

Semco company
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Introduction

Semco a Brazilian company was established by an Austrian born engineer Antonio Curt Semler in 1954 and it started off with manufacturing centrifuges. Within a decade Semler & company became one of the fastest growing companies of Brazil by acquiring major contracts to supply marine pumps to military.

Ricardo Semler the son of Antonio Semler after graduating from Harvard took over the reins of the company in 1982. Until then Semco was a paternalistic organisation governed by an autocratic leader. Ricardo Semler had a different way of running the organisation; on his first day as the CEO of the company he fired two thirds of the senior management. After one of the incidences in a factory floor, where he fainted & later hospitalized, he came to realize the importance of creating work life balance not only for himself but also for his employees. From then on he carried out a series of experiments within his organisation, which not only made Semco survive the rough patches of Brazilian economy but thrive after words. Semco's sales increased from \$35 million in 1990 to \$100 million in 1996.

Ricardo came to know for his radically different style of management and many of the fortune 500 companies paid a visit to Semco to identify the causes for their success. Also Ricardo Semler won the business leader of the year award in Brazil both in 1990 & 1992. He has authored two highly acclaimed books “Maverick” and “The seven day weekend” where he has heavily challenged the modern management practices.

In this report I will be exploring the different approach of Ricardo semler to management and would be evaluating its effectiveness. Also I will try to apply the system employed by Semler at Semco to the UK consumer giant Sainsbury and predict the likely consequences both in the medium & long term.

Q1. Semco Organisation Design and its effectiveness

Semco has a very flat structure consisting of only three layers. The top most layers comprises of six counsellors who determine the general policy and strategy for the organisation. These six counsellors act as CEO for a six month period in succession. The second layer comprises of partners, with seven to ten leaders from each Semco division. The final layer comprises of employees who are called associates in Semco.

Semco is an incredibly decentralised organisation; it has probably got the extreme form of decentralisation. Here each employee makes decision regarding their work, they have the entire freedom to set their working times, their salaries and every body works in an open office. Everything is transparent and every one works in the same office floor without having any private chambers for anyone. This is very much similar to Japanese organisations where everyone has same dress code; they eat from the same self serviced canteens and use the same car park. This effectively breaks down the barrier between the management & employees (the Them & Us barrier).

However this is in much contradiction to western management style which tends to have taller organisations with a wider middle management. Control

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is kept in the hands of select few and decisions are taken only at the top of organisation. Although lately there is a lot of talk about empowerment in the work place but it seems to be more or less on paper rather than actually being practised. Power and control are very difficult things for any top management to give up.

I believe the difference in focus between Semler and other organisations create this radical difference in which they are managed. Where Semler does not believe in any mission statement and is always ready for change, on the other hand most organisations have a fixed goal to achieve. Also one of the important principles of Semler is to create a work life balance for employees, his main objective is not to make profit at the expense of employees, whereas with most organisations this is only a fairy tale, they pursue strict targets and ensure they get the best out of employees in pursuance of that target. I would say the major difference is Semco is an employee centred organisation whereas most traditional organisations are objective/ goal centred organisations.

Semco demonstrates an unbelievable level of transparency, it gives all its employees a copy of its P/L statement and also it leaves no stone unturned to make them understand by publishing them in a cartoon like manner. Each employee sets their own salary and they not only know each others salary but also what other employees are getting in similar positions in other companies. During performance appraisal interviews if their salary is found to be low, they are encouraged to take up higher salaries.

Employees set their own working time and have no formal dress code to follow. A perfect evident is the two receptionists in Semco; no one knows who is going to be at the desk as the two of them decide their work schedule among themselves. Semler demonstrates an unbelievable level of faith on his employees, according to him the best way to management is to have no management at all. He believes that employees are grown up adults and they will do their level best to achieve results beneficial to the company, the customer, their colleagues and themselves. He doesn't consider himself the owner of the company; according to him he merely owns the capital of the company.

Semco is a highly flexible organisation, after taking over the reigns, Semler has diversified the business and has nine different areas of operation including environmental consultancy, which is a result of the proposal the company received from one of its NTI (Nucleus of Technological innovation). Remaining open to suggestions Semco has managed to grow its business and revenue.

The approach adopted by Semco has proven to be highly effective which is reflected in the success of Semco. Not only it has increased its revenue and proved itself one of the fastest growing companies in Brazil but also it has become a highly sought out employer in Brazil with a very low labour turn over rate. Both increased profit and low labour turnover rate are indications of the success that Semco is generating by adopting its present system of industrial democracy.

One of the biggest challenges for any modern organisation is to make employees feel a part of the organisation. The sense of ownership & belongingness generated among employees increases their motivation level and in turn increases their productivity. Modern management theories like participation, delegation, empowerment etc seem to be the answer for these challenges but companies are still struggling with their implementation.

However Semco seems to have mastered these principles and have applied them in a very common but unpractical manner. A few important factors that emerge from the study of the organisational design of Semco are:

It encourages participation / involvement of employees which effectively gives a sense of control to employees, it breaks down the status quo, it releases the creativity among employees, and this creates a sense of belongingness which in turn leads them to take responsibility for their job. This can best be described in Semler's own words " where every employee has the freedom but also take collective responsibility for their work".

Q2. Difference between Semco system and traditional approaches to Strategic HRM

Strategic HRM focuses on identifying the right number and type of employees needed to realize the operational and business strategy . Every business creates its own strategy to achieve its objectives; Strategic HRM focuses on obtaining the people that is needed to carry out the strategies in practice.

So it should focus on finding people whose attitudes and behaviours are likely to be congruent with what management believes to be appropriate and conducive to success. However Townley (1989) believes that excessive focus on attitudinal and behavioural characteristics would lead to danger as it would stop any innovation and would lead the organisation to a state of inertia and rigidity where it would be difficult for them to survive in a highly competitive environment.

The main elements within a traditional approach to strategic HRM are: Human Resource planning, Recruitment & Retention, Learning & Development etc.

Human resource planning focus on identifying the present human resource capability and future human resource requirements of the business and then it formulates a plan to bridge the gap.

Traditionally Recruitment and retention policies are formulated by the Human Resource department. And they are often aided by the line managers in doing so. Here I will be exploring the difference between Semco's approach to recruitment and retention from the traditional approach.

Recruitment is regarded as the process of attracting suitable candidates towards a vacant position and then selection is carried out to select the best possible candidate. Normally it goes through a series of steps:

Identifying the vacancy

Analysing the job

Formulating job description

Formulating person specification

Creating a Job Advert

Determining the medium for advertisement

Internal / External Recruitment

Collecting CVs or application packs

Short listing the candidates

Arranging interviews

Conducting interviews

Selection of the suitable candidate

Induction

Semco has a different way of carrying out recruitment, in this case it's not the HR department or Line manager who decides whom to recruit or not rather it's the associates who would work with the new recruit would decide whom to hire regardless whether the new person would be a boss or co-worker. And they adopt the following procedure:

a) At first the associate comes with the need to hire someone.

b) A general voluntary meeting is held to discuss the new recruits' characteristics & skills

- c) Then an advertisement is carried out in a newspaper or a head hunter is appointed.
- d) Resumes are collected and Semco a receives a high volume of application each time it advertises for a vacancy.
- e) Applications are distributed among the members to mark them on grading criteria.
- f) All the applicants that receive A+ are called for the interview.
- g) They are called for a group interview and the best candidate is selected.

Retention of key individuals is crucial for the success of any organisation. Traditionally organisations tend to link additional benefits to salary in order to retain the key individuals. They are given promotions, higher pay packages, more holidays, company cars etc. to remain loyal to the company. In case of Semco retention rate is very high as they are labour turnover rate is very low around 1% and they are considered one of the most sought out employers in Brazil. The reasons for this unbelievably high rate of retention could be attributed to three principles of Semler:

Participation / involvement of employees gives them a sense of control

profit sharing gives them a reason to work

Open information system that tells employees what works and what doesn't work

Q3. Application of Semco System to the British supermarket giant Tesco

Tesco is the largest retailer in the UK in terms of sales; its profit is continuously on the rise and has exceeded £2 billion in 2007. In 2007 both its sales & profit grew respectively by 10.9% and 20.3%. It is undoubtedly a highly successful organisation and controls more than 30% of the grocery market in the UK. It has both diversified into different product ranges and into different markets such as the USA.

Tesco was founded by Jack Cohen in 1924 and the name resembles the first two letters of his surname and the first two letters of his supplier T. E Stockwell. It opened its first store in 1929 in Burnt Oak, Edgware, Middlesex. As of 2007, Tesco has about 1,988 stores in the UK and 1,275 outside the UK. Tesco operates in four different types of store format e.g. Tesco Express, Metro, Superstore & Extra. In 2007 there was only a moderate inflation 0.2% across Tesco Stores. Also Tesco is the largest private sector employer in the UK.

Tesco has a huge reputation within the retail industry and is highly successful. Over the years it has grown from a number two position to become the market leader. Here I will try to apply Semco system of management to Tesco and identify the potential impacts of it.

Semco and Tesco are both popular and successful companies in their own geographic region. Both operate across a diversified range industry. But they have a number of significant differences as well:

Tesco is publicly traded company whereas Semco is a private company with Semler being the major shareholder.

Tesco is much bigger in size in comparison to Semco and operates internationally.

Tesco has a mission statement and corporate objectives and is guided by strategies whereas Semco doesn't have any mission statement or strategy.

Tesco has a board of directors and a CEO who set the overall agenda for the company, whereas Semco has six different CEOs but none of them entirely set the agenda of the company

Tesco derives its competitive advantage from its range of products and low cost of products whereas Semco derives its competitive advantage from having a loyal and dedicated workforce.

Tesco is mostly a service company and is into mass market where it provides general public with items of basic necessity whereas Semco is mostly a manufacturing company without a lot of customer involvement.

In case of Tesco most of its operations are carried in house whereas in case of Semco most of the operations are outsourced and company actually performs a few operations e. g. higher management, Research & development etc.

The difference in operation can be attributed to the status of both companies. Being a publicly traded company Tesco has to generate profit for its shareholders and therefore should be driven by strict targets. On the other hand Semco is a private company where Semler holds majority of the share and his focus is on creating a better working environment for its employees and also create a work-life balance for them. However both

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organisations practice profit sharing among employees to certain extent, whereas it is widely practised in Semco, in case of Tesco during 2006, it distributed £77 million worth of shares among its employees under “ Shares in Success” scheme.

Possible impacts of Semco System of Human Resource management on Tesco:

Employees determining their working times and dress code: Tesco employees in majority of stores work on a rota basis and have a formal dress code to follow. Most of them would argue it avoids unnecessary conflict among employees and provide management with the option of rotating employees based on their requirement and uniform derives a sense of belonging to the organisation and creates a uniform culture. However if Semco system is applied at Tesco then there would be both long & medium term benefits as employees would be able to decide their own working time, they can balance their work and life better and would feel a sense of control. However it may lead to chaos with less number employees being present during the busy period and more being present during the quiet period.

Employees deciding their salary: Tesco has predetermined salaries for each level, this is based on the industry standard, however it can be noted that generally retail industry is not very attractive in terms of payment. On several occasions during my conversation with its employees they have expressed dissatisfaction over their pay. And most of them do the job because they are either studying or have no other choice. By giving employees an opportunity to decide their salary, in my opinion Tesco would

improve its image as an employer of choice thereby able to attract and retain highly talented individuals. However since it is a low cost supplier and always trying to minimize its operating expense it must set up a certain quota to avoid overpaying its employees.

Employees determining the type of products to sell or type of special promotion to carry out in a given store: this is definitely a healthy suggestion as employees would be more aware of the local needs than the head quarter. It will also give them a sense of participation and involvement in organisation decision making thereby increasing their level of job satisfaction.

Employees recruiting their colleagues or managers: Tesco has a dedicated Human Resource Department which carries out the recruitment and retention. Given the volume of operation it might not be wise to devolve this function to employees; however employees should have a say in the type of person they would like to work with and that should be taken into account by Human Resource department while formulating the person specification.

The system of performance management in Semco can be applied at Tesco where every employee will be not only being judged by their managers but also by their colleagues and managers would be judged by their subordinates. This certainly is a fair system of appraisal and would eliminate any bias during the performance appraisal process.

Conclusion

Semler is a highly respected business man and intellectual, his principles have made his own organisation successful. The three core values: participation, profit sharing and free flow of information are highly appealing. His argument in favour of treating employees as grown up adults in the work place and giving them responsibility for their own job roles has its own merits, however this eliminates the need for a formal management and the lack of which may create confusion and chaos in the organisation.

Participation from employees is definitely one of the important considerations for management and Semler has put this into practice by giving employees the authority to make decisions concerning their job and the whole organisation. However at times in order to make right decision employees need to have the right information and insight and in the event of a crisis where decision should be made immediately, it should rather be done by the higher management. Not all democratically made decision is beneficial. Semler practices an extreme form decentralisation, although this has proven to be successful in case of Semco, I doubt its application in other large organisations e. g. Tesco.

On a nut shell the management system at Semco is very unorthodox and on the same scale very attractive, it generates high degree of loyalty among employees and provides them with an unrivalled working environment. For me personally I would like to work at Semco to get a feel of the sense freedom enjoyed by employees but lack of career progression is definitely a deterring factor in making that decision.