

How We Went Digital Without a Strategy

by **Ricardo Semler**

I own a \$160 million South American company named Semco, and I have no idea what business it's in. I know what Semco does—we make things, we provide services, we host Internet communities—but I don't know what Semco is. Nor do I want to know. For the 20 years I've been with the company, I've steadfastly resisted any attempt to define its business. The reason is simple: once you say what business you're in, you put your employees into a mental straitjacket. You place boundaries around their thinking and, worst of all, you hand them a ready-made excuse for ignoring new opportunities: "We're not in that business." So rather than dictate Semco's identity from on high, I've let our employees shape it through their individual efforts, interests, and initiatives.

That rather unusual management philosophy has drawn a good deal of attention over the years. Nearly 2,000 executives from around the world have trekked to São Paulo to study our operations. Few, though, have tried to emulate us. The way we work—letting our employees choose what they do, where and when they do it, and even how they get paid—has seemed a little too radical for mainstream companies.

But recently a funny thing happened: the explosion in computing power and the rise of the Internet reshaped the business landscape, and the mainstream shifted. Today, companies are desperately looking for ways to increase their creativity and flexibility, spur their idea flow, and free their talent—to do, in other words, what Semco has been doing for 20 years.

I don't propose that Semco represents the model for the way businesses will operate in the future. Let's face it: we're a quirky company. But I do suggest that some of the principles that underlie the way we work will become increasingly common and even necessary in the new economy. In particular, I believe we have an organization that is able to transform itself continuously and organically—without formulating complicated mission statements and strategies, announcing a bunch of top-down directives, or bringing in an army of change-management consultants. As other companies seek to build adaptability into their organizations, they may be able to learn a thing or two from Semco's example.

Transformation Without End

Over the last ten years, Semco has grown steadily, quadrupling its revenues and expanding from 450 to 1,300 employees. More important, we've extended our range dramatically. At the start of the '90s, Semco was a manufacturer, pure and simple. We made things like pumps, industrial mixers, and dishwashers. But over the course of the decade, we diversified successfully into higher-margin services. Last year, almost 75% of our business was in services. Now we're stretching out again—this time into e-business. We expect that more than a quarter of our revenues next year will come from Internet initiatives, up from nothing just one year ago. We never planned to go digital, but we're going digital nonetheless.

You may wonder how that's possible. How do you get a sizable organization to change without telling it—or even asking it—to change? It's actually easy—but only if you're willing to give up control. People, I've found, will act in their best interests, and by extension in their organizations' best interests, if they're given complete freedom. It's only when you rein them in, when you tell them what to do and how to think, that they become inflexible, bureaucratic, and stagnant. Forcing change is the surest way to frustrate change.

Enough lecturing. Let me give you a concrete example of how our transformation has played out. Ten years ago, one of the things we did was manufacture cooling towers for large commercial buildings. In talking with the property owners who bought these products, some of our salespeople began to hear a common refrain. The customers kept complaining about the high cost of maintaining the towers. So our salespeople came back to Semco and proposed starting a little business in managing cooling-tower maintenance. They said, "We'll charge our customers 20% of whatever savings we generate for them, and we'll give Semco 80% of those revenues and take the remaining 20% as our commission." We said, "Fine, give it a shot."

Well, the little business was successful. We reduced customers' costs and eliminated some of their hassles, and they were happy. In fact, they were so happy that they came back and asked if we'd look after their air-conditioning compressors as well. Even though we didn't manufacture the compressors, our people didn't hesitate. They said yes. And when the customers saw we were pretty good at maintaining compressors, they said, "You know, there are a lot of other annoying functions that we'd just as soon offload, like cleaning, security, and general maintenance. Can you do any of those?"

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Ricardo Semler is the majority owner of Semco in São Paulo, Brazil. He is the author of two previous HBR articles, “Managing Without Managers” (September–October 1989) and “Why My Former Employees Still Work for Me” (January–February 1994), and the book *Maverick* (Warner Books, 1993).

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