

SEMCO: A vision of the future?

HRM4500

Carl Bamford/Traci. L. Fenton World Dynamics, Inc. 2002

Table of contents

1	The SEMCO Model	3
1.1	The Company	3
2	Vision and Purpose	5
3	Dialogue and Listening.....	6
4	Participation and Collaboration	6
5	Equality	8
6	Empowerment.....	8
7	Ownership.....	9
7.1	Accountability	10
8	Individual and Collective.....	10
8.1	Transparency and the Free Flow of Ideas	11
8.2	Justice	11
9	Absence of Tyranny	12
10	Diversity	14
11	Choice	14
12	Spirituality and Love	15
13	Reflection and Evaluation	16
14	Conclusion	16

1 The SEMCO Model

What makes the SEMCO model so interesting is that it for the first 20 years it was in operation its structure and culture were autocratic and relied heavily on command and control management styles. However, for the past 20 years it has been run **democratically**. SEMCO is a model of how companies who have not yet evolved into democratic cultures can make the transition with incredible success.

What is also unique about the SEMCO model of democratic organization is how effectively it works in Brazil -- a country that is still developing, often unstable, and known for economic booms and busts. One could reason that in highly unpredictable environments, command and control corporate structures are even more inadequate for dealing with a dynamic socio-economic climate. Perhaps this is why SEMCO's adaptive democratic method of organization has been a highly effective model for the company.

At a Glance

Headquarters: Sao Paulo, Brazil
Founded: 1959
President: Ricardo Semler
Number of Employees (2000): 1,300
1997 Revenues (millions): \$100 million
Voluntary Turnover Full-time People (2000): less than 1%
Public/Private: Private

1.1 The Company

Antonio Curt Semler, an Austrian engineer, founded SEMCO in 1959 as a manufacturing company that makes everything from pumps for oil tankers to cooling units for air conditioners. In 1980, nearing his 70th birthday, Antonio Semler decided to hand over the reins to his son, Ricardo. At age 21, young Ricardo took over a company that was on the verge of bankruptcy, floundering in inefficiencies, with low productivity and dismal employee moral.

For the first four years as CEO, Semler was quickly caught up in the excitement of running the company. In that short period of time, SEMCO purchased five new companies and extended its product line. Semler's motto was, "You either work hard, or you're out," and he practiced what he preached, literally camping out in his office at times. But despite this flurry of activity, the company was not prospering.

Deliveries were late, authorization forms spent days bouncing within the company's bureaucracy, department were run like fiefdoms and workers in the factory were unmotivated and apathetic.

Semler himself began having dizzy spells and eventually went to visit a doctor. They ran a series of tests and in the end concluded that Selmer had no problems

whatsoever except for an advanced case of stress. The doctor then said that he had two choices, either continue with his current pace or change everything about his life. So Semler decided to change.

One of his first steps was to do something out of character for him at that point. He decided to call a general meeting where everyone was invited to lay their frustrations on the table. That meeting was where the foundation for “the most extraordinary company in the world” was laid.

The process of conceiving SEMCO as a more democratic organization was inspired, in part, by Semler’s experience playing in a rock band during his youth. The freedom he experienced in the rock band was highly influential in the changes implemented at SEMCO over the years. Semler was used to having the freedom to do as he pleased, and the traditional “prison atmosphere,” as he called it at SEMCO, was a culture shock to him.¹⁵¹ “The transfer to a highly structured world with classic systems just didn’t make sense to me,” he says. *“Why do people have to wear business suits? Why do they have to come in at 8:00 am in the morning instead of 8:05 am?”* There were no good answers.” So Semler decided to rebel. “Thousands of rules work fine for an army or a prison system, but not for a business. And certainly not for a business that wants people to think, innovate and act as human beings.”

Bit by bit, Ricardo Semler dismantled the company’s very rigid and conservative structure for a more democratic system. The core of Semler’s philosophy was introducing real democracy to the workplace. “What we are seeing,” he says, “is the crumbling of the 1908 Henry Ford assembly line.” Semler believes the main challenge afflicting firms such as IBM and Microsoft is “autocracy.” America, Britain and Brazil are all very proud of their democratic values in civic life, but we are still constricted by a system that doesn’t allow democracy into business or into the workplace.

However, there was a lot of resistance in the early days as SEMCO transitioned from a top-down culture to a more egalitarian one. Laura Leme, one of SEMCO’s few head office staff, explains the initial culture shock when the system was introduced. “There was resistance from both above and below,” she remembers. “Brazilian society is extremely authoritarian. **People at the bottom didn’t want the responsibility, and many managers just couldn’t get used to having their orders challenged.** From October 1985 to January 1987 a third of the management left; then relations improved.”

In addition to internal resistance, there was resistance to running an ethical, company from the Latin culture. Running an ethical business in Latin American, where corruption is the norm, is no small undertaking. There’s a saying in Latin America, *“You can turn (be) a successful business or (you can) be ethical.”* But Semler and SEMCO have refused to pay bribes over the past 20 years, taking a stand that business can be conducted in Brazil and elsewhere without blind obedience to anachronistic rules and traditions such as corruption. SEMCO’s ethical stand has often resulted in trucks being stopped at state borders for inspections, approvals and certificates taking an extra long time, and shipments being held up at airports and docks. But, Semler says, “It’s the price of doing business **honestly.**”

The results of the democratization process, captured in financial success, are difficult to ignore. Only ten years after transitioning from an autocratic structure to a democratic one, the company achieved over 900 percent growth and increased their industrial ranking from 56th to 4th, despite severe economic slumps in Brazil. And in 1997, revenues were over \$100 million, up from \$35 million in 1990. Profits were \$8.2 million.

Sales went from \$11,000 per employee in 1979 (under Antonio Semler's leadership) to \$135,000 per employee in the early 1990s under Ricardo Semler's democratic leadership style and organizational design. This was more than four times the average figure for SEMCO's competitors. After making a transition to a more democratic work structure, SEMCO's productivity increased twofold in just ten years and held steady despite the various economic recessions in Brazil during that time.

From 1990 to 2000, SEMCO also had steady growth, quadrupling revenues and expanding from 450 to 1,300 employees. SEMCO has always been a manufacturing business but recently they've diversified into higher-margin services such as property management and e-business Internet initiatives. In 1999, almost 75 percent of their business was in services. In addition, the company is completely free of debt.

SEMCO has also created an organization that is able to transform itself continuously from the inside out without having to engage in drafting formal strategic plans and top-down directives. Comments Semler, "At SEMCO, we have little control, less organization and virtually no discipline. Does it make me feel that I have given up power and governance? You bet it does. But I probably sleep better at night than the manufacturer who runs his business with an iron hand and whose employees leave their trouble in his lap every night."

Today, Ricardo Semler is an internationally famous advocate for a school of management that believes people and companies perform best when they are free.¹⁶⁵ Semler has also twice been named Brazil's Business Leader of the year in 1990 and 1992. Nearly 2,000 executives have made the pilgrimage to Sao Paulo to see how the company operates.

"I don't know what would have happened if I had kept on managing the company in the old way," confesses Semler. "Perhaps we would have been just as successful. Perhaps I would be dead. I just know that this way of working is exciting and rewarding. I can't ask for anything more."¹⁶⁸

The practices below show how SEMCO puts the principles of democracy into operation in its unique manufacturing environment.

2 Vision and Purpose

SEMCO believes that an articulation of a company's vision or values, as it is or wants to be, can be found in the moment you look at it – as well as in the next moment and the next rather than having a formal statement. In other words, you know the purpose and vision of the company by its actions. SEMCO believes having a written

vision or purpose statement is too static, almost like taking a snapshot of one possible direction and then trying to hold the company to it. Snapshots, according to the people at SEMCO, are static devices that don't reflect the ever-changing environment of an organization. According to Semler, "SEMCO has no corporate credo, for example, and no mission statement . . . No one can impose corporate consciousness from above. It moves and shifts with every day and every worker. Like planning, vision at its best is dynamic and dispersed."

Although there is no formal written statement, there is a visionary ethos that acts as true north for SEMCO – **discipline**. Although it's not framed in one neat sentence that hangs in the front offices at SEMCO's headquarters in Sao Paulo, it's clear that the vision of this company is to have discipline in all they do, relying on their own community marketplace of jobs and responsibilities to achieve on-time performance and delivery of high-quality products. Perhaps at SEMCO it doesn't matter what you do and what you make as long as a spirit of discipline in your performance and deliverables guides you.

3 Dialogue and Listening

Practice: Open Meetings to Promote Dialogue

One way SEMCO promotes on-going dialogue is by having its meetings open to anyone who wants to join in. The meetings are not monologues by a few talking-heads. Instead, they're interactive, exploratory dialogue sessions designed to help employees understand an issue or a project better so more effective actions can ensue. Anyone can call a meeting for dialogue and conversation about an idea at any time. The person or people who know the most about the subject being discussed chairs the meeting, rather than the person who has a higher declared rank or income within the organization.

There's a natural self-selection process that occurs when meetings are open. Those who have a vested interest and something to contribute attend and talk with each other. People who really don't care or have nothing to contribute don't come to the meeting. And since everyone at SEMCO is busy doing their own thing, employees don't have to worry about people coming to a meeting just to meddle in another team's business. Open meetings allow for dialogue and idea exchanges among everyone at SEMCO, with no unnecessary barriers.

4 Participation and Collaboration

Practice: Partner Promiscuously

SEMCO has discovered that collaboration, though partnerships, is one of the best ways to explore and launch a new business idea. "It's pure arrogance to assume you can do everything on your own," comments Semler. "I'm proud to say that we partner promiscuously at SEMCO." Almost every new business they start begins with an alliance, a mutually beneficial arrangement that gives them access to software,

draws on the experience and wisdom of the other organization, brings in new capabilities and shares risk. SEMCO believes the art of collaborating provides a foundation for experimentation and expansion.

Practice: Vote for Your Boss and on Major Decisions

Can you imagine the revolution in corporations around the world if employees were actually allowed to elect their bosses?

At SEMCO, the transition to a democratic structure has resulted in, at times, a radical power shift. **Today, bosses at SEMCO are elected by employees and then evaluated** (explored more under the principles of evaluation and reflection section). Bosses who don't perform well can and are elected "**out of office.**" Semler confides that it takes guts for managers to open themselves up for a bad evaluation, and the possibility of losing their position as a manager. "It took a lot of courage for managers to face the risk of getting a poor evaluation from their staff." The opportunity for employees to participate in the company by electing their bosses is just another way that SEMCO reinforces a message of treating their people like adults, capable of choosing the people they need to work with to get a job done well. "The interesting thing is that, when given the chance to decide, employees make decisions that are as good or better than those of management," believes Semler. "They judge their bosses fairly, and they know what is needed to make the company run."

Employees are also asked to vote on major decisions that affect the entire company. For example, in the early 1990s when they wanted to relocate a plant, SEMCO closed down operations for a day and loaded everyone into a bus to check out three possible sites. The employees ended up choosing a site that management didn't think was best, but because they wanted it, management went with it. In the end, they were all happy with the decision.

Commenting on the experience, Semler said, "We accepted the employees' decision because we believe that in the long run, letting people participate in the decisions that affect their lives will have a positive effect on employee motivation and morale."

Practice: Don't Settle Down

One of the principles that guide employee relations at SEMCO is that of **participation**. The company freely admits that it operates based on everyone's participation and involvement. They encourage employees to share their opinions, seek opportunities for advancement and always say what they believe. SEMCO's mantra is -- don't be passive; say what you think; don't just be one more person in the company. Semler believes, "It's time to really involve employees. The era of using people as production tools is coming to an end. Participation is infinitely more complex to practice than conventional corporate unilateralism, just as democracy is much more cumbersome than dictatorship. But there will be few companies that can afford to ignore either of them."

Practice: All Work is Teamwork

At its core, SEMCO is a manufacturing company, but you won't find a traditional assembly line there. Instead, when SEMCO democratized it decided to organize employees into ad-hoc teams so they could collaborate on a project from start to finish. Desks and work stations are arranged in informal ways, often looking messy and unorganized although it's anything but that. There are no formal departments; instead, everyone is in a team for the duration of time it takes to assemble completed products or until a new team is formed.

5 Equality

Practice: Don't be a Nanny

Most organizations function on the premise of inequality, often played out in power structures that are, by design, paternalistic rather than peer-to-peer. SEMCO, however, refuses to be a nanny. Semler believes that most companies "suffer from boarding-school syndrome."

He believes that **most employers treat their employees like children**, telling them where to be, what to do, at what time to complete a task, who they should talk to and so on. Semler explains, "If you treat people like immature wards of the state, that's exactly how they'll behave. They'll never think for themselves or try new things or take chances. They'll just do what they're told, and they probably won't do it with much spirit."

So instead of a parent-child relationship, SEMCO treats its people like equals. This translates into action in several ways: no set work hours, no assigned offices or desks, no dress codes. SEMCO treats people like adults and expects them to act like adults.

Practice: No Perks Based on Rank

The transition was hard. In fact, it took about ten years. But finally, managers at SEMCO, accustomed to their privileged parking spots, gave them up in an effort to be more in alignment with changing culture of SEMCO. Other perks have been transitioned out as well, such as the executive dining room.

Practice: Free Your Secretary

At SEMCO there are no secretaries or receptionists. Those positions have been abolished and the people in those positions given more rewarding jobs and the opportunity to progress. Now, everyone does their own copying, faxing, travel plans and other clerical duties.

6 Empowerment

Practice: You Decide

Many companies are asking how to empower employees most effectively. Semler comments on the relationship between decision-making, change and

empowerment:

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.

It sounds basic, but so many companies spend their time telling people how to behave that employees are not free to do what they truly need to do to get a job done well. At SEMCO, the practice of empowering people is as simple as letting them make decisions about what impacts their experience within the company. Here's some examples of how they do this:

- Employees decide when to take holidays and how much vacation they need.¹⁹¹
- Employees spend whatever money they think necessary on business trips.¹⁹²
- Employees set their own hours and productivity targets.¹⁹³
-

Ultimately, what SEMCO cares about is *performance*. "An employee who spends two days a week at the beach but still produces real value for customers and coworkers is a better employee than one who works ten-hour days but creates little value," explains Semler.

Practice: Extreme Common Sense

SEMCO's ominous volumes, which in the past dictated employee policy, have now been reduced to a 20-page book called a "**Survival Manual**." This booklet, filled mostly with cartoons, contains no policies but rather one overarching rule of thumb -- use common sense. "The policy is that there should be very few policies at all," Semler says. He explains that what they practice is "extreme" common sense -- extreme because they actually do it. Instead of employees spending time pouring over manuals telling them how to behave, SEMCO's approach of using common sense creates a practice of empowerment that is refreshingly simple. Semler explains in a *Harvard Business Review* article a short time after taking the helm as CEO, "Common sense is a riskier tactic because it requires personal responsibility."

7 Ownership

Practice: Profit-Sharing and Stock

They have it at SEMCO too, the option for all employees to take part in profit sharing and stock options. Employees enjoy a profit-sharing program in which they share about 25 percent of total company profit. And since Semler took over SEMCO, in the period from 1980 to 1994 for example, profits increased fivefold and productivity sevenfold. Comments Semler, "Though there is a widespread view that profit sharing is some kind of socialist infection, it seems to me that few motivational tools are more capitalist."

7.1 Accountability

Practice: Get Rehired Every Six Months

It's got to be one of the ultimate measures used to hold people accountable and responsible for their actions – having to get rehired every six months. But at SEMCO, that's how it works. Every six months, employees and managers alike are asked to justify their existence *to each other* and prove that they should remain on the payroll. Those who don't come up to par are moved sideways, downwards or out of the organization. But rather than being confrontational, the practice is a tool that encourages employees to add value by continually learning, innovating and contributing. And if employees aren't handling their responsibilities and being accountable to what's expected of them by the team, they're asked to leave. The opportunity to get rehired based on performance every six months also provides unique opportunities to increase levels of compensation or change *how* an employee's paid, depending on the project. In effect, the practice allows each employee to take responsibility for their own destiny, rather than in other companies where people often feel like a victim of the system.

Practice: Spread Out Responsibility

SEMCO uses practices such as profit sharing, job rotation, satellite business units and bi-annual evaluations to spread out responsibility among everyone. Ultimately, SEMCO believes that responsibility belongs to the person who claims it.

8 Individual and Collective

Practice: Know How You Make a Difference

One of the most fascinating results of the organizational design of SEMCO is that it allows each person to know how they individually contribute to making the entire organization operate. Because the atmosphere is open and participatory, with immediate feedback on performance and productivity, employees know that they are invaluable to achieving the company's collective goals.²⁰⁵ Semler comments, "Everybody knows what they are doing here, why they are here and how they are contributing to the final result."

Practice: Unions

One has to question how necessary unions are in a democratic company, but at SEMCO employees are free to unionize. The one thing SEMCO will not tolerate is the persecution of those in unions. There have been a few strikes at SEMCO over its history, but all strikes have been settled without violence and in a relatively short period of time.

Practice: Sabbaticals

SEMCO believes in promoting each employee's individual growth and learning process. To that end, employees can take what Semler calls a "hepatitis leave," or sabbatical, to recharge. He calls it a "hepatitis leave" because he wants employees to "do what you would do if you had hepatitis and couldn't come to work for a month or so." The sabbatical is a time when employees can take as long as a few weeks to a

few months off every year or two from their usual duties to read books, learn new skills or even redesign their jobs.

8.1 Transparency and the Free Flow of Ideas

Practice: Open Books and Compensation Information

Absolutely everyone within the organization – from the janitors to the top managers, have access to the company's books. They keep only one set of books and they're open for inspection and auditing by employees and their unions. Beyond just having open books, SEMCO actually has classes to teach employees how to read and interpret the balance sheet, a key skill in an organization where employees are empowered to create their own budgets. Each month, employees receive a balance sheet, a cash-flow statement and a profit- and-loss statement for his or her division. The total report contains about 70 lines of information, more, Semler admits, then they even use to run the company (but they don't want employees to think they're holding back information!).

When SEMCO first started sharing financial information, several of the executives were alarmed, afraid that employees would want to know how much the executives were paid. Eventually, they did ask, and this gradually led to a practice of making transparent what everyone is paid. Semler believes that if people are embarrassed by their salaries then it probably means they aren't really earning them. Confidential systems, he believes, are for people who can't look in the mirror and say, "I deserve what I get." "In short, we try to undercut and so eliminate the process of filtering and negotiating information that goes on in so many corporations," says Semler.

8.2 Justice

Practice: Don't Punish All for Actions of a Few

At most companies if someone fails to do something or takes advantage of the company in some way, a new policy is passed and everyone is restricted, or even punished, for the actions of one or two people. This approach is far from fair – or even just. It's easy to think at a company like SEMCO, where everyone is basically free to do as they please, that the company would be taken advantage of from time to time. And Semler confesses some employees do take advantage of their freedoms. But instead of punishing everyone for the actions of a few, they deal with the actions individually.

Explains Semler, "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."²¹⁵

At SEMCO, they believe their employees are responsible adults and never assume they will take advantage of the company and it's lack of rules. Functioning under the assumption they can trust their employees allows the company to act justly in situations that deviate from the norm.

Practice: Make it as Easy as Possible to Put Ideas Into Action

Bureaucratic systems and complicated review processes are one of the best ways to **kill individual initiative**. SEMCO strives to make it as easy as possible for employees to **suggest new ideas** and then receive fast and clear decisions. They also make all decisions open to everyone. An executive board, comprised of representatives from all major business units, reviews all proposals. All employees are welcome to attend the review process. In fact, there are always two seats on the board reserved for the first two employees who arrive at the meeting. Proposals must meet two main criteria before they are approved:

1. The business idea must be a premium provider of its product or service
2. The product or service has to be complex, requiring engineering skills and presenting high barriers to entry.

If a proposal meets the criteria, it gets launched within SEMCO. If a proposal fails to meet the criteria but is backed by a minority investor SEMCO will often still back it. The entire process encourages and promotes new idea generation through fast turn-around and open and collaborative decision-making.

Practice: Thinkodrome

In each plant at SEMCO, there's a large room full of desks and computers where everyone in the company can come and have a space to be creative, gather for brainstorming sessions, ask questions and solve problems. It's a quiet, but active place. SEMCO believes they survive in large part due to places like 'Thinkodrome' where employees can gather and look at everything the organization is doing and how it can do it better, faster or cheaper. The 'Thinkodrome' not only encourages inventive conversations to occur, it also provides the space to do it in.

9 Absence of Tyranny

Practice: Avoid Defining Your Business Identity

Contrary to conventional business wisdom, SEMCO refuses to define what business it's in. They reason that by outlining what the company is dedicated to can obscure possible opportunities beyond the scope of a defined corporate identity. Classification can result in limited, narrow thinking, a form of tyranny that suppresses creativity.

Semler explains, **"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."**

Practice: Forget About the Top Line

The myth that **growth equals success** is another form of tyranny that dictates directives to corporations around the globe. But SEMCO believes that the ultimate measure of success is how **long** a business survives -- not how big it gets. To that end, they've decided to not set revenue targets; instead, they allow each one of their businesses to find their natural size -- the size that it can maintain profitably and still keep customers happy -- rather than being modeled into a form that's far from optimal. SEMCO reasons that it's just fine if the top line stays the same or even shrinks as long as the bottom line remains healthy. Rather than continuing to push the top line higher beyond its natural size, SEMCO encourages employees to branch out and start new businesses rather than building up.

Practice: Job Security

Although there's a process most employees must go through every six months to reapply for their job (explored under the principles of evaluation and reflection), anyone who has been with SEMCO for at least three years or has reached the age of 50 has special protection and can only be let go after a long series of approvals. SEMCO does have a layoff policy, but it helps to increase the feeling of security among employees to have this option. And any person who has the possibility of being laid off has the choice to try another position before they are completely let go.

Practice: CEO's View Doesn't Reign Supreme

In most organizations, the CEO's perspective or recommendations are what goes. Not so at SEMCO. One of the things Semler, who is the majority owner of the company, prides himself on is that most of the business ideas at SEMCO are not his. In many ways, he hardly "runs" the company at all. He has no formal office (a huge difference from most CEO's with a grand corner office) and works mostly from home. From time to time he'll lobby for an idea, but management decisions are taken to a "committee of counselors" where his ideas are often vetoed. (There's another committee that handles decisions on the shop floor level.) For example, he once wanted to take the *Financial Times* on a factory tour but the committee wouldn't let him, having stopped all press visits a couple years prior so that employees could focus on their work better.²³⁰

Practice: Choose Your Own Title

When someone is recruited to join SEMCO they're given a blank card on which to write their own job title. Many, however, opt for no title at all. In an organization that is more flat than hierarchical and operates on informality, job titles simply get in the way and can cause confusion. However, if someone wants to choose a job title they can. One operating manager decided to give himself the title, "Royal Pharaoh in Charge of Operations."

Practice: Six CEOs

Rather than having one traditional CEO and a group of VP's, SEMCO has six "counselors" who rotate the CEO chair every six months. The results are cutting edge performance and unique product ideas.

They also have six-month budgeting cycles that are opposite the CEO cycles. The budget cycles are January to June and July to December, but the CEO cycles begin in March and September. In this way they avoid one of the most common forms of tyranny in corporations – nailing financial responsibility to a single person. Explains Semler, “Our CEOs don't wear themselves out trying to meet quarterly financial goals, and there's no one person to blame if the company goes down the drain. When financial performance is one person's problem, then everyone else can relax. In our system, no one can relax. You get to pass on the baton, but it comes back again two-and-a-half years later.”

10 Diversity

Practice: Job Rotation

SEMCO practically insists that everyone **rotates jobs every two to five years** to prevent boredom and to give people a different perspective on various aspects of the company. The change encourages people to **learn new skills, keeping work interesting and employees more valuable to the organization**. It also spreads around diverse personalities and perspectives, techniques and backgrounds, ultimately injecting new ideas and vision throughout the organization. Job rotation also discourages empire building and gives people a different perspective on various dimensions of the company.

Practice: Let Tribes Exist

Semler believes that we've always lived in tribes, whether they're ethnic, religious, vocational or political, and these tribes have always served as anchors. Therefore, we must design organizations in such a way that **allows tribes to co-exist** rather than trying to fully integrate everyone into some unattainable ideal of harmony. Semler explains the **need for diversity**: “Up until now, it has been easy enough for the First World to keep its distance from the Third World and view the southern hemisphere as very far away. But technology is drawing everyone and everyplace close.” Diversity, believes Semler, creates a competitive advantage and allows companies to survive in modern times. “By all means, establish and promote a common goal, but recognize diversity and let people determine their own ways of achieving it.”²³

11 Choice

Practice: The Lost in Space Program

Imagine actually having the opportunity to choose your job within a company. That's exactly what they do at SEMCO, allowing people to decide where in the organization they'll work, what they'll do and, eventually in a team, decide who their leaders will be. **The Lost In Space program**, as it's aptly named, is for all entry-level new hires. While in the program, they spend six months to a year literally floating around the company. They check out businesses with the company, meet with people and try out jobs. A “godfather” looks after them. After they try out at least 12 different areas or units and find a place they believe fits with their goals and personality, that's where they can choose to stay. Apparently, the system is working well, since turnover is less than one percent, despite the fact that SEMCO is targeted heavily by

headhunters.

Practice: Choose How You Want to Be Paid

In most companies, people are paid one way only – with a salary. Some lucky individuals may also have stock options, and the very fortunate may be paid through a profit-sharing arrangement. But at SEMCO, employees are given the choice of *eleven* different ways to be paid, including:

1. A fixed salary
2. Bonuses
3. Profit-sharing
4. Commission
5. Royalties on sales
6. Royalties on profits

7. Commission on gross margin
8. Stock or stock options
9. IPO/sale warrants that an executive cashes in when a business unit goes public or is sold
10. Self-set annual review/compensation in which an executive is paid for meeting self-set goals
11. Commission on difference between actual and three-year-value of company

Asks Selmer, ""Why debate salary? We all want to make as much as possible." Employees are provided with the information they need to figure out their own pay, such as what the market currently pays, how much their colleagues earn inside the company and what the company is making. When deciding pay rates, everyone knows that in six months a department may decide it no longer wants to buy their work if their services are priced too high.

Employees then choose from the above options in different ways with many different combinations possible. "We've found that by being flexible about rewards, we encourage our employees to innovate and take risks," comments Semler. "In the end, people understand it's in their best interest to choose compensation packages that maximize both their own pay and the company's returns."

12 Spirituality and Love

Practice: Happy About Monday Morning

A common theme among the selected companies practicing spirituality is how they deliberately try to ensure their employees are doing work that engages both their heart and their head by doing work that has impact beyond the bottom line. Semler explains how meaning contributes to motivation: "People go to work because they are looking to do something with their life. I have never met anyone who goes to work for the money. In the same way I have never met any businessman who is in business to make money." He continues, "Everything else - quality, profit growth - will fall into place if enough people are interested in coming to work on Monday

morning.”

Practice: Bureaucratic Striptease

When Selmer took over SEMCO from his father in 1980, its pyramid structure had twelve layers of management. According to Semler, **“Structure creates hierarchy, and hierarchy creates constraint.** We have not utterly abandoned all control, but the old pyramidal hierarchy is simply unable to make leaps of insight, technology, and innovation. Within their own industries, pyramidal hierarchies can generate only incremental change.”. Gradually, SEMCO was reconfigured into a series of three concentric circles. The three circles have just four titles – counselors, partners, associates and coordinators. The “Counselor” level includes Semler and handles general strategies and policies. The “Partners,” a slightly larger circle, includes SEMCO’s seven business units. “Associates” and “Coordinators” comprise everyone else, with all kinds of triangular configurations among the circles.

13 Reflection and Evaluation

Practice: Every Six Months Shut Down and Evaluate

Every six months everything stops at SEMCO in order for everyone to go through a rigorous budgeting and planning process, reevaluating each business unit to see if it should continue. The main question they ask is, “If this business didn’t exist today, would we launch it?” If the answer is no, they quickly move their talent, money and resources elsewhere.

They also use the evaluation period to take a fresh look at the organization as a whole, requiring everyone from the top leaders to the line employees to resign (in theory) and be rehired. All managers are evaluated anonymously and all ratings are posted publicly. Every employee also receives a questionnaire to fill out about what they think about their boss.

Characteristics are graded on a score from zero to 100. SEMCO encourages people to be frank and honest, not just on the form, but also in the discussions that follow the written evaluation process.

Employees are also questioned about company credibility including asking what would make them want to go on strike or to quit. The questionnaire is called, “What Does the Company Think?” and its results are published for everyone to see.

14 Conclusion

SEMCO is a remarkable model of how a company can completely transform itself from an authoritarian, command and control company to a democratic one, and the financial success that can ensue. And SEMCO is also a model of how organizational democracy is applicable in a manufacturing environment. Comments Semler, “If my 20 years at SEMCO have taught me anything, it's that successful businesses do not have to fit into one tight little mold. You can build a great company without fixed

plans. You can have an efficient organization without rules and controls. You can be unbuttoned and creative without sacrificing profit. You can lead without wielding power. All it takes is faith in people.”