson.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

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.

Are Swanson's Rules Good to Great?

We asked Jim Collins, author of one of the most successful business books ever written, to evaluate the CEO handbook that's never been published.

AT AGE 22, I SAT IN A CONFERENCE ROOM atop a glass tower in Tulsa, Okla., the junior researcher on a McKinsey & Co. case team. I'd been asked to join the meeting to answer questions about the valuation of a company our client wanted to buy. The client, an imposing figure with cowboy boots and a belly that spilled over his belt buckle, drawled a question at me: "Now, Jim, why does the target company have its headquarters in Chicago, when it operates mainly in California?"

Everyone turned to me, and my mind raced. I had no idea! But I recalled something I'd read in the corporate history about the company being founded near the Chicago World's Fair. "Uh, I think it is because of the World's Fair in 1893," I sputtered.

No one asked me any more questions that day.

On the flight home, the McKinsey partner sat down next to me and said, "For the future, Jim, 'I don't know' is a perfectly acceptable answer." Thus I learned one of Swanson's rules the hard way: Learn to say "I don't know"—especially when you don't know.

As I flipped through Swanson's booklet recently, I found myself nodding approval. Yet I wondered, how would his 33 rules stack up against the behavior and leadership styles of the successful CEOs profiled in *Good to Great*? I quickly developed a rudimentary rating system to catalog Swanson's rules, based on how well they fit with the characteristics of good-to-great CEOs. I found that 21 of Swanson's rules ended up in the positive column—meaning they exhibited a positive fit with the oper-

ating philosophy of the good-to-great CEOs. Only three of Swanson's rules showed up in the negative column. (For the remaining nine, I simply had no information one way or the other.)

This was just a basic exercise, so I wouldn't put too much stock in my numbers. Still, the overall fit appears quite positive.

I was struck in particular by Swanson's imperative to "look for what is missing," so I thought it might be interesting to turn it back on his list. What management lessons from good-to-great CEOs don't show up in his rules? A few jumped out right away, such as this one: Practice the window and the mirror. (In other words, point out the window to credit others when things go well, but point in the mirror to accept responsibility when things go wrong.) Other missing ideas: A "stop doing" list is more important than a "to do" list. Skills can be learned; core values cannot. People are not your most important asset; the right people are. Give people responsibilities, not jobs. Do not confuse celebrity with leadership.

Of course, no piece of writing—not even the collected works of Peter Drucker—has all the answers. Overall, Swanson's booklet will do much more good than harm. Indeed, it could have helped prevent a terribly embarrassing moment when I was 22. To paraphrase a former Supreme Court justice, one ought not to reject wisdom merely because it comes late. Come to think of it, that's a pretty good rule as well. ♦

Jim Collins is coauthor of "Built to Last" and author of "Good to Great."