INTEGRATIVE CASE 12.0

Disorganization at Semco: Human Resource Practices as a Strategic Advantage*

"There is no contest between the company that buys the grudging compliance of its workforce and the company that enjoys the enterprising participation of its employees."[1]

-Ricardo Semler, CEO, Semco, in 1989

"For the past thirty years, this company owner has essentially blocked a "real" CEO from ruining his company by holding the position himself and refusing to rule. Instead, his employees rule, in what is one of the few truly democratic workplaces in all the world."[2]

-Ted Coine, Author and Speaker, in May 2011

Semco, based in São Paolo, Brazil, was considered by experts as one of the most innovative democratic workplaces in the world. Ricardo Semler, the majority stockholder of the privately-owned company, had essentially handed over total control of the company to the company's workforce. The company actively promoted the principles of democracy, transparent communications, constructive dissent, creativity, and employee growth.[3] The outcome was noteworthy—Semco's revenue, margins, employee strength, and business segments had expanded significantly.[4] The fact that the company had an inspired workforce was reflected in its low attrition rates. As of 2003, Semco's businesses comprised the production of industrial mixers, manufacturing of cooling towers for commercial estates, property and facility management services, environmental consulting, e-businesses, and inventory management. In 2007, Semco was also getting its hospitality business started and was dabbling in hospital and airport ventures.[5] Several observers were especially startled by the cultural metamorphosis that Semco had achieved, given the fact that, to begin with, it was a top-down driven autocratic set-up. But experts wondered if the transformations at Semco would work in other organizations.

Background Note

Semco was established in 1953 in São Paulo, Brazil, by Antonio Curt Semler (Antonio), an immigrant from Austria. The company was most popular for the marine pumps that it manufactured. Nine-tenths of these pumps were supplied to Brazil's shipbuilders.[6] Semco was a strictly hierarchy-based company, which had regulations and policies governing every issue. Fear was the overriding maxim of the company at that time. Guards scouted the shop floor, regulated workers' visits to the washroom, and checked workers when they exited the factory premises.[7]

In 1982, Antonio's son, Ricardo Semler (Semler), aged 24, took charge of Semco. At the time of Semler's entry, the company was financially in dire straits. Semler started his stint as the new CEO by dismissing around 66 percent of the company's executives, many of them his father's confidants.[8] Initially, he focused on ensuring that the company remained solvent. After the company's financial condition improved, he moved to purchase other companies and explore new businesses.[9] To begin with, Semler too followed authoritarian practices, appointed managers who pushed the employees hard, and put in long hours himself. Despite Semco's speedy expansion, the overwhelming stress on output and on reaching stiff expansion targets exhausted the organization and had negative repercussions on management's

*This case was written by **Tangirala Vijay Kumar**, under the direction of **Debapratim Purkayastha**, IBS Hyderabad. It was compiled from published sources and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

[1]Ricardo Semler, "Managing without Managers," *Harvard Business Review*, September-October 1989.

[2]Ted Coine, "The UnCEO: 6 Unconventional Leaders to Know," http://sustainablebusinessforum.com, May 16, 2011.

[3]Gary A. Yukl and Wendy S. Becker, "Effective Empowerment in Organizations," *Organization Management Journal*, Vol. 3, No. 3, 2006.

[4]"How Mavericks Manage in the Downturn," www.ariadne-associates.co.uk, January 11, 2011.

[5]Dominique Haijtema, "The Boss Who Breaks All the Rules," http://odewire.com, January 21, 2007.

[6]Ekaterina Zakomurnaya, "Semco SA: Brazilian Miracle Where Employees Set Their Salaries and Sleep in Hammocks," www.good2work.com, August 8, 2007.

[7]Jaclyn Fierman and Therese Eiben, "Winning Ideas from Maverick Managers; Unconventional Leaders Share an Ability to Stun the Competition with Their Personal Brand of Can-Doism . . .," http://money.cnn.com, February 6, 1995.

[8]"The Journeys of 2nd Tier Leaders over Time," http://integralleader-hipreview.com, March 2008.

[9]Darrell Mann, "Ideality and 'Self-X,' " http://www.triz-journal.eom/archives/2003/04/f/06.pdf.

relations with employees.[10] The hectic schedule also took its toll on Semler. On a particular day, while touring a pump factory near New York, he fainted on the shop floor. The doctor declared that he was essentially healthy but more mentally strained than any person aged 25 years that he had previously encountered.[11] After that incident, Semler resolved to harmonize his office and personal life better and to refashion his employees' lives similarly. Primarily, this entailed their enjoying their work lives.

At Semco, Semler started by clipping what he termed "corporate oppression." Sign-ins and sign-outs, attire rules, security checks, hierarchically reserved work areas, and allowances were all removed. The posts of receptionists and personal assistants/aides were done away with. All the employees had to receive their visitors themselves, fax their messages themselves, and prepare their own coffee.[12] The number of administrative staff was reduced by three-fourths. The top management was no longer entitled to exclusive dining halls or reserved parking lots.[13] Semler also allowed all his office employees to work flexible hours. To his pleasant surprise, he realized that the greater the autonomy that was bestowed upon Semco's employees, the greater was the adaptability, output, and trustworthiness that they displayed and the more efficient Semco became.[14] Semler pushed further to democratize Semco and, according to experts, finally created an organization where employees were free to decide when, where, and how they worked and how they got paid for it.

Organizational Strategy

At Semco, there was no vision/mission statement or regulations manual. It also had no official organizational chart. When it was critical to portray the architecture of the organization, it was only drawn with pencil and was disposed of immediately.[15] The company's course was almost completely reliant on the zeal and creativity of its employees.[16]

Every business division of Semco had complete autonomy to expend its allocated finance as it deemed fit. Each of these business divisions had only a few hundred employees. Within each of these divisions, the practice was to form self-run teams, comprising 10 to 12 individuals, which manufactured a complete product and not merely an individual part. These teams themselves decided their strategies, courses of action, and outcomes and were answerable for them.[17] The small team sizes ensured that employees knew their coworkers well.

Since 1981, Semco had not budgeted for a period exceeding six months. Assessing the status of its business on a half-yearly basis enabled the company to keep up with the changing business scenario.[18] By means of a thorough budgeting and planning mechanism, each business was required to substantiate its continuation. The questions taken into account would be whether a business, assuming that it were not in existence, would be considered worthy of being floated and whether shutting a business would have a negative impact on Semco's relations with its key clients. If the answers were negative, both the financial and human resources were shifted to other businesses.[19] Analysts felt that Semco's businesses owed their resilience to these regular litmus tests to which they were subjected. Also, every six months, each of Semco's divisions estimated the number of employees it needed for the subsequent six months. This exercise also entailed every employee justifying his/her reappointment. Also, since the company did not plan for a period exceeding six months, it did not strategize the new businesses it intended to get into. Rather, Semco experimented with new businesses in a small way. Also, every Semco employee, through his/ her vote, had a say in determining whether or not to purchase a new company.[20]

Semco goaded each team to consider itself as a tiny business unit. If a new business proposition that a team put forth was approved, it was the team's responsibility to conduct that business and it was allowed to retain a predetermined percentage, occasionally nearly 50 percent, of the ensuing profits. Consequently, Semco expanded from a small plant manufacturing marine and industrial machinery to an alliance of 16 enterprises, also comprising 10 online businesses, all funded by the respective

[10] Lawrence M. Fisher, "Ricardo Semler Won't Take Control," www.strategy-business.com, November 29, 2005.

[11] Jaclyn Fierman and Therese Eiben, "Winning Ideas from Maverick Managers; Unconventional Leaders Share an Ability to Stun the Competition with Their Personal Brand of Can-Doism . . .," http://money.cnn.com, February 6, 1995.

[12] Charles Handy, "The Handy Guide to the Gurus of Management: Programme 11—Ricardo Semler," http://downloads.bbc.co.uk/worldservice/learningenglish/handy/semler.pdf.

[13] Ricardo Semler, *Maverick*, (Arrow Books, 1999).

[14] Brad Wieners, "Ricardo Semler: Set Them Free," www.cioinsight.com, April 1, 2004.

[15] Peter A. Maresco and Christopher C. York, "Ricardo Semler: Creating Organizational Change through Employee Empowered Leadership," http://www.newunionism.net/library/workplace%20democracy/SEMCO%20-%20Creating%20Organizational%20Change%20through%20Employee-Powered%20Leadership%20-%202005.pdf

[16] Simon Caulkin, "Stone Age Bosses Aren't All That Bad," www.guardian.co.uk, January 14, 2001.

[17] Kevin Herring, "Management in Real Life," www.hr.com, October 7, 2005.

[18] Fred Roed, "Brazilian Legend Ricardo Semler Challenges South Africans to 'Find a Better Way,' " www.ideate.co.za, September 21, 2011.

[19] Ricardo Semler, "How We Went Digital without a Strategy," http://hbr.org/2000/09/how-we-went-digital-without-a-strategy/ar/l?conversationId=2310899.

[20] Martin Simon, "Radical Works: A Different Kind of Employee Incentive," www.forburypeople.com, September 2009.

businesses.[21] Also at Semco, any new business proposals that employees came up with were vetted speedily and transparently. Each proposal was presented to an executive committee comprising emissaries from key business divisions. Any employee could be present at these meetings. Each proposal was required to fulfill the two conditions of operating in the premium segment and of the product or service being intricate, entailing engineering processes, and being difficult to get into. These conditions were even otherwise used to judge any new business that Semco was contemplating entering.[22]

Unlike most CEOs, Semler was not concerned about putting down in black and white the business segments that Semco operated in. According to him, he was neither aware of the business segments that Semco operated in nor keen to know them, as that would curtail employees' innovation, confine their thinking, and discourage them from exploring new avenues. This openness, according to experts, was the reason for Semco expanding from traditional production to services and further to cutting-edge Internet ventures.

Organizational Structure

Semler's efforts to change Semco's DNA partly included his tinkering with its organizational structure. Semco's initial structure was a functional one. This was a traditional pyramidal structure where the power was concentrated at the top and where it was difficult for employees to move up the ladder. Employees of each functional area such as manufacturing, sales, and accounts reported to the respective functional heads at the head office. Semler found that Semco's expansion was being slowed down by the bureaucracies and interdepartmental frictions inherent in a functional system. Semco briefly experimented with the matrix structure but found it ineffective. In 1986, Semco adopted a structure comprising independent business divisions, each headed by a general manager. It then decided to revert to the functional structure.[23]

After 1998, Semco designed for itself a radical organizational architecture comprising three concentric circles—a small one in the middle and two relatively bigger ones. The tiny circle in the middle comprised six individuals including Semler, akin to the vice presidential and higher cadres in traditional organizations. They were responsible for aligning Semco's overall plans and strategies and were referred to as Counselors. The second circle comprised the leaders of each of Semco's business divisions, referred to as Partners.[24] The biggest and outermost circle comprised all other Semco employees. The majority of them were referred to as Associates, and they were engaged in research, design, sales, and production jobs. This associate category comprised both permanent and temporary employees and the task heads who were specifically referred to as Coordinators. Coordinators included the sales, marketing, and manufacturing supervisors and foremen, who had elementary managerial responsibilities in the previous structure. These coordinators headed teams of associates.[25] None of the coordinators reported to the other coordinators, which effectively cut down the hierarchy. The number of organizational tiers was truncated from 12 to 3.[26]

Each of the six Counselors in the company assumed the CEO post on a half-yearly basis. This ensured that the financial/business performance of the company was not the responsibility of a single individual. According to experts, if the financial/business health of a company were to be a single individual's headache, all the others could afford to take it easy. But at Semco, each of the Counselors could hand over the CEO's post to others but had to reassume the position two and a half years down the line and deal with the situation prevailing then.[27]

Human Resources Practices—The Essence of Semco

Autonomy

All Semco employees were free to do what they desired. They individually determined their respective salaries/wages, their respective work timings, and their respective attires. Employees were not evaluated on the basis of the number of work hours that they clocked but on the basis of their meeting the set output targets. Clovis Bojikian, Semco's director of human resources as of 2003, explained, "We don't know how many hours any of our employees work weekly. Not even if they work at all. As long as you're getting the job done for yourself and the company, you're free to manage your own time."[28] According to Semler, Semco had been allowing its employees to work from home since 1981.[29] Employees were even encouraged to relax on Monday morning at the beach in case they had to stay back in the office on Saturday afternoon for work.

[21]Charles Handy, "The Doughnut Dimension," www.guardian.org.uk, January 16, 2005.

[22]Ricardo Semler, "How We Went Digital without a Strategy," http://hbr.org/2000/09/how-we-went-digital-without-a-strategy/ar/l?conversationId=2310899.

[23]Ricardo Semler, *Maverick*, (Arrow Books, 1999).

[24]Ibid.

[25]Ibid.

[26]Peter A. Maresco and Christopher C. York, "Ricardo Semler: Creating Organizational Change through Employee Empowered Leadership," http://www.newunionism.net/library/workplace%20democracy/SEMCO%20-%20Creating%20Organizational%20Change%20through%20Employee-Powered%20Leadership%20-%202005.pdf.

[27]Joan Lancourt and Charles Savage, "Organizational Transformation and the Changing Role of the Human Resource Function," *Compensation & Benefits Management*, Vol. 11, No.4, 1995.

[28]Roberto Guimaraes and John Southerst, "Semco: Work + Space = Freedom," www.oneworkplace.com, November 3, 2003.

[29]Sharon Shinn, "The Maverick CEO," www.aacsb.edu, April 25, 2012.

Some experts appreciated Semco for providing hammocks in its gardens where employees could relax whenever they wanted.

Semco's principal policy was not to have any written policies and regulations, except for a short "Survival Manual" produced in comic-book style that got fresh recruits acquainted with its unconventional methods.[30] No one at Semco had a permanent workstation; rather, they had to make their reservation on a daily basis. On a specific day, a top executive might be seated next to an intern.[31] The total operations at Semco revolved around the doctrine that employees needed to take their own decisions in the course of accomplishing their tasks. Penal rules were substituted by the common sense principle and by individual decision-making underlined by accountability for which employees were mentored.[32] For instance, Semco did not institute any travel-related regulations on those who needed to travel on work. Employees were free to take their own decisions regarding the mode of their travel. Being empowered in this aspect, employees did not have to waste time fulfilling micro aspects stipulated by a company's typical travel policy.[33] According to experts, autonomy and self-interest were vital elements of all activities carried out at Semco. Free of policies, procedures, and regulations, Semco's employees were answerable only to themselves. Semler explained, "People who are motivated by self-interest will find solutions that no one can envision. They see the world in their unique way—one that others often overlook."[34]

The main objective of equipping Semco's employees with workplace autonomies was to spur their creative thought processes. Semler explained, "People perform very badly when you assume they must be under control."[35] He felt that approximately 30 percent of productive time at organizations was devoted to petty issues such as dealing with employees who arrived late to the office, ensuring everyone attended meetings, making employees stay back late, etc. This resulted in the subordinates losing their initiative and accomplishing the minimum required to survive the scrutiny.[36]

The way human resources were treated at Semco had two underpinning beliefs. One was faith in grown-up behavior—the fundamental human urge to be productive, to strive for a better tomorrow, and to contribute to an endeavor of significance. The second was that each individual's functioning was distinct with regard to the time, place, and mode of delivering their best output.[37]

Doing Only What Was Needed

There was no compulsion for the employees to attend any of the meetings—if no one attended a meeting, it was an indication that its agenda for the meeting was worthless. Two positions at the board meeting were kept vacant for all the employees, to be filled up on a first come-first serve basis. Also at meetings, employees were vigorously prodded to raise queries, to leave a meeting if they lost interest, and to attend any meeting whose agenda they were keen on. The ultimate objective was to focus on what really mattered and make productive use of time.[38] One of the company norms was that the employees had to restrict all circulars, reports, letters, and minutes to a single page. This forced them to focus on putting down only what was necessary.[39]

Bottom-Up Approach

The employees themselves nominated the corporate executives and triggered many of Semco's entries into new business arenas and its exit from existing ones. They could veto even the CEO's decisions.[40] Though Semler was the major shareholder at Semco, he had a single vote just like other company employees. One day, when Semler arrived at work, he realized that his personal cabin had been removed. His team decided that he did not require it and that the area could instead be utilized for another activity that could further business prospects.[41,42]

Joao Vendramin, who was heading the durable goods unit and was one of the CEOs, said, "Ricardo will say, 'If you want to know my opinion, I can give it to you now or later. But it's just another opinion.' "[43] Semler did not agree

[30] "The Journeys of 2nd Tier Leaders over Time," http://integralleader-hipreview.com, March 2008.

[31] Roberto Guimaraes and John Southerst, "Semco: Work + Space = Freedom," www.oneworkplace.com, November 3, 2003.

[32] Sudam Chandima Kaluarachchi, "Is Management a Dream without Managers?" www.ft.lk, October 19, 2010.

[33] Langdon Morris, "Top-Down Innovation: Leaders Define Innovative Culture," http://www.realinnovation.com/content/c070528a.asp.

[34] Ricardo Semler, *The Seven-Day Weekend*, (Arrow Books, 2004).

[35] Stephen Moss, " 'Idleness Is Good'," www.guardian.co.uk, April 17, 2003.

[36] "Brazil—The Caring Capitalist," www.journeyman.tv, July 4, 2005.

[37] Polly LaBarre, "Forget Empowerment—Aim for Exhilaration," www.managementexchange.com, April 25, 2012.

[38] Ibid.

[39] Martin Simon, "Radical Works: A Different Kind of Employee Incentive," www.forburypeople.com, September 2009.

[40] Greg Ferenstein, "How Brazil Is Blazing a Trail for Electronic Democracy," http://mashable.com, September 14, 2010.

[41] Colin Emerson, "Business: How Do You Become One of the Most Outstanding Leaders Ever in Your World?" www.ecademy.com, February 7, 2012.

[42] Ted Coine, Richard McGill Murphy, Marc Gunther, Edward E. Lawler III, Charles Erlcson, Aad Boot, and Simon Herrlott, *Return on Culture: New Perspectives on Corporate Governance*, http://sustainablebusinessforum.com/sites/sustainablebusinessforum.com/files/Return_on_Culture_Ebook.pdf.

[43] Jaclyn Fierman and Therese Eiben, "Winning Ideas from Maverick Managers; Unconventional Leaders Share an Ability to Stun the Competition with Their Personal Brand of Can-Doism . . .," http://money.cnn.com, February 6, 1995.

EXHIBIT 1

Recruitment Procedure Followed at Semco

At Semco, if any team felt the need to recruit a new employee, the requirement was mentioned on the company's intranet, along with the date and time at which the selection criteria would be finalized. Any Semco employee was free to attend and aid the recruitment process. On the specified day, the interested employees would sit together and arrive at the selection criteria and advertise accordingly. If, for instance, 200 resumes had been received, they would be distributed for screening among the employees participating in the recruitment process. This procedure, by allowing employees themselves to screen the resumes, enabled the spotting of candidates who might not fit the immediate profile but might be suitable for other jobs in the organization. Also, the company employees, occasionally in dozens, jointly interviewed potential recruits. These candidates were free to come back to Semco any number of times to get clarifications on any concerns they had, which would help them in deciding whether or not to join the organization. This largely ensured that new employees fitted into Semco's culture, which was based on trust.

Sources: Brad Wieners, "Ricardo Semler: Set Them Free," www.cioinsight.com, April 1, 2004; Sharon Shinn, "The Maverick CEO," www.aacsb.edu, April 25, 2012.

at all times with the decisions taken by the employees. However, at Semco, this was considered beneficial. It was felt that the more the autonomy and less the focus on a single person, the greater would be the robustness. A particular choice might even prove incorrect, but it was considered to be evidence of the autonomy and consistency that employees enjoyed and, hence, was viewed as being beneficial for the company's long-term health.[44]

At Semco, there were almost no official designations. All employees, including workers, chose their managers by vote. Even managers recruited from the outside were interviewed by the related team members. Explaining the idea behind employees themselves selecting their managers, Semler said, "We think it's better business when the boss is not simply imposed on people. If you're not involved in the choice of your boss, you are also free from commitment. When you ask, 'Do you like this boss or do you want that one?' the mindset changes dramatically."[45]

Leadership Earned

Leadership positions were considered to be vital and one needed to have followers to lay claim to a leadership role. Eligibility for leadership/managerial roles was periodically vetted by taking the approval of the managed. Every Semco manager was appraised on a half-yearly basis by his/her team members through 36 multiple choice questions. These questions were chiefly aimed at gauging the ability of the managers to motivate their team members and their capacity to accept their feedback.[46] And the appraisal results were displayed on the company's intranet. According to experts, the 36 questions proved that Semler expected managers to be calm, just, affable, capable of delegation, dependable, and efficient. Those rated low had to better their performance, failing which they were demoted.

Semco's personnel department was done away with as the leaders were expected to have the competence to deal with employees appropriately.[47] Only two individuals from the department were retained in the company to inform everyone about the developments in human resources practices elsewhere. As there was no personnel department, employees had to themselves determine whether they required a new team member and recruit one (refer to Exhibit 1 for the innovative recruitment procedure followed at Semco).

Transparency

Semco also maintained complete financial transparency. There was no information that could be categorized as confidential within the company.[48] All employees of the company were given the company's financials. Training sessions were conducted to enable all employees, including workers and cleaners, to comprehend the company's financial statements. Semco held a meeting every month where all employees participated in evaluating the company's finances. They could gauge what the company's turnover and payroll were, the reasons that set them apart from their rivals, and the reasons for the profits increasing or decreasing.[49]

All employees determined their respective salaries, which could be viewed by all on the company's intranet.[50] Explaining the rationale for providing unrestricted access

[44]Simon Caulkin, "Who's in Charge Here? No One," www.guardian.co.uk, April 27, 2003.

[45]David Creelman, "Thought Leaders: Ricardo Semler on a New Form of Management," www.hr.com, May 4, 2005.

[46]Robert Heller, "Business Leadership: To Be a Good Manager, You Have to Lead," www.thinkingmanagers.com, April 8, 2005.

[47]"When Happiness Is Your Driving Force in Business," http://health2organisations.com, March 3, 2010.

[48]Adrian Gaskell, "Should Your Salary Be Public Knowledge?," www.managers.org.uk, July 16, 2009.

[49]Ricardo Semler, *The Seven-Day Weekend*, (Arrow Books, 2004).

[50]Nick Easen, "Democracy in the Workplace," http://edition.cnn.com, May 20, 2004.

EXHIBIT 2
Semco's Compensation Options

1. Fixed salary
2. Bonuses
3. Profit sharing
4. Commission
5. Royalties on sales
6. Royalties on profits
7. Commission on gross margin
8. Stock or stock options
9. Initial Public Offering (IPO) or sale (could be availed of only when a specific business division went for an IPO or the division was sold)
10. Self-set yearly appraisal/compensation (wherein an employee was paid for achieving self-determined targets)
11. Value added, a percentage of the difference between the present and the future, three-year worth of the company

Source: Ricardo Semler, *The Seven-Day Weekend* (Arrow Books, 2004).

to the salary details of all the employees, Semler said, "If you are embarrassed about the size of your salary you're probably not earning it."[51] Semco offered its employees a list of 11 diverse compensation payment choices that they could combine in any proportion (refer to Exhibit 2 for the different compensation options).[52] Some of these payment alternatives were fixed pay, allotment of company's shares, and commission on sales. Several of the employees opted for a portion of their salaries to be given in the form of profit apportioning plans, an indication of their confidence that their employer would offer them a better return on their money than compensation in hard cash.[53]

Individual Driven

Semco emphasized that employees strive for personal challenges and gratification before working toward the organization's goals.[54] He believed that if the employees of an organization led balanced lives, the entity would remain healthy. And, according to him, the balance could be attained when employees were given room to figure out their strengths and likings and align their individual ambitions with organizational objectives. Once they were stimulated and energized, their endeavors would automatically lead to fruitful organizational development. Job rotation was actively promoted across the organization as Semler was of the view that many of the employees were the products of an education system that forced them to decide on their career paths early in their lives when they had insignificant knowledge and no clue about occupations. The company's employees were given the freedom to search for jobs in which they were interested. They could opt to be a part of any team subject to there being a vacancy, their skill sets being the required ones, and the team members being open to their inclusion.[55] According to commentators, every Semco employee was in charge of his/her individual career. Semco funded the training programs that each was interested in, irrespective of the area of learning, subject to a budget.

Semco did not have an information technology department. Each Semco employee was free to buy information technology infrastructure of his/her choice. This ensured that he/she took the advice of many individuals and purchased a device that was the latest and the most updated. This minimized the risk of technological obsolescence. If an employee bought an exorbitantly priced device, his performance was expected to match up to the bill that the organization had to foot for the device.[56] Also, according to Semler, by avoiding centralized purchase of information technology requirements, Semco did away with the procedure followed by conventional companies of collating the requirements of all the departments and inviting tenders and then realizing that the devices that they had bought were inferior to speedier and more efficient new launches.

[51]Wayne Visser, "The Age of Responsibility: CSR 2.0 and the New DNA of Business," *Journal of Business Systems, Governance and Ethics*, Vol. 5, No. 3, http://www.jbsge.vu.edu.au/issues/vol05no3/Visser.pdf.

[52]Simon Caulkin, "Few Options Left for Meg, Jeff and Tim," www.guardian.org.uk, March 18, 2001.

[53]Ricardo Semler, *The Seven-Day Weekend*, (Arrow Books, 2004).

[54]Gary A. Yukl and Wendy S. Becker, "Effective Empowerment in Organizations," *Organization Management Journal*, Vol. 3, No. 3, 2006.

[55]Kevin Herring, "Management in Real Life," www.hr.com, October 7, 2005.

[56]Brad Wieners, "Ricardo Semler: Set Them Free," www.cioinsight.com, April 1, 2004.

A Balanced Approach

The freedom bestowed upon employees was tempered by certain measures. One such measure was peer group scrutiny of employee activities. This discouraged employees from taking advantage of the system by, for instance, unnecessarily traveling in business class, as their counterparts would evaluate their expenses. One more of Semler's important techniques was the rewarding of employees with variable compensation. Their compensation—23 percent of each business unit was apportioned among that division's employees—was directly related to the company's performance, motivating every one of them to consistently work at their best.[57,58] Semco also created certain conditions to ensure that employees set their individual salaries appropriately. It provided employees with the details of salaries that employees in other companies received. The salary details of every employee in the company, in any case, were known to every other employee, and the financial condition of the company could be gauged from its financials.[59] Moreover, all work was accomplished in small teams where work was apportioned in such a manner that each employee had a clear idea of how he/she contributed to the company. Hence, according to an expert, employees could determine their salary in a fair manner as they had access to three crucial details: they were aware of their market worth, they were aware of how their output fitted into the team's output, and they were aware of the company's financial condition.[60] Also, the salary of each employee was subject to perusal by others.[61] If an employee set his/her salary unusually high and his/her performance did not match up to it, that individual ran the risk of not being selected by any of the teams when they were formed anew after six months.

Production Staff—Brothers in Partnership

At Semco, the worker committees administered the factories.[62] These committees regularly held parleys with the executives of each plant. The committees had a say in expense reductions, in making significant alterations to product lines, and, during difficult times, in choosing the employees who would face the axe.[63] Workers, of their own volition, performed multiple tasks. On a typical day, depending upon the output goals, a lathe operator might opt to concurrently handle a grinder or steer a forklift.[64]

According to experts, one of the distinctive aspects of Semco's work culture was the company's production staff determining their respective work hours. Generally, they jointly decided the time at which they should be at work. In the 1980s when Semco was to introduce flexible work timings for workers in the manufacturing line, the production executives were up-in-arms against the initiative as they felt that it would infringe on the elementary assumption that for a manufacturing set-up to function, each of the individuals involved had to work during the same hours. Semler's response was that if the workers were not operating at a particular time, the manufacturing line would come to a standstill. As grown-ups, even the workers were aware of this and also of the fact that they would be jobless if there was no output. And, according to Semler, if the workers still did not care about the company's productivity, it would be more ominous for the company in the long run. Also, it would be in the best interests of the company to be aware of this fact early. The day before the flexible hour policy was implemented, the production workforce came together and agreed on their work timings.[65]

Single-Minded Focus on Performance

The Semco employees who contributed little did not remain unscathed. To remain in the organization, an individual had to be required by any of the teams for the subsequent six months, which could not be achieved by indulging in politics. Semler explained, "It's as free market as we can make it. People bring their talents and we rely on their self-interest to use the company to develop themselves in any way they see fit. In return, they must have the self-discipline to perform."[66]

It was not lost on some observers that the freedom given to employees to determine their respective work hours ultimately enhanced the organizational productivity. Semler elaborated, ". . . if you wake up in a bad mood on Monday morning, you don't have to come to work. We

[57]Mark Hillary, "Brazil IT Management Needs Transparency," http://itdecs.com, April 6, 2012.

[58]Dave Gray, "A Business within the Business," www.dachisgroup.com, November 28, 2011.

[59]David Creelman, "Thought Leaders: Ricardo Semler on a New Form of Management," www.hr.com, May 4, 2005.

[60]Balaji Pasumarthy, "Do You Want to Decide Your Own Salary?" http://wealth.moneycontrol.com, November 6, 2008.

[61]Tammy Erickson, "Should Your Coworkers Know How Much You Make?" http://blogs.hbr.com, April 25, 2009.

[62]Nick Easen, "Democracy in the Workplace," http://edition.cnn.com, May 20, 2004.

[63]Martin Simon, "Radical Works: A Different Kind of Employee Incentive," www.forburypeople.com, September 2009.

[64]Lawrence M. Fisher, "Ricardo Semler Won't Take Control," www.strategy-business.com, November 29, 2005.

[65]Francisco Trindade, "Focus on the Right Point," http://blog.franktrindade.com, August 12, 2008.

[66]Simon Caulkin, "Who's in Charge Here? No One," www.guardian.co.uk, April 27, 2003.

don't even want you to come because you simply don't feel like it and will therefore not make a contribution. We want employees who are ready and willing to work. If that means they only come twice a week, that's okay. It's about results."[67]

The overwhelming stress on objectivity also led to the company's head office being dismantled and replaced by satellite offices akin to the airport lounges scattered across São Paulo. Employees were deprived of not only permanent workstations but also of permanent offices. According to Semler, "They thought it was about location. In fact, it's about eliminating control. If you don't even know where people are, you can't possibly keep an eye on them. All that's left to judge on is performance."[68] Another objective of closing the head office was to cut down the time employees spent battling São Paulo's traffic to reach the office. Semco calculated that one million hours per annum were devoted to travelling to and fro. Hence, it was decided that Semco's employees would work in smaller settings closer home.

Semco encouraged its employees to take afternoon naps—something looked down upon in conventional companies—in the hammocks. Semler believed short spurts of sleep in the afternoon were a part of the natural body rhythm and helped in reenergizing employees.

Semco adhered to a six-month strategy rather than a one year one that most other companies adopted as the management did not want its employees to emulate their counterparts in other companies who got things moving only in the second half of the financial year.

Lessons in Surviving Economic Crises

According to observers, Semco's robustness was in full display during the 1990s when the Brazilian economy was in the doldrums. At a time when Brazil's gross industrial product declined by 14 percent, 11 percent, and 9 percent in 1990, 1991, and 1992, respectively, when the country's capital equipment production contracted to the 1977 position, and when 28 percent of its capital equipment producers went bust, Semco managed to maintain its revenue and profit momentum. This was made possible by certain radical shifts implemented by Semco and, more importantly, its employees. In 1990, Semco too had frequently been staring at nil monthly sales and employee retrenchment had become imminent. At that stage, Semco's workers took the initiative and proposed to take a 30 percent reduction in wages, subject to their slice of profits being enhanced to 39 percent, management pay being reduced by 40 percent, and their being entitled to vet every expense. They also themselves executed several tasks that had previously been outsourced like preparing meals, cleaning, guarding the plants, delivering the end products to the customers, and hawking the replaced components.[69] The changes brought about during that period resulted in a 65 percent decline in inventories, a significant compression of product delivery times, and a product defect percentage of below 1 percent.[70] As the economic situation became better, Semco's financial outlook stabilized.

Despite Semco's financial health being restored, the company's management felt that, given the fragility of the Brazilian economy, Semco's operational and financial efficiencies could only be sustained by reducing its permanent workforce and outsourcing some of the operations. Semco's management preferred assigning the work to employees who might get the axe to outsourcing the jobs to outsiders.[71] These employees were encouraged to exit Semco and set up their respective satellite firms and, to begin with, get subcontracts from Semco. These subcontractors were allowed to lease Semco's machinery and could further operate from Semco's factories. They could get orders from other companies and still execute them deploying Semco's machines. Initially, they did not have to pay lease charges for using Semco's machinery and its other infrastructure. Semco benefited in terms of reduced expenses, both salaries and inventory, and by getting the work executed by individuals who knew its requirements inside out.[72] Making entrepreneurs out of Semco's employees took their commitment, which was already robust, to the next level. As of 1998, nearly 66 percent of Semco's new products were produced by these satellite firms, and 66 percent of its workforce operated through these units.

Impact

Semco was a privately held company that did not disclose its financials. Its turnover had increased from U.S. $4 million in 1982 to more than U.S. $1 billion by 2007[73,74]

[67]Dominique Haijtema, "The Boss Who Breaks All the Rules," http://odewire.com, January 21, 2007.

[68]Simon Caulkin, "Who's in Charge Here? No One," www.guardian.co.uk, April 27, 2003.

[69]Ricardo Semler, "Why My Former Employees Still Work for Me," *Harvard Business Review*, January 1994.

[70]"BRIC is Next," http://sephisemagazine.org/contemporary-south/bric-is-next.html.

[71]Ricardo Semler, "Why My Former Employees Still Work for Me," *Harvard Business Review*, January 1994.

[72]Kelly Killian, Francisco Perez, and Caren Siehl, "Ricardo Semler and Semco S.A.," http://www.thunderbird.edu/knowledge_network/case_series/1998/_98-0024.htm.

[73]https://socialimprints.com/pages/empowering-the-community.

[74]Kerry O'Brien, "Interview with Semco's Business Guru," www.abc.net.au, June 3, 2007.

EXHIBIT 3

Annual Revenues of Semco (US$ million)

1980	4
1994	35
2001	160
2003	212
2007	>1000

Sources: https://socialimprints.com/pages/empowering-the-community; Ricardo Semler, *The Seven-Day Weekend* (Arrow Books, 2004); A.J. Vogl, "The Anti-CEO," *The Conference Board Review*, May/June 2004; Kerry O'Brien, "Interview with Semco's Business Guru," www.abc.net.au, June 3, 2007.

(refer to Exhibit 3 for the increase in Semco's revenues over the years). And, according to Semler, Semco was clocking average yearly revenue and bottom-line growth of 40 percent.[75] Semco's success could also be gauged from the fact that an investment of U.S. $100,000 in 1985 would have yielded an additional U.S. $5.3 million by 2005.[76] Its employee strength had increased from 90 in 1982 to 5000 by 2007.[77, 78] And, according to experts, the fact that repeat clients accounted for nearly four-fifths of Semco's yearly turnover of 2003 indicated the company's client retention abilities.

According to observers, Semco earned significant goodwill because of the freedom it gave its employees (refer to Exhibit 4 for some of Semco's innovative employee programs). At Semco, at times, there would be gaps of up to fourteen months before an employee resigned from his/her job. At any point in time, the company had to process at least 2,000 job applicants, with several of the applicants being prepared to take up any work offered to them at Semco.[79] Also, according to Semler, the yearly attrition rate at Semco had been below 2 percent since 1981.

Some experts felt that the true impact of the employees being at the helm of affairs in the organization was felt in the resilience that Semco developed. This became clear when, in February 2005, Semler met with a near-fatal accident and had to be in the intensive care unit for an extended period of time, recovering from the multiple operations he had to undergo. During this time, Semco operated smoothly—targets were reached and agreements sealed, and there was no disruption to business.[80] Semco had reached a stage where it was not dependent on a single individual, not even Semler. At least for 10 years since 1993, Semler had not taken

EXHIBIT 4

Some of the Innovative Employee Programs at Semco

Retire-A-Little (RAL): This program was based on the premise that employees in their 30s and 40s might not be able to pursue their hobbies and interests due to financial constraints. However, when they were in a financially comfortable position in their 60s, they did not have the physical wherewithal to pursue their interests. Under RAL, an employee could take time out, possibly for half a day in a week, to engage in his/her personal pursuits, which would also entail a slight deduction in the monthly salary. After retirement, he/she could redeem from Semco the deducted salary by working the corresponding number of hours.

Lost In Space (LIS): Under LIS, for one year, every young entrant into Semco was free to do whatever he/she desired, work in any of Semco's business divisions, or hop across any number of divisions he/she wanted to. However, after the completion of a year, if none of the divisions where an entrant worked came up with a job offer or if the entrant did not find anything interesting, he/she had to quit. LIS was based on the premise that under the prevailing education system, adolescents were pressured by their parents to choose a particular career path, which might ultimately not fully unlock their potential.

Up'n Down Pay (UDP): Under this program, employees had the flexibility to adjust their compensations based on certain situations in life. An individual could reduce the number of his/her working hours or responsibilities due to factors such as taking care of infant children. There would be a corresponding reduction in pay.

Work'n Stop (WSP): Under WSP, employees could take extended breaks of up to three years to pursue studies or their interests or to introspect on where they were headed.

Rush Hour MBA (RHM): The RHM program, conducted once every week for 2 hours starting at 6:00 P.M., was devised to enable Semco's employees to avoid São Paolo's heavy traffic and simultaneously make productive use of their time. Any of Semco's employees could volunteer to lecture to the employees on a subject of his/her interest or to tell them about an interesting article he/she had read recently. The 2 hours spent allowed employees to not only enrich themselves but also to reach home faster upon completion.

Source: Ricardo Semler, *The Seven-Day Weekend* (Arrow Books, 2004).

[75]Polly LaBarre, "What Does Fulfillment at Work Really Look Like?," http://management.fortune.cnn.com, May 1, 2012.

[76]Lawrence M. Fisher, "Ricardo Semler Won't Take Control," www.strategy-business.com, November 29, 2005.

[77]"BRIC is Next," http://sephisemagazine.org/contemporary-south/bric-is-next.html.

[78]Kerry O'Brien, "Interview with Semco's Business Guru," www.abc.net.au, June 3, 2007.

[79]J. Patrick Murphy, "We Want the Best," http://las.depaul.edu, September 26, 2008.

[80]Lawrence M. Fisher, "Ricardo Semler Won't Take Control," www.strategy-business.com, November 29, 2005.

a single decision at Semco.[81] He had no role in initiating businesses that contributed to three-fifths of Semco's turnover as of 2006.[82]

A result of Semco's steadfast adherence to placing faith in employee choices regarding the time when they worked, how much they were paid, deciding themselves whether or not to skip meetings, and purchasing their own information technology infrastructure was an intensely faithful and productive workforce.[83] According to a long-serving Semco employee who had started small and had worked her way up Semco's ladder, "In all these years, Semco never discounted a minute's worth of salary, even when I was late or absent. I take a reciprocity position. When Semco needs me I am there. When my brother got sick, I was gone for four days and Semco didn't discount a penny from my cheque. In turn, I haven't claimed overtime for the weekends I worked . . . There's a virtuous circle in place that requires no overt declaration."[84]

Constraints to Replication?

Though Semco's radical management practices had indicated that they could result in profitable and sustainable growth, experts were skeptical about the extent to which these tenets could result in similar successes in other companies, genuine though their efforts might be. Their skepticism had its roots in the deliberate strategy chosen by Semco of being present only in businesses that entailed significant levels of engineering/complexity (this ensured that the barriers to entry for other aspirants in terms of technological competence required were high); of being only a premium player in each of its product/service segments; and of carving out a distinct niche in each product/service segment, which ensured that Semco was a prominent player in the concerned industry.[85] Experts wondered whether a company operating in a product/service segment that was easy for others to enter, which was not present in a premium or a niche segment—this meant that economies of scale could not be ignored—could afford to bestow similar freedoms upon its employees. Some commentators also observed that Semler, being the majority shareholder in a privately held company, had the luxury of trying out his radical ideas. Would it be within the realm of possibility, they wondered, for a large public company with diffused ownership to embark on such a journey? So, would relinquishing control, described by Semler as Semco's competitive advantage, be limited to just one company?

[81]Simon Caulkin, "Who's in Charge Here? No One," www.guardian.co.uk, April 27, 2003.

[82]Dominique Haijtema, "The Boss Who Breaks All the Rules," http://odewire.com, January 21, 2007.

[83]Edward H. Baker, "Editorial: April 2004," www.cioininsight.com, April 1, 2004.

[84]Ricardo Semler, *The Seven-Day Weekend*, (Arrow Books, 2004).

[85]Ibid.