

**Ricardo Semler: Creating Organizational Change Through
Employee Empowered Leadership**

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Through his unique leadership style, Ricardo Semler, President & CEO of Semco S.A., a Brazilian manufacturing company, has literally redefined the concept of employee empowered leadership. At 20, the youngest graduate of the Harvard Business School, Semler is known around the world for championing his employee-friendly management style. Researched from primary sources including his best selling books, *Maverick: The Success Story Behind The World's Most Unusual Workplace* (1993) first published in 1988 as *Turning the Tables*, and *THE SEVEN-DAY WEEKEND: Changing the Way Work Works* (2004), as well as two articles he authored in the Harvard Business Review, *Managing Without Managers*, (1989) and *Why My Employees Still Work For Me* (1994), this paper provides readers with insights on how to get beyond those who say that organizations are too large and/or too bureaucratic to change. In addition, it provides concrete examples of how his company routinely ignores the rules while at the same time creating a new paradigm for creative leadership and organizational effectiveness.

Overview

Semco S.A., founded by Antonio Semler in 1912, was a traditionally managed industrial equipment company, located in Sao Paulo, Brazil. Today Semco S.A. manufactures pumps used to empty oil tankers, high volume industrial dish washers, cooling units for air conditioners and various types of industrial mixers for the food industry. Upon retirement in 1980 control of the company was transferred to his son, Ricardo Semler, who subsequently instituted an employee-friendly and employee empowered management system that has come to represent a model of worker empowerment free of the left wing political rhetoric having philosophical roots reaching back in history and that flowered episodically during the 19th and 20th centuries. As noted by many scholars, the management of any enterprise requires that someone exercise control over the plan, the process, and the factors of production in order for an economically viable product or service to emerge. In the 20 years since he assumed the role of president and CEO, sales have grown at a 24 percent annual rate. Since 1996 alone, profits have tripled and employment has gone from 350 to 2,500. The annual turnover of employees averages less than one percent against an industry average closer to 20 percent.

Based on examples drawn primarily from Semler's self-reported experience, this paper suggests that managers should consider removing some levels of company imposed hierarchical control from the workforce so that the workers own self-ordering behavior can intervene in the *process* and in the *allocation of the factors of production*. Planning and monitoring adherence to the plan, however, would remain the provinces of management.

Semler set forth his views in a Harvard Business Review article.

"I believe in responsibility but not in pyramidal hierarchy. I think that strategic planning and vision are often barriers to success. I dispute the value of growth. I

don't think a company's success can be measured in numbers, since the numbers ignore what the end user really thinks of the product and what the people who produce it really think of the company. I question the supremacy of talent, too much of which is as bad as too little. I'm not sure I believe that control is either expedient or desirable." ... "I did try to reconstruct the company so that Semco could govern itself on the basis of three values: employee participation, profit sharing, and open information systems." "Participation gives people control of their work, profit sharing gives them a reason to do it better, information tells them what's working and what isn't" (HBR, p.4).

Some of the more interesting experiments regarding workers' self-management are those that have taken place in post-colonial societies, especially those societies seeking to put into place a distinctive political and economic model. This process of "modernization on our own terms" can best be seen in some of Australia's Aboriginal farms as well as the eco-tourist cooperatives being run by Indians in Peru and Ecuador.

With regard to organizations found in the West, empowerment has been defined in a number of various ways. Some have claimed it is "a fundamentally different way of working together" and "quite different from the traditional notion of control". Empowerment is still seen by those in management as a way of giving people more opportunity or "power" to exercise control over, and have more responsibility for their work. It is intended to encourage individuals to use their abilities by enabling them to take responsibility for their decisions "
(www.thirdway.org/files/articles/empwrkpl.htmk).

The Semco experience in particular deserves a wider audience among American managers at all levels. This article will stimulate thinking and discussion among managers willing to risk relinquishing degrees of control over the workforce with an expectation of increases in productivity and reduced costs.

The authors suggest a road map for those managers willing to take reasonable risks, specifically in three areas regarding the production of goods and services: (1) eliminate the hierarchical organizational charts; (2) maximize employee opportunity to use flex-time work schedules, and (3) eliminate all rules (other than those involving health and safety) impacting the employee work environment. Clearly, these are baby steps on the way toward employee empowerment. They do, however, significantly reduce three important elements of management control and, after an initial shakedown period, will demonstrate measurable changes up-or-down in the organization's metrics. They do not require understanding management theory nor are they appropriate in all situations. But if the reader feels a modicum of comfort with the risk involved, action along these three paths may lead to real improvements.

Introduction

At Semco, S.A., workers set their own production quotas. Employees decide among themselves the best time to come to work. Employees redesign products they

make, their work environments, and even formulate their own marketing plans. Managers run their units with unheard of freedom and determine business strategies without interference from top management. Each division in the company is allowed to set their own salary structure. All financial information is discussed openly and freely. If employees need assistance in making sense of the financials classes are held to assist them in understanding the meaning of the numbers. There are reception desks but no receptionists. There are no secretaries or personal assistants. There are no executive dining rooms and no personalized parking spaces.

Semco managers and workers together make decisions; not just the chairman. One of Ricardo Semler's first undertakings was to throw out all the rules. He reduced the layers of management from 12 to 3 and reduced the "corporate" staff by more than 75%. At Semco the standard policy is to have no policy. For those whose job requires travel there are no travel restrictions other than using your head. There are no departments, no rules, and no audits. The entire budget system has been simplified. What Semler did was to strip away the blind authoritarianism that diminishes productivity. Workers are self-governing and self managing. In fact, workers have, in most cases, mastered several jobs.

"According to his reasoning, medieval cathedral builders produced magnificent works of art virtually without supervision. Why couldn't the men and women of his workforce – adults who made complex and far-reaching decisions in their daily lives – be trusted to choose the colors of their uniforms and decide when to start their workdays? Come to think of it, why couldn't they organize their pay scales and approve their bosses? Why couldn't they decide what new ventures Semco could invest in and veto plans proposed by the CEO? No reason at all" (Shinn, 2004, p. 16).

Research Objectives

Researched primarily from Semler's best selling book, Maverick: The Success Story Behind The World's Most Unusual Workplace (1993); his latest book, The Seven-Day Weekend (2004) and two articles he authored in the Harvard Business Review, "Managing Without Managers" (1989), and "Why My Employees Still work for Me" (1994), this paper will provide the starting point for managers striking out on the worker empowerment path. Additional scholarly work will be cited briefly to provide the reader with some current sources of theoretical and experiential support for Semler's pragmatic approach as well as some caveats learned in the course of observing similar tactics actually applied at worksites.

Eliminate Organization Charts

Semco does not use a formal organizational chart. When it is absolutely necessary to sketch the structure of the company they always do it in pencil and dispense with it as soon as possible. ("The Semco Survival Manual")

The basic standard textbook definition of self-directed teams defines them as “groups empowered to make certain changes in their work processes” (Stevenson, 2004, p. 301).

Many of the changes initiated by Semler can be clearly seen as moving this definition to the next level of corporate disempowerment. Prerequisites for the incorporation of self-ordering behavior include understanding that the workers closest to a given situation are most usually better equipped to deal with it than is management and are better prepared “to make the most effective changes to the process” (Stevenson, 2004,p. 301).

The underlying assumption is that workers who know and agree with the objectives of their organization will align themselves into teams necessary to maximize their chances of achieving the team’s desired goals. One outcome at Semco was the quick elimination of nine layers of management. These positions were determined to have had their genesis in the perceived need for more control that arose at various times in the company’s history. Once added to the organization chart, they apparently justified their long-term existence solely by playing on fears of imminent structural collapse if they were removed.

The recent literature on self-managed work teams is encouraging. Almost 50% of the Fortune 1000 companies report using such teams. As at Semco, the characteristics of the teams demonstrate total worker and team discretion over scheduling, assignments, methodologies and hiring, firing and training decisions. There has also been work done on “Quality of Work Life,” or QWL, which supports an intuitive sense that when workers have more control over their tasks, they will be more productive and therefore more relaxed and, indeed, happy at the work site.

“Some argue for empowerment as an objective in its own right as a means of extending worker satisfaction. This can be related to the concept of extending worker satisfaction. This can be related to the concept of Quality of Working Life (QWL). It refers primarily to how efficiency of performance depends on job satisfaction, and how to design jobs to increase satisfaction, and therefore performance. The psychological basis of QWL and of justifications of empowerment relating to increased worker motivation was Herzog” (www.thirdway.org/files/articles/empwrkpl.html).

Within the EU the effects of the “social dimension” of initiatives, particularly since the ratification of the Maastricht Treaty of November 1993, are likely to be considerable.

“The Social chapter proposes a series of employee’s rights, including incentives on information, participation, and consultation. This approach runs counter to that prevailing in the UK and in government policy throughout the 1980’s and early 1990’s, which emphasized involvement in forms and degrees determined by management. Yet participation was described by the former President of the EU, Jacques Delors, as the most important element of the social chapter” (www.thirdway.org/files/articles/empwrkpl.html).

The latest research findings from Lawler (1995) suggests, however, that employee involvement can improve company results. In addition, “parameters for empowerment” is often limited in practice to suggestion schemes, financial participation, or a margin of control over health and safety problem identification, for instance. These restricted parameters are reported in the studies by Cunningham, et. al. (1996) (ibid).

In “The Fifth Discipline Fieldbook” Peter Senge points out that,

“Organizations seeking to enhance learning have experimented with diverse innovations in infrastructure. For example, in Japan quality management lead to organizing front line workers in ‘quality circles’ and setting up various management councils to support quality improvements. The innovations in infrastructure that will support emerging learning organizations encompass a broad range of changes in ‘social architecture’ – including changes in organizational structures (such as self-managing teams), new designs for work processes, new reward systems, information networks, and much more” (Senge, 1994, p. 32).

Of the 10 points discussed by Stevenson in his text, *Operations Management*, Relating to TQM, the Japanese term *kaizen* (continuous improvement) incorporates two themes specifically relating to continuous improvement in relationship to employee empowerment. These are: (1) employee empowerment and (2) the team approach to decision making (Stevenson, 2004).

Flex-Time Scheduling

“Semco has flexible working hours and the responsibility for setting and keeping track of them rests with each employee. People work at different speeds and differ in their performance depending on the time of day. Semco said it’s best to adapt to each person’s desires and needs” (Semler, 1993, Appendix).

Each employee can decide when he or she comes to work, usually between the hours of 7 AM and 9AM. While each is expected to be at or near their work site for 8 hours a day, there is no expectation that all energy will be applied to work for that period including occasional breaks. Instead, since it is the team members that set the production requirements, if your work can be completed in a few hours, then your continued presence is really in support of the rest of your team. You are, in effect, a back-up resource. If personal matters call you away, there is no guilt associated with leaving the site. Also, since each division is allowed to set its own salary structure, any short fall in your contribution to your team and to the company as a whole can be taken into account during reviews by the worker’s peers.

Flex-time in scheduling individual and team work has been tried successfully in over 25% of U.S. companies responding to surveys. In Europe, the flexible approach has

a higher percentage of participation as would be expected from the post-WW II culture of worker empowerment in heavy industry.

Semler's latest thesis on leadership can be found in his 2004 book, *The Seven-Day Weekend: Changing the Way Work Works*, that stresses the value of free time away from the office and time for creative thinking *in* the office.

“Drop the traditional notions of a workweek and a weekend, and divide the seven days among company time, personal time, and idleness (free time). Rearrange your schedule to work when most other people don't. Arrange a workweek to sleep according to biorhythms rather than a time clock, and enjoy a sunny Monday on the beach after working through a chilly Sunday” (2004, Semler, p. 24).

Semler points out that “we no longer grasp the difference between leisure time and being idle” (ibid, p. 22). He goes on to use the example of going to the beach. Even at the beach most people are pre-occupied with reading, tanning, looking for shells, walking, swimming, and watching children. Where is the true idleness? Just doing absolutely nothing. Even on the weekends we find ourselves doing tasks instead of doing nothing. There are always those tasks that have to be done because there is no time to do them during the regular workweek. The technology that was forecasted to make work less demanding has, in fact, made finding leisure time almost impossible. Today, with cell phones, fax machines and e-mail we are on call 24-7. “In 1990, only 4 million people telecommuted from home or somewhere else in the United States. By 2000, there were 23.6 million telecommuters” (Semler, p.30).

The Workweek

How many workers dread Sunday evening knowing that Monday morning brings more of the same old thing? Semler's attitude toward the traditional workweek is basically to put people into jobs they want to do instead of leaving them in jobs that they have grown tired of. “Here's a counterintuitive idea for you: For a company to excel, employees must be reassured that self-interest, not the company's, is their foremost priority” (ibid, P. 41). In other words, doing a job you are passionate about doing and not just doing it because it's your job. Semler lets his employees find a job they like and lets them do it. It might not even be in their area of expertise. He feels it doesn't have to be. Revolutionary? Yes, but so is most everything else he proposes.

What steps did Semler take to re-invent the culture at his father's companies? For those willing to take a chance there is a better way to run a workplace. “He explains how technology that was supposed to make life easier –laptops, cell phones, e-mail, pagers – has in fact stolen free time and destroyed the traditional nine-to five workday. But this can be a good thing if you have the freedom to get your job done on your own terms and to manage your work life and personal life with enthusiasm and creative energy.

The most progressive bosses will eventually realize that you might be most productive if you work on Sunday afternoon, play golf on Monday morning, go to a movie on Tuesday afternoon, and watch your child play soccer on Thursday” (Amazon.com).

The Work Environment

We want all our people to feel free to change and adapt their working areas as they please. Painting walls or machines, adding plants or decorating the space around you is up to you. The company has no rules about this and doesn't want to have any. Change the area around you according to your tastes and desires and those of the people who work with you. (Semler, 1993, Appendix).

At Semco there is no dress code. With no dress code there is no stereotyping. The point here is that if there is no dress code there can be no stereotyping and without stereotyping people look toward others in the organization primarily for the contributions they make.

“Once upon a time, it was easy to caricature the idiosyncrasies of various tribes in the manufacturing industry. People lived up to the clichés. Engineers went around with plastic, shirt-pocket protectors for their colored pens. The marketing people wore loud yellow shirts and piped music into their section, while controllers favored thick glasses and carried over sized-brief cases. The owner drove a Mercedes. The janitors owned old Ford Galaxies. Salesmen sported worn shoes and cars and looked as if they'd just gotten back from a Willy Loman conference” (Semler, 2004, p. 141).

It doesn't matter what the employees wear to work. Employees required to wear uniforms are able to select, for themselves, the style and color of their uniforms. From Semler's perspective it is all about breaking down the stereotype. It is the person that is important. Even those who may come to work unmotivated are looked upon as valuable for what even they bring to the organization.

Employees design and redesign their work environments and in keeping with that atmosphere, they can choose what to wear to work. Choice of attire is subject only to the moral pressure of public opinion. Pressure to “conform” comes from co-workers' concerns about safety and being distracted from tasks.

Casual Fridays, introduced in the U.S. white collar workforce in the 1990's and now fading over the horizon of history, provides an example of cultural fads' transitory impact on the environment of the work site. There would appear to be little to fear from permitting workers to decorate their work locations and themselves according to the latest fads or personal tastes. The challenge in this empowerment realm is to better manage conflict among workers with strong and diverse opinions deeply rooted in their own cultural heritage. Conflict management skills must be taught before the empowered teams are given full control over the production process.

Semco, employees are encouraged to do the job they were hired to do in any way they see fit, not encumbered by company policy or HR job descriptions and organizational charts. There are no job descriptions. In addition, employees are encouraged to move from job to job within the organization as their interests may dictate. Programs have been put into place encouraging employees to manage their pay, plan their retirement around the quality of their health while understanding that “the peak of physical capability is in one’s twenties and thirties. The downturn is usually steepest and deepest after the age of sixty. Financial independence usually occurs between ages fifty and sixty and idle time naturally peaks after seventy” (Semler, 2004, p. 52)

Conclusions

First: We strongly suggest managers who have a high degree of confidence in their workers’ abilities and in their own talents at macro-managing try these three empowerment tactics: 1) elimination of hierarchal organization charts, 2) Flex-time scheduling and 3) Redesign of the work environment. All have support in the literature, but Ricardo Semler’s application of these and other tactics at Semco in Brazil provide real-life models and exciting anecdotes.

Second: American managers who elect to try these empowerment tactics should lay the groundwork for success by investing in a serious team building and conflict resolution exercise.

Third: An important part of Semco’s success appears to be the investment of employee energy in the R&D process. This probably provides a significant motivation to do well at current tasks in order to be able to participate in future projects.

Example: One way in which the investment in employee energy in the R&D process has paid dividends is illustrated in the development of the NIT Unit within Semco, S.A. In a move similar to that originated by the 3-M Corporation, employees are encouraged to spend 15% of company time to work on projects of their own choosing. In addition, Semco introduced a work unit called the Nucleus of Technological Innovation (NIT). This work unit, comprised of a three-member team, is charged with:

“inventing new products, improving old ones, refining market strategies, uncovering production inefficiencies, and dreaming up new lines of business. They pick their own focus, set their own agendas, and had complete freedom to change their minds. By the end of the first six months, NIT had 18 projects underway, and over the next few years they uncorked such an array if inventions, changes, and refinements (one of my favorites is a scale that weighs freight trains moving at full speed) that NIT’s members began to prosper mightily and Semco became unthinkable without their constant innovation and reform” (HBR, p.6).

Appendix A

The Semco Survival Manual

Organization Chart

Semco doesn't use a formal organization chart. When it is absolutely necessary to sketch the structure of the company they always do it in pencil and dispense with it as soon as possible.

Hiring

When people are hired or promoted others in that unit have the opportunity to interview and evaluate the candidates before any decision is made.

Working Hours

Semco has flexible working hours and the responsibility for setting and keeping track of them rests with each employee. People work at different speeds and differ in their performance depending on the time of day. Semco does its best to adapt to each person's desires and needs.

Working Environment

We want all our people to feel free to change and adapt their working areas as they please. Painting walls or machines, adding plants or decorating the space around you is up to you. The company has no rules about this and doesn't want to have any. Change the area around you according to your tastes and desires and of the people who work with you.

Unions

Unions are an important form of worker protection. At Semco workers are free to unionize and the persecution of those connected with unions is absolutely forbidden. Unions and the company don't always agree or even get along but we insist that there is always respect and dialogue.

Strikes

Strikes are considered normal. They are part and parcel of democracy. No one is persecuted for participating in strikes as long as they represent what the people of the company think and feel. The workers' assemblies are sovereign in this respect.

Participation

Our philosophy is built on participation and involvement. Don't settle down. Give opinions, seek opportunities and advancement, and always say what you think. Don't just become one more person in the company. Your opinion is always interesting, even if no one asked you for it. Get in touch with the factory committee and participate in elections. Make your voice count.

Evaluation By Subordinates

Twice a year you will receive a questionnaire to fill out that enables you to say what you think of your boss. Be frank and honest and not just on the form but also in the discussion that follows.

Factory Committees

Employees at Semco are guaranteed representation through the Factory committee of each business unit. Read the charter, participate, and make sure your committee effectively defends your interests, which at times will not coincide with Semco's interests. We see this conflict as healthy and necessary.

Authority

Many positions at Semco carry with them hierarchical authority. But efforts to pressure subordinates or cause them to work out of fear or insecurity, or that show any type of disrespect, are considered unacceptable use of authority and will not be tolerated.

Job Security

Anyone who has been with us for three years, or has reached the age of fifty, has special protection and can only be dismissed after a long series of approvals. This does not mean that Semco has no layoff policy but it helps to increase the security of our people.

Change

Semco is a place where there are big changes from time to time. Don't worry about them. We consider them healthy and positive. Watch the changes without fear. They are characteristic of our company and its culture.

Clothing and Appearance

Neither has any importance at Semco. A person's appearance is not a factor in hiring or promotion. Everyone knows what he or she likes or needs to wear. Feel at ease – wear only your common sense.

Private Life

Semco has no business interfering with what people do when they are away from work as long as it does not interfere with work. Of course, our human relations department is at your service for any help or support you may need.

Company Loans

The company loans money to its people in unforeseen situations. Thus, loans to cover the purchase of homes, cars, or other predictable expenses are not included. But the company wants you to know that the day you run into difficult and unexpected financial problems that it will be here for you.

Pride

It's only worth working in a place in which you can be proud. Create this pride by insuring the quality of everything you do. Create pride by insuring the quality of everything you do. Don't let a product leave the company if it's not up to the highest standards. Don't write a letter or memo that is not absolutely honest. Don't let the level of dignity drop.

Communication

Semco and its people must strive to communicate with frankness and honesty. You must be able to believe

fully in what is said to you by your co-workers. Demand this transparency when you are in doubt.

Informality

Promoting a birthday party at the end of the workday, barging into a meeting where you are not invited, or using nicknames are all part of our culture. Don't be shy or stick to formalities.

Suggestions

Semco does not believe in giving prizes for suggestions. We want everyone to speak out, and all opinions are welcome but we don't think that it is healthy to reward them with prizes of money.

Semco Women

Women in Brazil have fewer employment, promotion, and financial opportunities than men. At Semco, women have various programs, run by women that seek to reduce this discrimination. They are known as:

Semco women.

1. If you are a woman, participate.
2. If you aren't don't feel threatened and don't fight against this effort.

Vacations

Semco is not one of those companies that believe anyone is irreplaceable; everyone should take their 30 days of vacation every year. It is vital for your health and the company's welfare. No excuse is good enough for accumulating vacation days for "later" (Semler, 1993, Pg 299).

Appendix B

The rules created with regard to union relations are totally humanistic and takes seriously the position that the decisions of unions are also to be respected. For instance:

1. Treat everyone as an adult.
2. Tell the strikers that no one will be punished when they return to work. Then don't punish anyone.
3. Don't keep records of who came to work and who led the walkout.
4. Never call the police or try to break up a picket line.
5. Maintain all benefits.
6. Don't block workers access to the factory or the access of the union representatives to the workers. Insist that the union leaders respect the decision of those that want to work, just as the company respects the decision of those who don't.
7. Don't fire anyone during the strike, but make sure everyone sees that a walkout is an act of aggressiveness. (Semler, 1993, p. 103).

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