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Why My Former Employees Still Work for Me

by **Ricardo Semler**

I own a manufacturing company in Brazil called Semco, about which I can report the following curious fact: no one in the company really knows how many people we employ. When we walk through our manufacturing plants, we rarely even know who works for us. Some of the people in the factory are full-time Semco employees; some work for us part-time; some work for themselves and supply Semco with components or services; some work for themselves under contract to outside companies (even Semco's competitors); and some of them work for each other. We could decide to find out which is which and who is who, but for two good reasons we never bother. First, the employment and contractual relationships are so complex that describing them all would take too much time and trouble. Second, we think it's all useless information.

Semco has long been a laboratory for unusual employment and management practices. What we're now engaged in might be called a radical experiment in unsupervised, in-house, company-supported satellite production of goods and services for sale to Semco itself and to other manufacturers by employees, part-time employees, ex-employees, and people who have never had any connection with Semco whatsoever (but who work on our premises and on our equipment). This is not at all the same thing as outsourcing. This is a borderless system of short-term, noncontractual task assignment often using Semco's own fixed assets, some of it in Semco plants and some dispersed at a dozen sites that don't belong to the company.

This satellite program, as we call it, sounds chaotic, can be frustrating, and is in some ways uncontrollable. It requires daily leaps of faith. It has serious implications for corporate culture. It has destroyed any semblance of corporate security. And, for the three years it has been in place, it seems to be working very well. Since 1990, 28% of Brazilian capital goods manufacturers have gone bankrupt. In 1990, 1991, and 1992, Brazilian gross industrial product fell by 14%, 11%, and 9%, respectively. Capital goods output has fallen back to what it was in 1977. But in this same period, Semco's overall sales and profits have remained intact, and I attribute the difference first and foremost to our satellite production.

Ever since I took over the company 12 years ago, Semco has been unorthodox in a variety of ways. 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 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 don't govern Semco—I own the capital, not the company—but on taking over from my father, 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. We've introduced idiosyncratic features like factory-floor flextime, self-set salaries, a rotating CEO-ship, and, from top to bottom—from the owner to the newest, greenest maintenance person—only three levels of hierarchy.

You might say that what we practice is an extreme form of common sense: "common" because there's nothing we do that thousands of other people didn't think of ages ago, "extreme" because we actually do it. Another way of looking at Semco is to say that we treat our employees like responsible adults. We never assume that they will take advantage of us or our rules (or our lack of rules); we always assume they will do their level best to achieve results beneficial to the company, the customer, their colleagues, and themselves. As I put it in an earlier article in HBR, 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.

With rare exceptions, this approach has been successful. We've had two or three strikes, but they were quickly settled, especially once the strikers saw that we would neither lock them out of the plant nor suspend their benefits during the work stoppage. (They were able to plan ongoing strike tactics while eating lunch in the company cafeteria.) We've had a few employees take wholesale advantage of our open stockrooms and trusting atmosphere, but we were lucky enough to find and prosecute them without putting in place a lot of insulting watchdog procedures for the nine out of ten who are honest. We've seen a few cases of greed when people set their own salaries too high. We've tried a few experiments that we later backed away from. We've had to accept occasional democratic decisions that management disliked, but we learned to swallow hard and live with them.

On the whole, as I say, our approach has worked. Loyalty is high, quality is excellent, and sales and profits are surprisingly good for a manufacturing company in one of the world's most lunatic business environments. But in Brazil no state of the economy is permanent. Few last long enough to be called temporary. Surviving the ups and downs of the Brazilian economy is a little like riding a Brahma bull. It is even more like riding a Brahma bull in an earthquake. Some of the worst jolts come not from the bull but the landscape.

In 1990 and again in 1992, **Ricardo Semler**—majority owner of a São Paulo manufacturing company, Semco S/A, that specializes in marine and food-service equipment—was elected business leader of the year by a poll of 52,000 Brazilian executives. His book, *Maverick,* published recently by Warner Books in the United States and simultaneously in 14 other languages, has sold some 800,000 copies worldwide, half of these in Brazil, where it was on the best-seller list for 200 weeks. His HBR article "Managing Without Managers" appeared in September–October 1989.