

Impact

Semco was a privately held company that did not disclose its financials. Its turnover had increased from US\$4 million in 1982 to more than US\$1 billion by 2007 * · * (refer to Exhibit 3 for the increase in Semco's revenues over the years). And, according to Semler, Semco was clocking average yearly revenue and bottom-line growth of 40 percent. * Semco's success could also be gauged from the fact that an investment of US\$100,000 in 1985 would have yielded an additional US\$5.3 million by 2005. * Its employee strength had increased from 90 in 1982 to 5000 by 2007. * · * And, according to experts, the fact that repeat clients accounted for nearly four-fifths of Semco's yearly turnover of 2003 indicated the company's client retention abilities.

Exhibit 3 Annual Revenues of Semco (US\$ million)

1980	4
1994	35
2001	160
2003	212
2007	>1000

Sources: <https://socialimprints.com/pages/empowering-the-community>; Ricardo Semler, *The Seven-Day Weekend* (Arrow Books, 2004); A.J. Vogl, "The Anti-CEO," *The Conference Board Review*, May/June 2004; Kerry O'Brien, "Interview with Semco's Business Guru," www.abc.net.au, June 3, 2007.

According to observers, Semco earned significant goodwill because of the freedom it gave its employees (refer to Exhibit 4 for some of Semco's innovative employee programs). At Semco, at times, there would be gaps of up to fourteen months before an employee resigned from his/her job. At any point in time, the company had to process at least 2,000 job applicants, with several of the applicants being prepared to take up any work offered to them at Semco. *

Also, according to Semler, the yearly attrition rate at Semco had been below two percent since 1981.

Exhibit 4 Some of the Innovative Employee Programs at Semco

Retire-A-Little (RAL): This program was based on the premise that employees in their 30s and 40s might not be able to pursue their hobbies and interests due to financial constraints. However, when they were in a financially comfortable position in their 60s, they did not have the physical wherewithal to pursue their interests. Under RAL, an employee could take time out, possibly for half a day in a week, to engage in his/her personal pursuits, which would also entail a slight deduction in the monthly salary. After retirement, he/she could redeem from Semco the deducted salary by working the corresponding number of hours.

Lost In Space (LIS): Under LIS, for one year, every young entrant into Semco was free to do whatever he/she desired, work in any of Semco's business divisions, or hop across any number of divisions he/she wanted to. However, after the completion of a year, if none of the divisions where an entrant worked came up with a job offer or if the entrant did not find anything interesting, he/she had to quit. LIS was based on the premise that under the prevailing education system, adolescents were pressured by their parents to choose a particular career path, which might ultimately not fully unlock their potential.

Up'n Down Pay (UDP): Under this program, employees had the flexibility to adjust their compensations based on certain situations in life. An individual could reduce the number of his/her working hours or responsibilities due to factors such as taking care of infant children. There would be a corresponding reduction in pay.

Work'n Stop (WSP): Under WSP, employees could take extended breaks of up to three years to pursue studies or their interests or to introspect on where they were headed.

Rush Hour MBA (RHM): The RHM program, conducted once every week for two hours starting at 6:00 p.m., was devised to enable Semco's employees to avoid São Paulo's heavy traffic and simultaneously make productive use of their time. Any of Semco's employees could volunteer to lecture to the employees on a subject of his/her interest or to tell them about an interesting article he/she had read recently. The two hours spent allowed employees to not only enrich themselves but also to reach home faster upon completion.

Source: Ricardo Semler, *The Seven-Day Weekend* (Arrow Books, 2004).

Some experts felt that the true impact of the employees being at the helm of affairs in the organization was felt in the resilience that Semco developed. This became clear when, in February 2005, Semler met with a near-fatal accident and had to be in the intensive care unit for an extended period of time, recovering from the multiple operations he had to undergo. During this time, Semco operated smoothly—targets were reached and agreements sealed, and there was no disruption to business. * Semco had reached a stage where it was not dependent on a single individual, not even Semler. At least for 10 years since 1993, Semler had not taken a single decision at Semco. * He had no role in initiating businesses that contributed to three-fifths of Semco's turnover as of 2006. *

A result of Semco's steadfast adherence to placing faith in employee choices regarding the time when they worked, how much they were paid, deciding themselves whether or not to skip meetings, and purchasing their own information technology infrastructure was an intensely faithful and productive workforce. * According to a long-serving Semco employee who had started small and had worked her way up Semco's ladder, "In all these years, Semco never discounted a minute's worth of salary, even when I was late or absent. I take a reciprocity position. When Semco needs me, I am there. When my brother got sick, I was gone for four days and Semco didn't discount a penny

Constraints to Replication?

Though Semco's radical management practices had indicated that they could result in profitable and sustainable growth, experts were skeptical about the extent to which these tenets could result in similar successes in other companies, genuine though their efforts might be. Their skepticism had its roots in the deliberate strategy chosen by Semco of being present only in businesses that entailed significant levels of engineering/complexity (this ensured that the barriers to entry for other aspirants in terms of technological competence required were high); of being only a premium player in each of its product/service segments; and of carving out a distinct niche in each product/service segment, which ensured that Semco was a prominent player in the concerned industry. ❁ Experts wondered whether a company operating in a product/service segment that was easy for others to enter, which was not present in a premium or a niche segment—this meant that economies of scale could not be ignored—could afford to bestow similar freedoms upon its employees. Some commentators also observed that Semler, being the majority shareholder in a privately held company, had the luxury of trying out his radical ideas. Would it be within the realm of possibility, they wondered, for a large public company with diffused ownership to embark on such a journey? So, would relinquishing control, described by Semler as Semco's competitive advantage, be limited to just one company?

Questions

1. How would you describe Semco's organization design before and after the changes implemented by Ricardo Semler?

2. In what ways is Semco's design similar to and different from the holacracy structure described in Chapter 3?
3. Describe the rather unusual Human Resource policies now in effect at Semco.
4. How did Semco handle downsizing during a weak economy? How did that approach benefit the company?