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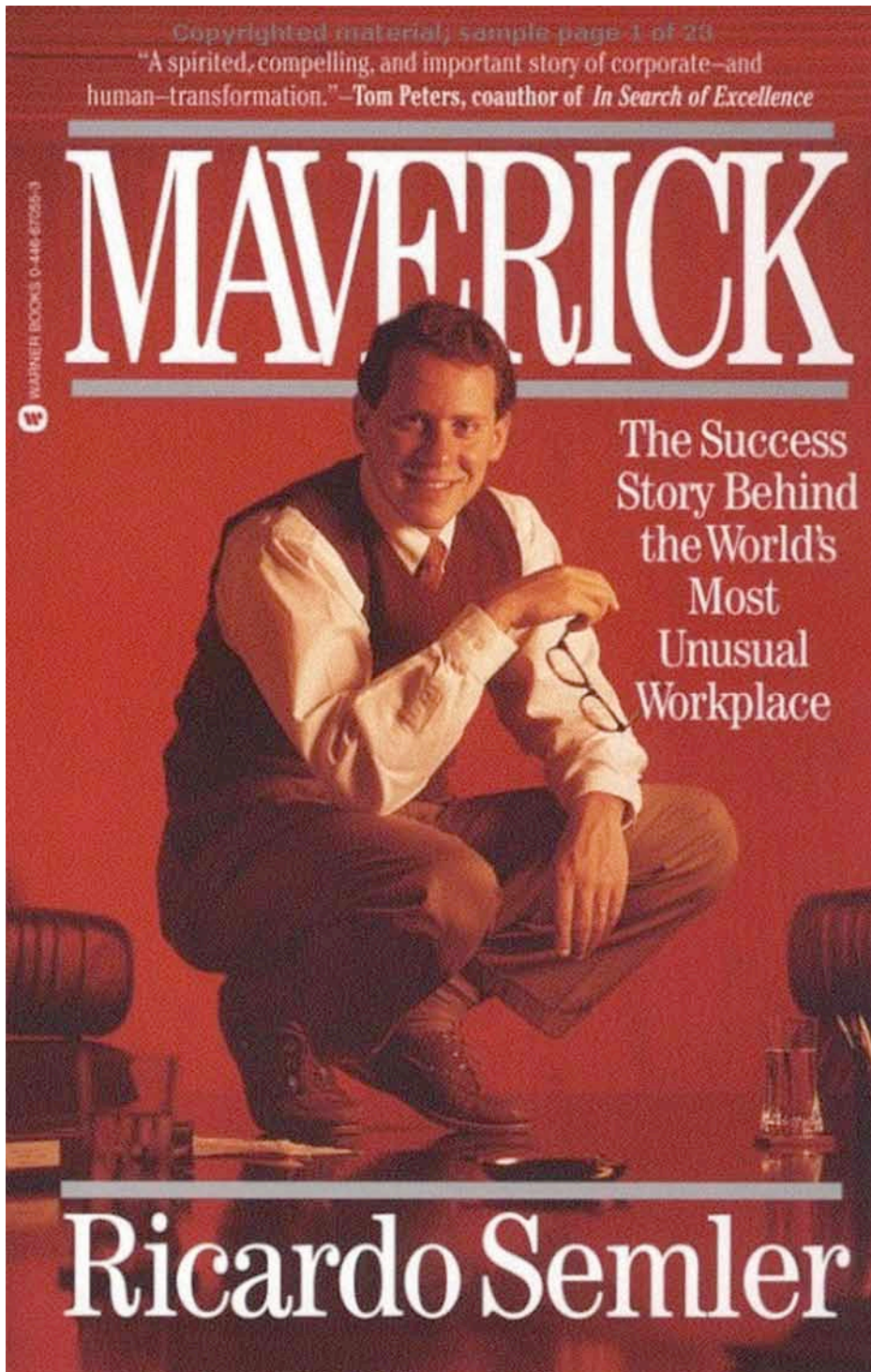
**PASCAL LONGCHAMP-MBA HEC 2003**

**GESTION DES RESSOURCES HUMAINES – EXECUTIVE BOOK READING**

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*“Technology has gone through the roof since 1663, but quality of life has gone down the drain. All we have done is accelerate our malfunctions and increase the intensity of our miscommunication.”*

Ricardo Semler



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# **1 Maverick from Ricardo Semler. Published in 1993.**

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## **1.1 Executive Summary**

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Ricardo Semler's book is a story about people, human value respect, trust, faith and responsibility. This book takes us through the detailed, not-so-easy, steps by steps metamorphosis of the Semco Company from a traditionally highly hierarchically structured business into one quite literally without walls and rules. As the story unrolled, 60% of the top management is fired in a day, dress codes and regulation are abolished, plants are decentralized, mountains of paperwork are eliminated, titles are abolished (such CEO who becomes counselor) and a consultative democracy is created in which employees set their own salaries and work hours and vote on managerial candidates, among other responsibilities. An astonishing workplace governance, supported by a deep respect for the human nature, is put in place. In his company Ricardo challenges the "command and control" principles that very poorly match how humans are really built to behave to replace it by a more complex self-ordering system. He creates a system where adults are treated like adults and given the respect they deserve and he demonstrates that a business can be successful with complete humane values incorporated in its decision-making.

From a management of human resource point of view this book is key to discover how one can, by its sheer will and work, elevate and transcend a working environment if one bothers trying.

In this study of Ricardo's book on Semco, I have combined Semco's particularities with my personal experience of running a business and added text boxes presenting practical tips on specific topics treated by Ricardo.

## **1.2 Maverick**

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### **1.2.1 Company History and Specificity**

Ricardo took over Semco from his father when it was a traditional company, with a pyramidal structure and a rule for every contingency. At that time, the company was in trouble since 90% of its business was tight in the shipbuilding industry which was declining severely in the beginning of the 80's in Brazil. The young Ricardo, in his early 20 took immediate action, once in control, to lead the company towards his vision. Ricardo wants to diversify the company but its top management wants to stay in the shipbuilding industry, blind to the signs of a recession to come in this industry. So, in one afternoon, the day after Ricardo's father gave him the control of the company, he fired 60% of the top management resisting the change. 12 years later the company manufactures an impressively varied roster of products, including pumps that can empty an oil tanker in a night, dishwashers capable of scrubbing 4, 100 plates an hour, cooling units for air

conditioners, mixers that blend everything from rocket fuel to bubble gum, and entire biscuit factories, with 6,000 separate components and sixteen miles of wiring. Oddly enough, it is not its products that made Semco so famous that executive from the whole world come to visit its plants. It is the working environment in which they are made.

Indeed, in Semco factories the workers sometimes set their own production quotas and come in on their own time to meet them, without prodding from management or overtime pay. The worker help redesign the products they make and formulate the marketing plans. They even set their own salaries and everyone knows what they are, since all financial information at Semco is openly discussed. They have unlimited access to the books and Semco has even developed a course to teach everyone, even messengers and cleaning people, to read balance sheets and cash flow statements.

In the lobby of Semco's headquarters, a standard-issue office building, there is a reception desk but no receptionist. That's the first clue to the visitor that Semco is different. Semco doesn't have receptionists nor think they are necessary. Workers at Semco doesn't have secretaries either or personal assistants, since nobodies believe in cluttering the payroll with ungratifying, dead-end jobs. Everyone at Semco, even top managers, fetches guests, stands over photocopiers, sends faxes, types letters, and dials the phone. Semco offices don't even have the usual number of walls. Instead, a forest of plants separates the desks, computers, and drawing boards of the working areas. The mood is informal and some people wear suits and ties or dresses, others jeans and sneakers. Ricardo's insists also that he wants his people to feel free to put their feet on their desks, like he does. Semco doesn't have executive dining rooms and parking is strictly first-come, first-served. For truly big decisions, such as buying another company, everyone at Semco gets a vote.

For Semco, this strategy is part of running a "natural business", where the unnecessary perks and privileges that feed the ego but hurt the balance sheet and distract everyone from the crucial corporate tasks of making, selling, billing, and collecting have been stripped away.

### **1.2.2 Hassle Free Policy**

The case of Rubin Agater describes rather well what I call the hassle free working environment. This sale manager sits in his office reading the newspaper hours after hours, not even making a pretense of looking busy. One can asserts that this behavior would mystify some of Semco's visitors and most modern managers wouldn't tolerate it. But for Ricardo, when a Semco pump on an oil tanker on the other side of the world fails and millions of gallons of oil are about to spill into the sea, his employee Rubin springs into action. He is the one who knows everything there is to know about the pumps and how to fix them and that's when he earns his salary. No one cares if he doesn't look busy the rest of the time.

### 1.2.3 Counselor Ricardo's Working Environment and Philosophy

Ricardo changed his title from CEO to counselor because he sees his role as a catalyst trying to create an environment in which others make decisions. He wants to have a self-sufficient organization which does not depend too much on any individual, especially him. There, Ricardo takes a very different stance than most American or European CEO, who see themselves almost as half gods. Several times during the book Ricardo mentioned that his ultimate goal is to become useless to its organization. Ricardo has also a very personal approach to his working environment. He works mostly at home in the morning, has an office somewhere in the company but he is never sure where and who is using it currently. He takes at least two months off each year to travel and never leaves a number where he can be reached when he is away

and he doesn't call in. Compared to an American working environment, it is rather unusual. Americans would rather not take their vacation and if forced, than stay home, close to the phone to respond to any emergency situation.

Ricardo has evolved to that work attitude after a couple of serious set back resulting from severe burnout. At the beginning of Semco he reports that he was overworked to the point he collapses a couple of time during trips abroad. These collapses acted as an alarm to him and he decided to become proactive in reducing its working hours to allow himself to enjoy life.

### 1.2.4 Rules and Policy

One of Ricardo's first acts at Semco was to throw out the rules. He asked the simple question: Who needs them? He tested his people by distributing some additional pages for it and asked some managers to read the new sections and give him their reaction.

Almost everyone said they were just fine. Trouble was, that Ricardo had stapled the pages together so they couldn't be read without first prying them apart. Since almost no one mentioned that, Ricardo knew that Semco's rule book was useless. From Ricardo point of view, rulebook discourages legibility and comforts the complacent. At Semco, they stay away from procedural bibles looking like the Encyclopaedia Britannica and from formulas. New employees at Semco get a twenty-page booklet they call The Survival Manual. It has

#### **Filing and Memo**

Ask yourself what is the worst thing that can happen if you throw this out?

Read it, understand it, act on it, and throw it away.

Memo, one page only, list everybody by alphabetical order, a headline, the longer the message the greater the chance of misinterpretation.

#### **Rules & Regulations only Serve to**

- Divert attention from a company's objectives
- Provide a false sense of security for executives
- Create work for bean counters
- Teach men to stone dinosaurs and start fires with sticks

lots of cartoons but few words and its basic message is: use your common sense and try to keep your minds open.

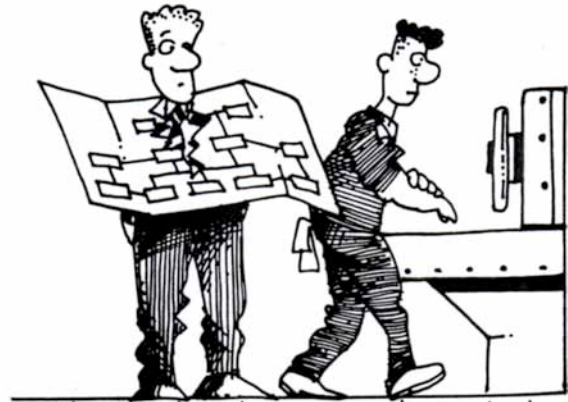
Semco's standard policy is no policy. Many companies have entire departments to generate mountains of paperwork trying to control their employees. Travel is one of the best example. Most of the companies have rules that govern how much a person can spend in every possible situation. In my former company, the arrival of bean counter resulted with the production of a lengthy document to control every possible situation that no one read. At Semco, they want their people to spend whatever they think they should, as if they were taking a trip on their own, with their own money. There's no department, no rules, no audits. They take the stance that if they are not ready to trust people to decide in which section of the plane to sit, or how many stars their hotel should have, they shouldn't be sending them abroad to do business in Semco's name, or should they?

This is plain logic. If you don't trust your people than edicts rules, but the type of organization you are going to build will be very different than if you trust them.

### 1.2.5 People

Semco states that they have absolute trust in their employees. In fact, they partners with them. On the assumption that a capitalist society must be capitalist for all, Semco has a profit-sharing plan-but with a difference. Typically, companies hand down these plans like God handed Moses the Commandments. The owners decide who gets what and when. At Semco, profit sharing is democratic. They negotiated with the workers over the basic percentage to be distributed (about a quarter of Semco corporate profits) and the workers hold assemblies to decide how to split it. The redistribution of the profit is up to them. Ricardo's mentioned that profit sharing has worked so well that once, during negotiations over a new labor contract, a union leader argued that too big a raise would overextend the company! Which is almost unheard of from a union leader.

#### Semco's Survival Manual Example



Semco doesn't use a formal organization chart. Only the respect of the led creates a leader. When it is absolutely necessary to sketch the structure of some part of the company, we always do it in pencil, and dispense with it as soon as possible.

#### Recognition and Fairness

- Human nature demands recognition. Without it, people lose their sense of purpose and become dissatisfied, restless and unproductive.
- Demonstrate fairness, promote on merit only. Fairness is for employees like quality is for customers-it takes years to build up but collapses over a single incident.

This measure mimics the stock option plans that one can find in most American high-tech company but with a twist. At Semco, the top management does not decide who gets what. The workers do. It is not, like Ricardo mentioned, an incentive to motivate people to stay in the company, but real profit sharing, redistribution and a motivation to do the job to generate more profits.

Semco has proven there, that workers involvement doesn't mean that bosses lose power. What they have done is strip away the blind, irrational authoritarianism that diminishes productivity and achieved a state where their workers are self-governing and self-managing, meaning that they care about their jobs and about their company, which is good for everybody in the company.

A good example of self-management is time management. Semco's factory workers can come in anytime between 7 A.M. and 9 A.M. It's their choice. So what will happen if one worker wants to start at 7:00 and a team-mate decides to come in at 9:00? Surely that would disrupt production? That was Semco's worry, too, so they set up a task force to mediate any problems. At the end of the day, the task force has not met yet. Semco's workers knew that production would suffer if they didn't coordinate their schedules, so that's what they did. This is a clear example of what it means to trust your employees.

### 1.2.6 Job Organization

During its reorganization, Semco has tried to pick the best from many systems. From the capitalism they took the ideals of personal freedom, individualism, and competition; from the theory, not the practice, of socialism they learned to control greed and share information and power and from the Japanese they took the value of flexibility, but not their family like ties to the company and their automatic veneration of elders. Semco wants people to advance because of competence, not longevity or conformity.

When you eliminate rigid thought and hierarchical structure, things usually get messed up which is how Semco's factories look like. Instead of machines neatly aligned in long straight rows, they are set at odd angles and in unexpected places. The reason being that Semco's workers cyclically work in clusters or teams, assembling a complete product, not just an isolated component. This technique provides the worker with more control, responsibility and makes them happier

#### Job Rotation

- Obliges people to learn new skills, making life more interesting for them and makes them more valuable for the company.
- It discourages empire building if people pack every few years.
- It gives people a much broader view of the company.
- Rotation forces companies to prepare more than one person for a given job.

#### Size Matter

People will perform at their potential only when they know almost everybody around them, which means no more than 150 people.

The Cell Working Environment

Regroup the worker in small cells to perform manufacturing operation rather than assembly lines.

while delivering superior products. From an operation management point of view, what Semco does, is to make people working in cells, which is the most optimal way to produce. At Semco, nearly all workers master several jobs, drive forklifts to keep teammates supplied with raw materials and spare parts, which they have been known to purchase themselves from suppliers.

### 1.2.7 Management

At Semco they don't like to think in terms of worker or boss. They prefer Associate and Coordinator and they encourage everyone to mix with everyone else, regardless of job so that everyone can learn from one another. For example, the purchasing and engineering departments have been scrambled so that everyone sits together, near the factory. The office decor is anything but luxurious and sometimes there is dirt and oil on the floor. No one cares but Ricardo himself when he was still wearing his fancy Italian loafers with paper-thin soles.

The recurrent question one might ask is: what do the bosses think of all this? As Ricardo points in his book, Semco is not run anymore with as many bosses as they used to. As workers began to exercise more control over their jobs and assume more voice in Semco's policies, the need for supervisors diminished. They have also reduced the corporate staff, which provides legal, accounting and marketing expertise to the manufacturing units, by more than 75 percent. They no longer have data processing or training departments and since everyone stands for his own work, they don't need a quality control department either. After taking a good look at Semco's structure, they have whittled the bureaucracy from twelve layers of management to three and devised a new structure based on concentric circles to replace the traditional, and confining, corporate pyramid.

### 1.2.8 Union

The Metalworkers' union at first resisted the way Semco was conducting its business, how they organized workers duty and how the company itself behaved.

This was a historical stance taken by the Union. Long ago, organized labor was forced to adopt narrower and narrower job classifications as a defense against giant corporations that pushed ever harder for higher productivity and profits. Eventually the unions came to realize that they could

#### During a strike

- Treat everyone like adults.
- Tell the strikers that non-one will be punished when they return to work. Then don't punish anyone.
- Don't keep records of who came to work and who led the walkout.
- Never call the police or try to break up a picket line.
- Maintain all benefits.
- Don't block worker's access to the factory, or the access of union representatives to the workers. But insist that union leaders respect the decision of those who want to work, just as the company respects the decision of those who don't.
- Don't fire anyone during or after a strike, but make everyone see that a walkout is an act of aggression.



turn the system against the corporate masters by refusing to allow any deviation from the rules without extra pay. With time, the system became more beneficial to labor than to management-but it really wasn't serving either side anymore.

In the case of Semco the union had to speak a different language and when they realized that Semco had no intention of dismantling its power, that the higher profits the factories would generate would mean higher pay for its members, and that Semco intended on giving workers a meaningful say in its business, obstructionism eased. The unions have allowed Semco to continue to innovate and to let its employees innovate. Things have not been smooth all the time between unions and Semco, but as Ricardo pointed out, by keeping a communication channel open and by obeying strict rules of strikes engagement (See Text Box), they were able to keep disturbance to a minimum.

### **1.2.9 Business**

At Semco they have also changed the way their departments do business with one another. If one doesn't want to buy services from another, it's free to go outside the company and buy from someone else. They believe that the threat of competition keeps them all on their toes. They even encouraged employees to start their own companies, leasing them Semco machinery at favorable rates. They buy from their former employees, of course, leaving them free to sell to others, even Semco's competitors. This program has made Semco leaner and more agile, and provides workers ultimate control of their work lives. It makes entrepreneurs out of Semco's employees. By promoting such a behavior from their employees Semco realized some kind of vertical integration with their suppliers, since ex-employee becomes suppliers for Semco's business. What they do also, as advocated by Porter, is to create a cluster of talent and suppliers around their own company by nurturing such behavior in their work force. This will attract more companies and more suppliers, generating a critical mass for a given area.

Semco tries to maximize the possibilities and minimize supervision for everyone in the company. Still, there is a build in accountability system. Before people are hired or promoted to leadership positions, they are interviewed and approved by all who will be working for them. Every six months, managers are also evaluated by those who work under them and the results are posted for all to see. That means that ultimately workers can fire their bosses since anyone who consistently gets bad grades usually leaves Semco one way or another.

Semco is not the only company to experiment with participative management. It has become quite a trend, but many efforts at workplace democracy are just hot air. Not that the intentions are bad, it's just that it is easier to talk about worker involvement than to implement it. Semco has been taken apart and put back together for a dozen years, and Semco management thinks they are just only 30 percent finished.

### 1.2.10 Conclusion

Ricardo has taken a company that was moribund and made it thrive, chiefly by refusing to squander its greatest resource, its people. Semco has grown six fold despite withering Brazilian recessions, staggering inflation, and chaotic national economic policy. Productivity has increased nearly sevenfold. They had periods of up to fourteen months in which not one worker has left the company. They have a backlog of more than 2,000 job applications, hundreds from people who say they would take any job just to be at Semco. In a poll of recent college graduates conducted by a leading Brazilian magazine, 25 percent of the men and 10% percent of the women said they would prefer working at Semco.

At the end of his book Ricardo gives us excerpts from the Semco operating manual, its glossary with eccentric ideas and a test for employees to rate their supervisors. These sections give a very good idea of what kind of change Semco's as a company can achieve.

Let's Semco has the last word:

**Semco does not believe its employees have an interest in coming in late, leaving early, and doing as little as possible for as much money as their union can wheedle out of us. Our employees are adults. We trust them. We get out of the way of our employees and let them do their job.**