

# **Semco: Maverick of the corporate world**

***By Wayne Visser***

In the whirl and blur of today's rapid-change global environment it has almost become a cliché for managers to speak of how they are transforming their organisations. In actual fact, however, true transformation involving fundamental paradigm shifts or changes in the underlying assumptions of the prevailing status quo, is still a comparatively rare corporate phenomenon. Among the few who, in my opinion, qualify by this definition is Brazil's largest marine and food-processing machinery manufacturer, Semco SA. For this reason, I wish to highlight some of the more challenging ideas which Semco has put into practice in the past 10 years or so. All of these are discussed in greater depth and detail by Ricardo Semler, president of Semco, in two *Harvard Business Review* articles – "Managing Without Managers" (September/October 1989) and "Why My Former Employees Still Work For Me" (January/February 1994). Semco has three fundamental values - democracy, profit sharing, and information. By striving to put these into practice unconditionally, a myriad of interesting practices have emerged in the company, many of which fundamentally challenge conventional corporate wisdom.

Semco is designed as an organisational circle, as opposed to a pyramid. It consists of three concentric circles containing four employee descriptions: Councillors (equivalent to executive director), partners (divisional heads), coordinators (team and task leaders), and associates (everyone else). The councillors take it in six-month turns to act as CEO in cycles which overlap, rather than coincide with the six-monthly budgetary cycles. Associates often make higher salaries than coordinators and partners, and they can increase their status and compensation without entering the "management" line. In addition, employees are allowed to make up their own individual titles as they please. As Semler says: "They know what signals they need to send inside and outside the company".

Based on the belief that human beings weren't designed to work in big groups, Semco organises its workforce into production units of about 150 people, each of which in turn comprise teams of about ten members. When implemented, although costs initially rose due to duplication and loss in economics of scale, within a year sales doubled, inventories fell from 136 days to 46, eight new products were unveiled that had been stalled in R&D for two years, and overall quality improved to the point that a one third rejection rate dropped to less than 1%.

Semco also has a different kind of work unit called the Nucleus of Technological Innovation. Their sole purpose is to invent new products, improve old ones, refine marketing strategies, uncover production inefficiencies and dream up new lines of

business. They have no boss and no subordinates. They choose their own focus, set their own agendas, and have complete freedom to change their minds. Twice yearly they report to senior management, who then decide whether to keep them on for another six months or not. Semco reports that it would be unthinkable to be without their constant innovation and reform.

Semco's philosophy regarding all company information is complete transparency. All Semco employees attend classes to learn how to read and understand the numbers, and it's one of the unions that teaches the course. Every month, each employee gets a balance sheet, a profit-and-loss analysis, and a cash-flow statement for his or her division. Employees are also given access on request to any other company information, including every one else's salary As Semler says: "If people are embarrassed by their salaries, that probably means they aren't earning them. Semco has a similar open-house attitude to information leakage into the market. "After all, why worry about yesterday's information", says Semler.

Semco has done away with hourly pay and now everyone gets a monthly salary which they are allowed to set themselves. Those that belong to unions have their salaries negotiated collectively. For the rest, Semco orders half-yearly salary market surveys, passes them out and says to the people: "Figure out where you stand on this thing. You know what you do; you know what everyone else in the company makes; you know what you need; you know what's fair. Come back on Monday and tell us what to pay you." With this system in place, Semco reports that, with half a dozen exceptions, their people have always named salaries Semco could live with.

In Semco, each division has a separate profit-sharing program. Twice a year, they calculate 23% of the after-tax profit on each division income statement and give a cheque to the three employees who've been elected by the workers in their division. These three invest the money until the unit can meet and decide - by simple majority vote - what they want to do with it. In most units the decision has ended up being equal distribution among all the workers in their division. Hence, the person who sweeps the floor gets just as much as the division partner.

Semco does not hire or promote people until they've been interviewed and accepted by all their future subordinates. Also, twice a year subordinates evaluate their immediate managers; and everyone in the company fills out an anonymous questionnaire about company credibility and top management competence. In addition, all important decisions are made collegially, and certain decisions are made by a company wide vote.

Semco allows its employees to control their own working conditions. Time clocks have been eliminated, and people come and go according to their own schedule even on the factory floor. The result is greater useful coordination between workers, and more people who can now do several jobs. In addition, they set their own schedules and targets, and tend to work longer hours in order to meet them. The success of this "factory floor flexi-time" is summed up by the following of Semler's comments: "When we introduced

flexible hours, we decided to hold regular follow up meetings to track problems and decide how to deal with abuses and production interruptions. That was years ago, and we haven't yet held the first meeting."

Semco has abolished norms, manuals, rules, and regulations, and replaced them with the law of common sense. For example, there is no dress code ("men and women look best when they feel good"), no complex company rules about travel expenses ("if we can't trust people with our money and their judgement we sure as hell shouldn't be sending them overseas to do business in our name") and no more security searches, store room padlocks, and audits of the petty cash accounts ("we refuse to humiliate 97% of the workforce to get our hands on the occasional thief or two-bit embezzler").

Semco does everything it can to ensure its employees feel secure, creative and fulfilled in the work they do. They encourage - practically insist on - job rotation every two to five years to prevent boredom. They also try hard to provide job security and for people over 50 or who've been with the company for more than three years, dismissal procedures are extra complicated. Semco also has a programme for entry-level management trainees called "Lost in Space", whereby they hire a couple of people every year who have no job description at all. A "godfather" looks after them, and for one year they can do anything they like, as they try at least 12 different areas or units.

Semco takes empowerment to an extreme by giving contracts to their own employees rather than strangers. Those interested are encouraged to leave the Semco payroll and start their own satellite enterprises, doing work, at least initially, for Semco. These satellites remain under the Semco machinery and even work in the plant. Today, about half the manufacturing Semco once did in house has gone to satellites, and they estimate a further 10% - 20% going the same way in the coming years.

Semco believes that strategic planning is an exercise which is "worse than useless". Semler says: "I think good planning is always situational. Thinking about the future is a useful, necessary exercise, but translating such conjecture into 'strategic planning' is an actual barrier to survival. Strategic planning leads us to make things happen that fly in the face of reality and opportunity."

Following this brief outline of some of the innovative practices which embody the unconventional thinking of the Semco organisation, I wish to end with a quote by Semler which captures the reasoning behind his journey down the maverick corporate path:

"Semco has abandoned a great many traditional business practices. Most of our programs are based on the notion of giving employees control over their own lives. In a word, we hire adults, and then we treat them like adults. Does it make me feel like I have given up power and governance? You bet it does. But do I have more sleepless nights than the manufacturer who runs his business with an iron hand and whose employees leave their troubles in his lap every night? I think I probably sleep better. I know I sleep well."

**Source:**

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