Harvard Business Review

Managing Without Managers

by **Ricardo Semler**

In Brazil, where paternalism and the family business fiefdom still flourish, I am president of a manufacturing company that treats its 800 employees like responsible adults. Most of them—including factory workers—set their own working hours. All have access to the company books. The vast majority vote on many important corporate decisions. Everyone gets paid by the month, regardless of job description, and more than 150 of our management people set their own salaries and bonuses.

This may sound like an unconventional way to run a business, but it seems to work. Close to financial disaster in 1980, Semco is now one of Brazil's fastest-growing companies, with a profit margin in 1988 of 10% on sales of $37 million. Our five factories produce a range of sophisticated products, including marine pumps, digital scanners, commercial dishwashers, truck filters, and mixing equipment for everything from bubble gum to rocket fuel. Our customers include Alcoa, Saab, and General Motors. We've built a number of cookie factories for Nabisco, Nestlé, and United Biscuits. Our multinational competitors include AMF, Worthington Industries, Mitsubishi Heavy Industries, and Carrier.

Management associations, labor unions, and the press have repeatedly named us the best company in Brazil to work for. In fact, we no longer advertise jobs. Word of mouth generates up to 300 applications for every available position. The top five managers—we call them counselors—include a former human resources director of Ford Brazil, a 15-year veteran Chrysler executive, and a man who left his job as president of a larger company to come to Semco.

When I joined the company in 1980, 27 years after my father founded it, Semco had about 100 employees, manufactured hydraulic pumps for ships, generated about $4 million in revenues, and teetered on the brink of catastrophe. All through 1981 and 1982, we ran from bank to bank looking for loans, and we fought persistent, well-founded rumors that the company was in danger of going under. We often stayed through the night reading files and searching the desk drawers of veteran executives for clues about contracts long since privately made and privately forgotten.

Most managers and outside board members agreed on two immediate needs: to professionalize and to diversify. In fact, both of these measures had been discussed for years but had never progressed beyond wishful thinking.

For two years, holding on by our fingertips, we sought licenses to manufacture other companies' products in Brazil. We traveled constantly. I remember one day being in Oslo for breakfast, New York for lunch, Cincinnati for dinner, and San Francisco for the night. The obstacles were great. Our company lacked an international reputation—and so did our country. Brazil's political eccentricities and draconian business regulations scared away many companies.

Still, good luck and a relentless program of beating the corporate bushes on four continents finally paid off. By 1982, we had signed seven license agreements. Our marine division—once the entire company—was now down to 60% of total sales. Moreover, the managers and directors were all professionals with no connection to the family.

With Semco back on its feet, we entered an acquisitions phase that cost millions of dollars in expenditures and millions more in losses over the next two or three years. All this growth was financed by banks at interest rates that were generally 30% above the rate of inflation, which ranged from 40% to 900% annually. There was no long-term money in Brazil at that time, so all those loans had maximum terms of 90 days. We didn't get one cent from the government or from incentive agencies either, and we never paid out a dime in graft or bribes.

Ricardo Semler, 30, is president of Semco S/A, Brazil's largest marine and food-processing machinery manufacturer, and his book, *Turning the Tables,* has been on Brazil's best-seller list for 60 weeks. He is vice president of the Federation of Industries of Brazil and a board member of SOS Atlantic Forest, Brazil's foremost environmental defense organization.
