EXPERT VOICES

Ricardo Semler: Set Them Free

By Brad Wieners

For nearly 25 years, Ricardo Semler, CEO of Brazil-based Semco, has let his employees set their own hours, wages, even choose their own IT. The result: increased productivity, long-term loyalty and phenomenal growth. Can his radical approach work for you?

Ricardo Semler had the sort of reckoning at 21 that most executives don't face until middle age. Fresh from law school, where he'd been a restless underachiever, Semler took over his father's business, which manufactured pumps and propellers for the world's merchant marine. He was awfully young, but his dad sensed that if he didn't give his son a chance, he'd lose him to another career. Besides, Semler Sr. was a pragmatist. "Better make your mistakes," he told his son, "while I'm still alive."

traightaway, Semler Jr. spearheaded an ambitious plan to diversify his dad's ship-parts company, which, like the Brazilian economy in the mid-eighties, was sinking. At Semco headquarters, in São Paulo, he tried to learn everything there was to know, and, while a quick study, he irritated plenty of the old hands with his precociousness and micromanaging. Working from 7:30 a.m. to midnight every day, or jumping planes overseas to raise capital and find new partners and companies to buy, his live-to-work lifestyle seemed ripped from the pages of John Grisham's *The Firm*.

Then **one** afternoon, while touring a pump factory in Baldwinsville, N.Y., Semler collapsed on the shop floor. After resting in a doctor's office for a few hours, he traveled on to his appointments in the Boston area. Once there, he took the advice of the Baldwinsville doctor, and checked into the Lahey Clinic for some exams. "After amortizing all of their machinery, they told me I had nothing," Semler recalls. "But the doctor told me that if I kept going like I was, I would soon be using their brand-new cardiac wing. He walked me through it and showed me how good the hotel structure of that wing was, how much I was going to like it. I got the message."

In the months that followed, Semler determined to balance his work and personal life more carefully, and to do the same for his employees—all while improving Semco's fortunes. To his great relief, he discovered he didn't have to reconcile these two goals: The more freedom he gave his staff to set their own schedules, the more versatile, productive and loyal they became, and the better Semco performed.

Nor did he stop with flextime. He did away with dedicated receptionists, org charts, even the central office—it now resembles an airlines' VIP lounge, with people working in different areas each day. He encouraged employees to suggest what they should be paid, to evaluate their bosses, to learn each other's jobs, and to tolerate dissent—even when divisive. He set up a profit-sharing system and insisted that the company's financials be published internally, so that everyone could see how the company was doing.

Semco hit some bumps and yet, despite a recession and staggering inflation in Brazil, the company grew, and, by 1993, Semler had a spirited turnaround story to tell. His first book, *Maverick: The Success Story Behind the World's Most Unusual Workplace*, became an international bestseller (it's more *Rocky* than *The Firm*), and laid out his unorthodox, if strikingly commonsense approaches—no dress code, voluntary meetings, mandatory vacation time.

Skeptics of Semler's CEO-who-manages-least-manages-best approach suggested that the cheerful tyro might be taking a victory lap too soon. Or, they said, maybe it works for you, but you can't generalize it.

Well, a decade later, Semler, now 44, is back to answer his critics. In his new book, *The Seven-Day Weekend: Changing the Way Work Works* (Portfolio), due out in May, he argues that his approach to management is precisely what sclerotic corporations and the stressed-out leaders who run them need if they're to avoid Chapter 11—or the Lahey Clinic, as the case may be.

How has he fared? Semco's revenues have jumped from $35 million to $212 million in the last six years, and the firm grew from several hundred employees to 3,000—with employee turnover of about 1 percent. The privately held firm has eight businesses, or, says Semler, "nine, depending on the week," having expanded into outsourcing management (for four of Brazil's five biggest banks), to environmental site remediation and engineering risk management.

Semler, who will be a guest lecturer at the Harvard Business School this summer, relishes the role of provocateur. "The desire for uniformity is a major problem with IT," he says. "But it is a subproduct of the same problems that plague management, which is the need to feel in control, that we're all on the same page, and everyone is being treated equally. But what I want to ask is, 'Why do we all need to be on the same page?' And you realize, of course, that no two people are equal in any respect."

Semler's rhetoric will likely elicit some groans from the gallery—as in, "Didn't we choke on enough of this business revolution gas in the '90s?" But Semler makes a compelling case for his methods, as Executive Editor Brad Wieners discovered over sandwiches

in *CIO Insight's* New York offices.

CIO Insight: How do you convince someone your approach isn't just a nice idea, but a good idea?

Semler: There are three things people have always asked. One, is it really true? Is Semco operating the way he says? And, two, how has Semco done with it? Then we'll get to three: "So what?" And that's the difficult one, because the first two are easy. We've been at it now for 25 years, and probably everyone who cares in the world has come down to see if it's true or not. And our numbers are indisputable.

But if you ask, "So what?"—well, I think what we've done is being emulated because of the amount of dissatisfaction that is rampant among workers, but also among stakeholders. Basically, most career opportunities are fraudulent. The idea that I will hire you, I will train you, I will want to know where you want to be in five years, and then I will give you that better job is totally out of the question. And the other things [besides offering job security] corporations are supposed to do well like innovation, or customer service, they don't do those well, either.

Can you give some examples?

Microsoft is a very good example because Microsoft, let's say 15, 20 years ago, came up with a solution that was really groundbreaking. There was a fundamental change in paradigm. That took a couple of guys in a very unstructured atmosphere to do.

If you were to draw a graph of innovation and Microsoft's wherewithal in terms of people, capacity, recruitment, training and salaries, you would find that the more Microsoft hired the best minds at the highest salaries, and so forth, the less innovation it got. For a user, there are no substantial changes whatsoever between the various versions of Microsoft Windows. For anybody who's used a 1990 version, a '96, '98, 2000 or XP version, it just seems like the color of the icons changes. Does it take 5,000 engineers with postgraduate degrees to change the color of icons?

Or another example I particularly like is Gillette. Does it take $600 million to stick another blade between the other two? Or consider the airline industry—I think that is the only industry so far that has managed to make all of the stakeholders lose. The shareholders don't make any money. The executives don't last. The planes don't get better. The air-traffic controllers have the worst job in the world. The crew is never happy. The pilots are on strike. The food is just awful. There's not a good thing you can say about the business of flying. So I think the answer to "So what?" is that if people look closely, they'll see that the traditional model isn't working. And there's incentive there to start looking for something else.

When I hear that a company's employees set their own hours, I imagine it being better suited to some tasks than others.

The first anxiety executives have about workers setting their own hours is that people are going to suggest that they come in as late as possible, leave as early as possible, make as much as possible—end of story. And in 25 years we've never heard that. I don't think [that sort of behavior] comes to people as naturally as the anxiety about it comes to the [manager] who's thinking about it. [At Semco,] we always assume that we're dealing with responsible adults, which we are. And when you start treating employees like adolescents by saying that you can't come late, you can't use this bathroom—that's when you start to bring out the adolescent in people.

Is it true Semco buys or leases whatever technology the employees want?

It's more like expense reports. We don't want someone going to another city to negotiate something for us, or trying to sell something for us, who doesn't have the good sense to choose a rental-car company, the hotel where they'll stay, or whether they're going to take a bus or a cab. Because if they don't know how to do that, chances are very slim that they'll know how to negotiate our contracts. So we don't want to control their technology either. They will fill it in themselves, ask for reimbursement, and there is no approval process there.

Now chances are that every one of the new notebooks our staff buys are probably best available, because the decision to buy the new one is going to be an analysis based on talking to 15 people and finding out what is considered hottest and most coveted—that's the one you're going to buy because you're not under a restriction. Now we didn't talk to Dell and to Compaq and to IBM to decide what they want for us, and there's never a meeting to discuss an upgrade of anything because it's already upgraded.

But you do have someone in charge of IT?

No, we don't—and the issue goes away, doesn't it? You could say, well, someone just joined and they decided to buy a very, very fancy notebook that's terribly expensive. It's like deciding to stay in a five-star hotel when all your colleagues stay in a three-star. You're subject to peer pressure. People are going to say, okay, well, the guy plays golf three times a week all morning. If he sells 512 widgets a month, really, who cares, right? If he sells 400 widgets a month instead of 512, it won't do him any good to be the first one in and the last one out, because it's performance-based. So the notebook's the same thing. Say the guy decides to buy a really expensive one—and it's happened many times. What happens is the peer pressure increases. You better be as good as the laptop you choose, right?

Okay, but who deals, for example, with network security?

Firewalls to me are much less essential than the IT people think they are, but let's assume that they are critical. For example, we're online with some of our partners that are Fortune 500 companies. So if Johnson Controls or the Rockefeller Group are sensitive, we're sensitive—but only as a subproduct of our relationship with them. We'll put in all the servers they want, and somebody will be there protecting it with their lives. But we wouldn't do it on our own.

Is there industrial espionage or hackers? Sure. But I think there's a lot of mythology about this, and I think IT people get overexcited about making their system the most secure this and that and so forth. I'm not sure it's that essential for the business per se. It's just essential for them to feel that they're exercising their technical capacity to its limit, which is not my main concern as a business.

One of the things I've noticed with this security issue is that IT people want to make sure that their systems are intact, private, confidential—blah, blah, blah—but they think nothing whatsoever of invading the e-mail privacy of their own employees. That's very interesting to me, because it's not only a double standard, but a violation of constitutional rights. Companies have taken the blind assumption that because the system is theirs, then anything that people do on it has to be available to them. I think it's a very hypocritical mode, and it deals with fundamental freedom issues that I don't think people have completely thought through.

I take it, then, employee e-mail at Semco is private?

Yes. And what's most interesting is that we searched far and wide for anybody who could tell us what kind of software or system could be installed on our [server] that would make it impossible for our own IT people to spy on people's e-mail. We did not find one. We had to customize one.

Flexibility= Loyalty

Ricardo Semler is far from the only executive to find that a little flexibility leads to longer-term loyalty. Take Intertech Plastics, a $12 million, Denver-based manufacturer of consumer, automotive and industrial plastics. Intertech offers its 110 employees somewhat fluid schedules, and trusts them with the company' s financial performance data.

Its annual rate of staff turnover:
2%

Tell me about hiring at Semco.

When you want somebody hired, let's say it's for a leadership position of some kind, you go to the system and you advertise that you think someone is needed. Then on a given day—say, Wednesday at 4 o'clock, meeting room 11—you say we're going to discuss this, whoever's interested. Because of the fundamental tenet that we don't want anyone involved in anything that they really don't want to do, all of our meetings are on a voluntary basis, meaning that the meetings are known, and then whoever is interested can and will show up, and should also leave the moment they become uninterested. It is a bit unnerving to watch these things, because people come in, plunk their things down, and then 15 minutes later somebody else says "Bye bye, see you." But the fact is that whoever is left there has a stake in the decision being made, and the decision is final in the sense that it's going to be implemented after the meeting.

You mentioned that the meeting gets announced on a system. What's that?

A central Web site, which is the way in which everyone communicates or knows what's going on.

Okay, so there's a voluntary, Wednesday, four o'clock meeting about the new position and . . .

The people who show up put together a template of what are the characteristics that person needs to have, and what is the weight of each of these characteristics. They'll then go looking for that person by putting an ad in the paper, or through a headhunter. And when the resumes come in, basically, whoever started the whole thing will distribute packs of these resumes to people, because there's no HR department to do it. You'll take ten home, I'll take ten home and Andrew will take ten home, and whatever I wrote A-plus on, for example, I'll give to you, and the rest, we'll just send a thank you.

Now a lot of things happen in this process. Because 40 of us are looking at ten resumes each, or ten of us are looking at 40 resumes each, I'm going to locate people who are not ideal for this job but that could be ideal for another job, and that's something that disappears completely when an HR department does this, because they're basically screening between yes and no—it's a digital response. With our system, we're creating an analog response, meaning, maybe this person would be great for I don't know who, and then we send that curriculum vitae on to someone else.

Once we've found ten who had an A-plus out of the 400, we will do a collective interview of all the candidates, which most people don't like, and which I found very strange in the beginning.

Wait. All the candidates get interviewed together?

Together.

I'd hope my voice was strong that day.

In a system like this, let's say two out of the ten don't speak at all because it's not their nature to interrupt. Well, the other five, ten, 15 on our side will want to hear from those two. So at a certain point they'll say, "Brad, you haven't spoken at all, what do you have to say?" If what you say is thoughtful, you might be, with your one minute's worth, ahead of everybody else.

Under your set-your-own-hours policy, do employees work fewer hours, or longer and harder?

Last week CNN spent four days with a bunch of our guys probing in all directions, and they concluded that our people balance their lives much better, and that there's an unusually high number of people who take their kids to school, etc. But a recent statistic of ours shows that 27 percent of our people are online on Sunday at 8 p.m.—27 percent. So they probably do work hard.

In some ways it's an unforgiving system, because you have to figure out your own answer for how to best spend your time. When you don't come in on Monday morning, absolutely nothing happens. But when you're sitting on the beach Monday morning at 11 o'clock, and you're the only one on the beach—that's a different story. Maybe then it's worth it to work a little harder. No one really knows how to measure the value of that moment.