

## **The Handy Guide to the Gurus of Management**

Episode 11 - Ricardo Semler

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### Ricardo Semler

Almost every week groups of executives come to visit a nondescript industrial complex on the outskirts of Sao Paulo in Brazil. They come from all over the world to learn from the highly unusual business that is the creation of the next guru in the Handy Guide to the Gurus of Management.

He is Ricardo Semler, author and business manager extraordinary. Semler is celebrated as a role model of a Chief Executive who breaks all the traditional rules and succeeds, massively. Admiring though many are, few have tried to copy him. It seems that the way he works, letting his employees choose what they do, where and when they do it, and even how they get paid, is too upside-down for most managers. But, just maybe, his is the way for the new world of business. It certainly works for Ricardo who has written and lectured about it all over the world.

Semco, his company, is far from exotic in what it makes and does. It manufactures pumps, high volume dishwashers, cooling units for air conditioners, basic things, although more recently it has diversified into high margin services and e-business. It does all this, too, in the difficult economic conditions of Brazil, where the currency rises and falls unpredictably, and inflation can range from 1000 per cent to under ten.

In his book, *Maverick*, Ricardo describes how he took over as chief executive of the company from his father at the beginning of the eighties, when he himself was not yet twenty, straight out of Harvard. He started out by doing things the traditional way, wielding the corporate axe to cut a failing organization into shape. He ran the company himself, from the top, with tight disciplines and controls. The stress he created was enormous. Semler himself was being physically destroyed by the workaholic lifestyle he had to adopt. Something had to give. And it did! Semler's sickness forced him to make a dramatic change to his work patterns, more than that, he had to rethink his whole way of managing the business.

He began by attacking what he called 'corporate oppression'. Time clocks, dress codes, security procedures, privileged office

spaces and perks, they all went. There were to be no receptionists or secretaries, everyone was to meet their own visitors, send their own faxes, make their own coffee. But I have told you nothing yet. To reduce his own workload he had to get more people involved in taking decisions. The first thing was to eliminate needless layers of hierarchy. He inherited eleven layers. Now a front-line lathe operator is only one layer away from the general manager of his division. He put more new ideas to the test. They needed to relocate a factory, so they closed the firm down and everyone boarded buses to inspect three possible sites, then it was put to a vote.

That, however, was only the beginning. He next set up what he called 'factory committees' to run the plants, in an attempt to get more worker involvement. It was slow going at first. Many did not want to be involved, or were worried about losing their jobs if they spoke out. Semler therefore guaranteed that no-one could be fired while serving on the committees or for at least a year afterwards. It was a crucial decision that won their trust and it turned the culture around from one of fear to one of co-operation.

Ricardo then introduced far-reaching profit-sharing schemes for all the workers. The thought that they could directly influence their own pay encouraged the committees to look for savings and to question any procedures or layers of management that didn't seem to add value. As the committees grew in confidence so the attacks on the traditional ways of managing increased, but this time from the workers themselves. Factories and business units were progressively spun off into self regulating units with their own profit and loss accounts. Managers were hired and fired by their own employees. And, to keep employed yourself, you had to find a way to add visible value so that your team would still want to include you in their six-monthly budget.

More than that, the units were now inventing new businesses for themselves. For example, ten years ago they were manufacturing cooling towers for large commercial buildings. Talking to the customers for these towers the Semco people heard a familiar refrain - complaints about the cost and trouble of maintaining them. The Semco unit therefore suggested that they should start a new small business themselves, offering to maintain the towers they had installed. They would charge the customer 20 per cent of whatever savings they generated for them, give Semco 80 per cent of that income and keep 20 per cent for themselves. The

Semco management said, fine, give it a go. It worked and that led into yet another business maintaining airconditioners. A partnership managing retail facilities followed and that, in turn, encouraged one group of workers to sense the opportunities that existed in managing inventories with the help of the internet. And so Semco grew, entirely due to the initiatives of its workers. In fact, Ricardo called his latest article in the Harvard Business Review "How we went digital without a strategy."

Ricardo meanwhile was redefining his own role, since so much of the organization was really running itself. He now sees himself as the 'questioner', the 'challenger' and the 'catalyst', as the person who asks basic questions and encourages people to bring things down to the simplest level, to apply commonsense to complicated issues. He no longer needs to be involved in day-to-day affairs and, in fact, works mostly at home. He has time, now, for writing his books and giving his lectures to inspire the rest of us to follow his example and let the workers run most of the business.

For those who have just joined us, this is the World Service of the BBC, I am Charles Handy and we are discussing the work and ideas of Ricardo Semler, one of the people in the Handy Guide to the Gurus of Management.

And it's time, now to look at some of the results of all this workplace democracy, because many are still sceptical that such a radical way of managing can actually work, although I should point out that Ricardo is much admired in his own land. He has been voted Brazil's Leader of the Year and Latin American Businessman of the Year and has served as Vice President of the Federation of Industries of Brazil.

But back to some facts :

The workers decide between themselves in each unit how to divide the profit-sharing bonuses. They are also given eleven different ways to be paid, ranging from a fixed salary to stock options or royalties on sales, or any combination of these. They have unrestricted access to all corporate records and are taught how to read financial reports; they set their own wages and their own production quotas; they hire and fire their fellow workers and they all vote on major decisions.

Semler believes that small is, if not beautiful, at least essential for people to know and trust each other. So, when the number of people in a Semco unit hits the 100 to 200 mark it is split in two,

like it or not. "No matter what the economics of scale might be in theory," he said, "we find a way of splitting it."

So does Semler have a theory of management? Well, sort of. Give people the freedom to do what they want, he says, and over the long haul their successes will far outnumber their failures. It seems that if you trust people to do the right thing and if it's obviously in their interest to do so, then they will do their best to make it happen. Common sense, you might think, so why is it still so uncommon?

Semler goes on to list six principles that guide his always experimental company.

1. Forget about the top line. He means that the passion of most businesses to keep on growing can be misplaced. Some are meant to stay small. What matters is that they make enough money to survive, whatever the size of their sales - the top line.

Then, 2, Never stop being a start-up. Every six months Semco forces each business to rethink its purpose. If it didn't exist today, they ask, would we launch it? If we closed it would we

upset important customers? Could we make better use, elsewhere, of the talents and resources tied up in that business?

Principle No. 3 says 'don't be a nanny.' Most companies treat their workers like children, telling them what to do, when to do it, how to dress and how to behave. That way they'll never think for themselves.

No 4 says 'let talent find its place.' Semco allows people to choose the projects they want to work on, provided that they can persuade the rest of the group that they can contribute. New recruits join a programme called 'Lost in Space'. They spend their first six months trying out different jobs in different sections until they find a match for their talents.

"Make decisions quickly and openly' is principle number 5, and partner promiscuously is number six. You need help, Semler says, to start a new business. It is pure arrogance to think that you can do it all yourself. Every new venture at Semco has involved some sort of alliance, be it to gain access to software, to draw on someone else's depth of experience, or just to share the risk. Don't be too proud to ask for help, in other words, particularly if it's a market new to you.



Looking around him at the world outside Semco, Ricardo is worried about a hardening of the arteries in many of what were the exciting new businesses around Silicon Valley and elsewhere. The respect for individuals and their ideas, a distrust of bureaucracy and hierarchy, a love of openness and experiment, all the things that Semco holds dear, are beginning, he feels, to be throttled by the old ways of business. CEOs from older businesses are being brought in to provide focus and discipline. Strategies are being written, human resource departments formed to issue policies and plan careers, entrepreneurs are being pushed to the margins where they are less disruptive. It's sad, says Ricardo, and it isn't necessary.

So listen, finally, to his heartfelt plea. 'You can build a great company, he insists, without fixed plans. You can have an efficient company without rules and controls. You can be unbuttoned and creative without sacrificing profit. All it takes is faith in people.' I just wish that more people believed him.

In our next talk we meet someone very different. Someone who believes that strategy does make a difference, and has a lot of evidence to support him. He has been called the world's most successful business academic. He is Michael Porter.