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## Ricardo Semler: Creating Organizational Change

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# Academic Leadership Journal

## 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 19<sup>th</sup> and 20<sup>th</sup> 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 as 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](http://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.

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