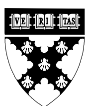
Managing Without Managers

by Ricardo Semler



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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

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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.

How did we do it and survive? Hard work, of course. And good luck—fundamental to all business success. But most important, I think, were the drastic changes we made in our concept of management. Without those changes, not even hard work and good luck could have pulled us through.

Semco has three fundamental values on which we base some 30 management programs. These values—democracy, profit sharing, and information— work in a complicated circle, with each dependent on the other two. If we eliminated one, the others would be meaningless. Our corporate structure, employee freedoms, union relations, factory size limitations—all are products of our commitment to these principles.

It's never easy to transplant management programs from one company to another. In South America, it's axiomatic that our structure and style cannot be duplicated. Semco is either too small, too big, too far away, too young, too old, or too obnoxious.

We may also be too specialized. We do cellular manufacturing of technologically sophisticated products, and we work at the high end on quality and price. So our critics may be right. Perhaps nothing we've done can be a blueprint for anyone else. Still, in an industrial world whose methods show obvious signs of exhaustion, the merit of sharing experience is to encourage experiment and to plant the seeds of conceptual change. So, what the hell.

PARTICIPATORY HOT AIR

The first of Semco's three values is democracy, or employee involvement. Clearly, workers who control their working conditions are going to be happier than workers who don't. Just as clearly, there is no contest between the company that buys the grudging compliance of its work force and the company that enjoys the enterprising participation of its employees.

But about 90% of the time, participatory management is just hot air. Not that intentions aren't good. It's just that implementing employee involvement is so complex, so difficult, and, not uncommonly, so frustrating that it is easier to talk about than to do.

We found four big obstacles to effective participatory management: size, hierarchy, lack of motivation, and ignorance. In an immense production unit, people feel tiny, nameless, and incapable of exerting influence on the way work is done or on the final profit made. This sense of helplessness is underlined by managers who, jealous of their power and prerogatives, refuse to let subordinates make any decisions for themselves—sometimes even about going to the bathroom. But even if size and hierarchy can be overcome, why should workers *care* about productivity and company profits? Moreover, even if you can get them to care, how can they tell when they're doing the right thing?

As Antony Jay pointed out back in the 1950s in *Corporation Man,* human beings weren't designed to work in big groups. Until recently, our ancestors were hunters and gatherers. For more than five million years, they refined their ability to work in groups of no more than about a dozen people. Then along comes the industrial revolution, and suddenly workers are trying to function efficiently in factories that employ hundreds and even thousands. Organizing those hundreds into teams of about ten members each may help some, but there's still a limit to how many small teams can work well together. At Semco, we've found the most effective production unit consists of about 150 people. The exact number is open to argument, but it's clear that several thousand people in one facility makes individual involvement an illusion.

When we made the decision to keep our units small, we immediately focused on one facility that had more than 300 people. The unit manufactured commercial food-service equipment—slicers, scales, meat grinders, mixers— and used an MRP II system hooked up to an IBM mainframe with dozens of terminals all over the plant. Paperwork often took two days to make its way from one end of the factory to the other. Excess inventories, late delivery, and quality problems were common. We had tried various worker participation programs, quality circles, kanban systems, and motivation schemes, all of which got off to great starts but lost their momentum within months. The whole thing was just too damn big and complex; there were too many managers in too many

layers holding too many meetings. So we decided to break up the facility into three separate plants.

To begin with, we kept all three in the same building but separated everything we could—entrances, receiving docks, inventories, telephones, as well as certain auxiliary functions like personnel, management information systems, and internal controls. We also scrapped the mainframe in favor of three independent, PC-based systems.

The first effect of the breakup was a rise in costs due to duplication of effort and a loss in economies of scale. Unfortunately, balance sheets chalk up items like these as liabilities, all with dollar figures attached, and there's nothing at first to list on the asset side but airy stuff like "heightened involvement" and "a sense of belonging." Yet the longer-term results exceeded our expectations.

Within a year, sales doubled; inventories fell from 136 days to 46; we unveiled eight new products that had been stalled in R&D for two years; and overall quality improved to the point that a one-third rejection rate on federally inspected scales dropped to less than 1%. Increased productivity let us reduce the work force by 32% through attrition and retirement incentives.

I don't claim that size reduction alone accomplished all this, just that size reduction is essential for putting employees in touch with one another so they can coordinate their work. The kind of distance we want to eliminate comes from having too many people in one place, but it also comes from having a pyramidal hierarchy.

PYRAMIDS AND CIRCLES

The organizational pyramid is the cause of much corporate evil because the tip is too far from the base. Pyramids emphasize power, promote insecurity, distort communications, hobble interaction, and make it very difficult for the people who plan and the people who execute to move in the same direction. So Semco designed an organizational *circle.* Its greatest advantage is to reduce management levels to three—one corporate level and two operating levels at the manufacturing units.

It consists of three concentric circles. One tiny, central circle contains the five people who integrate the company's movements. These are the counselors I mentioned before. I'm one of them, and except for a couple of legal documents that call me president, counselor is the only title I use. A second, larger circle contains the heads of the eight divisions—we call them partners. Finally, a third, huge circle holds all the other employees. Most of them are the people we call associates; they do the research, design, sales, and manufacturing work and have no one reporting to them on a regular basis. But some of them are the permanent and temporary team and task leaders we call coordinators. We have counselors, partners, coordinators, and associates. That's four titles and three management layers.

The linchpins of the system are the coordinators, a group that includes everyone formerly called foreman, supervisor, manager, head, or chief. The only people who report to coordinators are associates. No coordinator reports to another coordinator—that feature of the system is what ensures the reduction in management layers.

Like anyone else, we value leadership, but it's not the only thing we value. In marine pumps, for example, we have an applications engineer who can look at the layout of a ship and then focus on one particular pump and say, "That pump will fail if you take this thing north of the Arctic Circle." He makes a lot more money than the person who manages his unit. We can change the manager, but this guy knows what kind of pump will work in the Arctic, and that's worth more. Associates often make higher salaries than coordinators and partners, and they can increase their status and compensation without entering the "management" line.

Managers and the status and money they enjoy—in a word, hierarchy— are the single biggest obstacle to participatory management. We had to get the managers out of the way of democratic decision making, and our circular system does that pretty well.

But we go further. We don't hire or promote people until they've been interviewed and accepted by all their future subordinates. Twice a year, subordinates evaluate managers. Also twice a year, everyone in the company anonymously fills out a questionnaire about company credibility and top management competence. Among other things, we ask our employees what it would take to make them quit or go on strike.

We insist on making important decisions collegially, and certain decisions are made by a companywide vote. Several years ago, for example, we needed a bigger plant for our marine division, which makes pumps, compressors, and ship propellers. Real estate agents looked for months and found nothing. So we asked the employees themselves to help, and over the first weekend they found three factories for sale, all of them nearby. We closed up shop for a day, piled everyone into buses, and drove out to inspect the three buildings. Then the workers voted—and they chose a plant the counselors didn't really want. It was an interesting situation—one that tested our commitment to participatory management.

The building stands across the street from a Caterpillar plant that's one of the most frequently struck

factories in Brazil. With two tough unions of our own, we weren't looking forward to front-row seats for every labor dispute that came along. But 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.

We bought the building and moved in. The workers designed the layout for a flexible manufacturing system, and they hired one of Brazil's foremost artists to paint the whole thing, inside and out, including the machinery. That plant really belongs to its employees. I feel like a guest every time I walk in.

I don't mind. The division's productivity, in dollars per year per employee, has jumped from $14,200 in 1984—the year we moved—to $37,500 in 1988, and for 1989 the goal is $50,000. Over the same period, market share went from 54% to 62%.

Employees also outvoted me on the acquisition of a company that I'm still sure we should have bought. But they felt we weren't ready to digest it, and I lost the vote. In a case like that, the credibility of our management system is at stake. Employee involvement must be real, even when it makes management uneasy. Anyway, what is the future of an acquisition if the people who have to operate it don't believe it's workable?

HIRING ADULTS

We have other ways of combating hierarchy too. Most of our programs are based on the notion of giving employees control over their own lives. In a word, we hire adults, and then we treat them like adults.

Think about that. Outside the factory, workers are men and women who elect governments, serve in the army, lead community projects, raise and educate families, and make decisions every day about the future. Friends solicit their advice. Salespeople court them. Children and grandchildren look up to them for their wisdom and experience. But the moment they walk into the factory, the company transforms them into adolescents. They have to wear badges and name tags, arrive at a certain time, stand in line to punch the clock or eat their lunch, get permission to go to the bathroom, give lengthy explanations every time they're five minutes late, and follow instructions without asking a lot of questions.

One of my first moves when I took control of Semco was to abolish norms, manuals, rules, and regulations. Everyone knows you can't run a large organization without regulations, but everyone also knows that most regulations are poppycock. They rarely solve problems. On the contrary, there is usually some obscure corner of the rule book that justifies the worst silliness people can think up. Common sense is a riskier tactic because it requires personal responsibility.

It's also true that common sense requires just a touch of civil disobedience every time someone calls attention to something that's not working. We had to free the Thoreaus and the Tom Paines in the factory and recognize that civil disobedience was not an early sign of revolution but a clear indication of common sense at work.

So we replaced all the nitpicking regulations with the rule of common sense and put our employees in the demanding position of using their own judgment.

We have no dress code, for example. The idea that personal appearance is important in a job—any job—is baloney. We've all heard that salespeople, receptionists, and service reps are the company's calling cards, but in fact how utterly silly that is. A company that needs business suits to prove its seriousness probably lacks more meaningful proof. And what customer has ever canceled an order because the receptionist was wearing jeans instead of a dress? Women and men look best when they feel good. IBM is not a great company because its salespeople dress to the special standard that Thomas Watson set. It's a great company that also happens to have this quirk.

We also scrapped the complex company rules about travel expenses— what sorts of accommodations people were entitled to, whether we'd pay for a theater ticket, whether a free call home meant five minutes or ten. We used to spend a lot of time discussing stuff like that. Now we base everything on common sense. Some people stay in four-star hotels and some live like spartans. Some people spend $200 a day while others get by on $125. Or so I suppose. No one checks expenses, so there is no way of knowing. The point is, we don't care. If we can't trust people with our money and their judgment, we sure as hell shouldn't be sending them overseas to do business in our name.

We have done away with security searches, storeroom padlocks, and audits of the petty-cash accounts of veteran employees. Not that we wouldn't prosecute a genuinely criminal violation of our trust. We just refuse to humiliate 97% of the work force to get our hands on the occasional thief or two-bit embezzler.

We encourage—we practically insist on—job rotation every two to five years to prevent boredom. We try hard to provide job security, and for people over 50 or who've been with the company for more than three years, dismissal procedures are extra complicated.

On the more experimental side, we have a program for entry-level management trainees called Lost in Space, whereby we hire a couple of people every year who have no job description at all. A "godfather"

looks after them, and for one year they can do anything they like, as long as they try at least 12 different areas or units.

By the same logic that governs our other employee programs, we also have eliminated time clocks. People come and go according to their own schedules—even on the factory floor. I admit this idea is hard to swallow; most manufacturers are not ready for factory-floor flextime. But our reasoning was simple.

First, we use cellular manufacturing systems. At our food-processing equipment plant, for example, one cell makes only slicers, another makes scales, another makes mixers, and so forth. Each cell is self-contained, so products—and their problems—are segregated from each other.

Second, we assumed that all our employees were trustworthy adults. We couldn't believe they would come to work day after day and sit on their hands because no one else was there. Pretty soon, we figured, they would start coordinating their work hours with their coworkers.

And that's exactly what happened, only more so. For example, one man wanted to start at 7 A.M., but because the forklift operator didn't come until 8, he couldn't get his parts. So a general discussion arose, and the upshot was that now everyone knows how to operate a forklift. In fact, most people now can do several jobs. The union has never objected because the initiative came from the workers themselves. It was their idea.

Moreover, the people on the factory floor set the schedule, and if they say that this month they will build 48 commercial dishwashers, then we can go play tennis, because 48 is what they'll build.

In one case, one group decided to make 220 meat slicers. By the end of the month, it had finished the slicers as scheduled—except that even after repeated phone calls, the supplier still hadn't produced the motors. So two employees drove over and talked to the supplier and managed to get delivery at the end of that day, the 31st. Then they stayed all night, the whole work force, and finished the lot at 4:45 the next morning.

When we introduced flexible hours, we decided to hold regular follow-up meetings to track problems and decide how to deal with abuses and production interruptions. That was years ago, and we haven't yet held the first meeting.

HUNTING THE WOOLLY MAMMOTH

What makes our people behave this way? As Antony Jay points out, corporate man is a very recent animal. At Semco, we try to respect the hunter that dominated the first 99.9% of the history of our species. If you had to kill a mammoth or do without supper, there was no time to draw up an organization chart, assign tasks, or delegate authority. Basically, the person who saw the mammoth from farthest away was the Official Sighter, the one who ran fastest was the Head Runner, whoever threw the most accurate spear was the Grand Marksman, and the person all others respected most and listened to was the Chief. That's all there was to it. Distributing little charts to produce an appearance of order would have been a waste of time. It still is.

Ricardo Semler's Guide to Stress Management

There are two things all managers have in common-the 24-hour day and the annoying need to sleep. Without the sleeping, 24 hours might be enough. With it, there is no way to get everything done. After years of trying to vanquish demon sleep and the temptation to relax, I tried an approach suggested by my doctor, who put it this way: "Slow down or kiss yourself good-bye."

Struck by this imagery, I learned to manage my time and cut my work load to less than 24 hours. The first step is to overcome five myths:

1. Results are proportional to efforts. The Brazilian flag expresses this myth in a slightly different form. "Order and Progress," it says. Of course, it ought to say, "Order *or* Progress," since the two never go together.

2. *Quantity of work is more important than quality.* Psychologically, this myth may hold water. The executive who puts in lots of hours can always say, "Well, they didn't promote me, but you can see how unfair that is. Everyone knows I get here at *8 A.M.* and that my own children can't see me without an appointment."

3. The present restructuring requires longer working hours temporarily. We think of ourselves as corks on a mountain stream headed for Lake Placid. But the lake ahead is Loch Ness. The present, temporary emergency is actually permanent. Stop being a cork.

4. *No one else can do it right.* The truth is, you *are* replaceable, as everyone will discover within a week of your funeral.

5. This *problem* is *urgent.* Come on. The real difference between "important" and "urgent" is the difference between thoughtfulness and panic.

Those are the myths. The second step is to master my eight cures:

1. Set an hour to leave the office and obey it blindly. If you normally go home at 7:00, start leaving at 6:00. If you take work home on weekends, give yourself a month or two to put a stop to this pernicious practice.

2. Take half a day, maybe even an entire Saturday, to rummage through that mountain of paper in your office and put it in three piles.

Pile A: Priority items that require your personal attention and represent matters of indisputable importance. If you put more than four or five documents in this category and are not currently the president of your country, start over.

Pile B: Items that need your personal attention, but not right away. This pile is very tempting; everything fits. But don't fall into the trap: Load this stuff on your subordinates, using the 70% test to help you do it. Ask yourself: Is there someone on my staff who can do this task at least 70% as well as I can? Yes? Then farm it out. Whether or not your subordinates are overworked should not weigh in your decision. Remember, control of your time is an exercise in selfishness.

Pile C: Items that fall under the dubious rubric "a good idea to look at." One of the most egregious executive fallacies is that you have to read a little of everything in order to stay well-informed. If you limit the number of newspapers, magazines, and internal communications that you read regularly, you'll have more time to do what's important—like think. And remember to keep your reading timely; information is a perishable commodity.

3. In dealing with Pile A, always start with the most difficult or the most time-consuming. It also helps to have a folder for the things that must be done before you go home that day and to make a list of the things that simply cannot go undone for more than a few days or a week. Everything else is just everything else.

4. Buy another wastepaper basket. I know you already have one. But if you invited me to go through that pile of papers on your desk, I could fill both in a trice. To help you decide what to toss and what to save, ask yourself the question asked by the legendary Alfred P. Sloan, Jr.: "What is the worst that can happen if I throw this out? " If you don't tremble, sweat, or grow faint when you think of the consequences, toss it.

This second wastebasket is a critical investment, even though you'll never be able to fill both on a regular basis. Keep it anyway. It has a symbolic value. It will babysit your in-basket and act like a governess every time you wonder why you bought it.

5. Ask yourself Sloan's question about every lunch and meeting invitation. Don't practice these three RSVPs:

"Thanks, but I just can't fit it in."

"I can't go, but I think X can. (If you think someone should.)

"I'm sorry I can't make it, but do let me know what happened."

Transform meetings into telephone calls or quick conversations in the hall. When you hold a meeting in your office, sit on the edge of your desk, or when you want to end the discussion, stand up from behind your desk and say, "OK, then, that's settled." These tricks are rude but almost foolproof.

6. Give yourself time to think. Spend half a day every week away from your office. Take your work home, or try working somewhere else—a conference room in another office, a public library, an airport waiting room—any place you can concentrate, and the farther away from your office the better. The point is, a fresh environment can do wonders for productivity. Just make sure you bring along a healthy dose of discipline, especially if you're working at home.

7. About the telephone, my practical but subversive advice is: Don't return calls. Or rather, return calls only to people you want to talk to. The others will call back. Better yet, they'll write, and you can spend ten seconds with their letter and then give it to the governess.

Two ancillary bits of phone advice: Ask your assistants to take detailed messages. Ask them always to say you cannot take the call at the moment. (Depending on who it is, your assistants can always undertake to see if you can't be interrupted.)

8. Close your door. Oh, I know you have an open-door policy, but don't be so literal.

What I'm saying is, put ten people together, don't appoint a leader, and you can be sure that one will emerge. So will a sighter, a runner, and whatever else the group needs. We form the groups, but they find their own leaders. That's not a lack of structure, that's just a lack of structure imposed from above.

But getting back to that mammoth, why was it that all the members of the group were so eager to do their share of the work—sighting, running, spearing, chiefing—and to stand aside when someone else could do it better? Because they all got to eat the thing once it was killed and cooked. What mattered was results, not status.

Corporate profit is today's mammoth meat. And 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. Everyone agrees that profits should belong to those who risk their capital, that entrepreneurial behavior deserves reward, that the creation of wealth should enrich the creator. Well, depending on how you define capital and risk, all these truisms can apply as much to workers as to shareholders.

Still, many profit-sharing programs are failures, and we think we know why. Profit sharing won't motivate employees if they see it as just another management gimmick, if the company makes it difficult for them to see how their own work is related to profits and to understand how those profits are divided.

In Semco's case, each division has a separate profit-sharing program. Twice a year, we calculate 23% of after-tax profit on each division income statement and give a check to three employees who've been elected by the workers in their division. These three invest the money until the unit can meet and decide—by simple majority vote—what they want to do with it. In most units, that's turned out to be an equal distribution. If a unit has 150 workers, the total is divided by 150 and handed out. It's that simple. The guy who sweeps the floor gets just as much as the division partner.

One division chose to use the money as a fund to lend out for housing construction. It was a pretty close vote, and the workers may change their minds next year. In the meantime, some of them have already received loans and have begun to build themselves houses. In any case, the employees do what they want with the money. The counselors stay out of it.

Semco's experience has convinced me that profit sharing has an excellent chance of working when it crowns a broad program of employee participation, when the profit-sharing criteria are so clear and simple that the least-gifted employee can understand them, and perhaps most important, when employees have monthly access to the company's vital statistics—costs, overhead, sales, payroll, taxes, profits.

TRANSPARENCY

Lots of things contribute to a successful profit-sharing program: low employee turnover, competitive pay, absence of paternalism, refusal to give consolation prizes when profits are down, frequent (quarterly or semiannual) profit distribution, and plenty of opportunity for employees to question the management decisions that affect future profits. But nothing matters more than those vital statistics—short, frank, frequent reports on how the company is doing. Complete transparency. No hocus-pocus, no hanky-panky, no simplifications.

On the contrary, all Semco employees attend classes to learn how to read and understand the numbers, and it's one of their unions that teaches the course. Every month, each employee gets a balance sheet, a profit-and-loss analysis, and a cash-flow statement for his or her division. The reports contain about 70 line items (more, incidentally, than we use to run the company, but we don't want anyone to think we're withholding information).

Many of our executives were alarmed by the decision to share monthly financial results with all employees. They were afraid workers would want to know everything, like how much we pay executives. When we held the first large meeting to discuss these financial reports with the factory committees and the leaders of the metalworkers' union, the first question we got was, "How much do division managers make?" We told them. They gasped. Ever since, the factory workers have called them "maharaja."

But so what? If executives are embarrassed by their salaries, that probably means they aren't earning them. Confidential payrolls are for those who cannot look themselves in the mirror and say with conviction, "I live in a capitalist system that remunerates on a geometric scale. I spent years in school, I have years of experience, I am capable and dedicated and intelligent. I deserve what I get."

I believe that the courage to show the real numbers will always have positive consequences over the long term. On the other hand, we can show only the numbers we bother to put together, and there aren't as many as there used to be. In my view, only the big numbers matter. But Semco's accounting people keep telling me that since the only way to get the big numbers is to add up the small ones, producing a budget or report that includes every tiny detail would require no extra effort. This is an expensive fallacy and a difficult one to eradicate.

A few years ago, the U.S. president of Allis-Chalmers paid Semco a visit. At the end of his factory tour, he leafed through our monthly reports and budgets. At that time, we had our numbers ready on the fifth working day of every month in super-organized folders, and were those numbers comprehensive! On page 67, chart 112.6, for example, you could see how much coffee the workers in Light Manufacturing III had consumed the month before. The man said he was surprised to find such efficiency in a Brazilian company. In fact, he was so impressed that he asked his Brazilian subsidiary, an organization many times our size, to install a similar system there.

For months, we strolled around like peacocks, telling anyone who cared to listen that our budget system was state-of-the-art and that the president of a

Big American Company had ordered his people to copy it. But soon we began to realize two things. First, our expenses were always too high, and they never came down because the accounting department was full of overpaid clerks who did nothing but compile them. Second, there were so damn many numbers inside the folder that almost none of our managers read them. In fact, we knew less about the company then, with all that information, than we do now without it.

Today we have a simple accounting system providing limited but relevant information that we can grasp and act on quickly. We pared 400 cost centers down to 50. We beheaded hundreds of classifications and dozens of accounting lines. Finally, we can see the company through the haze.

(As for Allis-Chalmers, I don't know whether it ever adopted our old system in all its terrible completeness, but I hope not. A few years later, it began to suffer severe financial difficulties and eventually lost so much market share and money that it was broken up and sold. I'd hate to think it was our fault.)

In preparing budgets, we believe that the flexibility to change the budget continually is much more important than the detailed consistency of the initial numbers. We also believe in the importance of comparing expectations with results. Naturally, we compare monthly reports with the budget. But we go one step further. At month's end, the coordinators in each area make guesses about unit receipts, profit margins, and expenses. When the official numbers come out a few days later, top managers compare them with the guesses to judge how well the coordinators understand their areas.

What matters in budgets as well as in reports is that the numbers be few and important and that people treat them with something approaching passion. The three monthly reports, with their 70 line items, tell us how to run the company, tell our managers how well they know their units, and tell our employees if there's going to be a profit. Everyone works on the basis of the same information, and everyone looks forward to its appearance with what I'd call fervent curiosity.

Ricardo Semler's Guide to Compensation

Employers began hiring workers by the hour during the industrial revolution. Their reasons were simple and rapacious. Say you ran out of cotton thread at 11:30 in the morning. If you paid people by the hour, you could stop the looms, send everyone home, and pay only for hours actually worked.

You couldn't do such a thing today. The law probably wouldn't let you. The unions certainly wouldn't let you. Your own self-interest would argue strongly against it. Yet the system lives on. The distinction between wage-earning workers and salaried employees is alive but not well, nearly universal but perfectly silly. The new clerk who lives at home and doesn't know how to boil an egg starts on a monthly salary, but the chief lathe operator who's been with the company 38 years and is a master sergeant in the army reserve still gets paid by the hour.

At Semco, we eliminated Frederick Winslow Taylor's segmentation and specialization of work. We ended the wage analyst's hundred years of solitude. We did away with hourly pay and now give everyone a monthly salary. We set the salaries like this:

A lot of our people belong to unions, and they negotiate their salaries collectively. Everyone else's salary involves an element of self-determination.

Once or twice a year, we order salary market surveys and pass them out. We say to people, "Figure out where you stand on this thing. You know what you do; you know what everyone else in the company makes; you know what your friends in other companies make; you know what you need; you know what's fair. Come back on Monday and tell us what to pay you."

When people ask for too little, we give it to them. By and by, they figure it out and ask for more. When they ask for too much, we give that to them too—at least for the first year. Then, if we don't feel they're worth the money, we sit down with them and say, "Look, you make x amount of money, and we don't think you're making x amount of contribution. So either we find something else for you to do, or we don't have a job for you anymore." But with half a dozen exceptions, our people have always named salaries we could live with.

We do a similar thing with titles. Counselors are counselors, and partners are partners; these titles are always the same. But with coordinators, it's not quite so easy. Job titles still mean too much to many people. So we tell coordinators to make up their own titles. They know what signals they need to send inside and outside the company. If they want "Procurement Manager," that's fine. And if they want "Grand Panjandrum of Imperial Supplies" that's fine too.

And that's all there is to it. 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.

LETTING THEM DO WHATEVER THE HELL THEY WANT

So we don't have systems or staff functions or analysts or anything like that. What we have are people who either sell or make, and there's nothing in between. Is there a marketing department? Not on your life. Marketing is everybody's problem. Everybody knows the price of the products. Everybody knows the cost. Everybody has the monthly statement that says exactly what each of them makes, how much bronze is costing us, how much overtime we paid, all of it. And the employees know that 23% of the after-tax profit is theirs.

We are very, very rigorous about the numbers. We want them in on the fourth day of the month so we can get them back out on the fifth. And because we're so strict with the financial controls, we can be extremely lax about everything else. Employees can paint the walls any color they like. They can come to work whenever they decide. They can wear whatever clothing makes them comfortable. They can do whatever the hell they want. It's up to them to see the connection between productivity and profit and to act on it.