

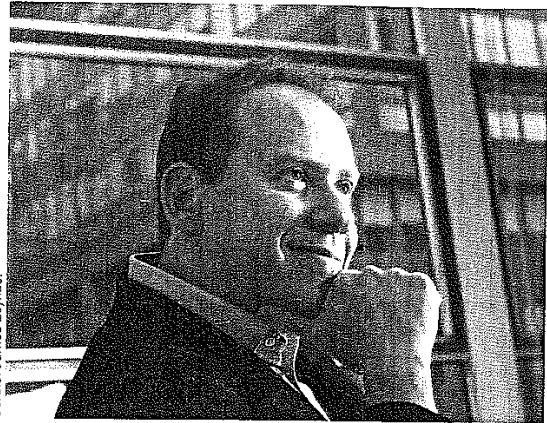
Semco is a Brazilian company that in 2007 employed about 2500 people in three countries, working in manufacturing, professional services and software. The main offices are in São Paulo, where Antonio Semler founded the company in 1953 to make industrial equipment such as pumps and centrifuges. He ran it in a traditional way, but in 1982 his son Ricardo Semler took over as chief executive. The company has survived a turbulent Brazilian economy, and the annual revenue of what is in effect a federation of about ten companies exceeds \$200 million.

Ricardo Semler has unusual ideas about business and has gradually dismantled the management structure he inherited, moving Semco towards a very flexible form with profit sharing, employee participation and a free flow of information. Under the profit-sharing plan employees (known as associates) receive one-quarter of the profits of their respective division. The scheme is run by an elected committee, which reflects Semler's trust in his employees' abilities to make decisions.

Employees are free to agree their working hours with their co-workers – coming in and leaving work at times to suit their domestic or other commitments. Many were sceptical of this innovation – but Semler argues that provided people are committed to their job and the company, they will (and do) manage their time responsibly –

they're the best judges of the amount of time and the proper place necessary to get the work done . . . do we really believe that responsible adults . . . would simply not show up after promising to do so? That a journalist who understands the urgency of deadlines would go to the movies while the presses are standing still, waiting for his submission? (Semler, 2003, pp. 27–28)

The Brazilian economy was in poor shape during the early 1990s, with many companies going bankrupt. Semco survived, though only by cutting costs sharply. The workers themselves proposed the solutions, such as having people do several jobs rather than one. This developed a workforce that was cross-trained in several skills, and with a deep knowledge of the business. Most work is now done by units that perform all the necessary support functions such as marketing and finance themselves. For many years the company has organised work in self-managed teams, whereby



Courtesy: James Leynse.

groups of six to eight manufacturing employees take responsibility for all aspects of a production task. They set their targets and production goals, and decide what they should be paid. The teams vote on hiring and firing members and managers.

The management structure is like three concentric circles. The inner core has six counsellors who determine general policy and strategy, each acting as CEO for six months. Two seats at meetings are reserved for employees – the first there take the seats. The second circle consists of partners – the leaders of each division. All remaining associates make up the outer circle. Team leaders are within this outer circle – such as engineers, marketers and production supervisors. Associates are encouraged to openly oppose and reject proposals by upper management.

Sources: Based on material from Thunderbird, The American School of International Management, Case A15-98-0024, *Ricardo Semler and Semco S.A.*; Semler (2003); and other published material.

Case questions 14.1

- What examples are there of senior managers influencing associates?
- What examples are there of associates influencing senior managers?
- What assumptions about people lie behind Semler's management style?

David Michels, chief executive of Hilton Hotels

Argument is an essential part of the success of any business, he says:

You have to talk to staff and you can't insulate yourself by getting in first-class limos all the time. You have to get on the Tube and you have to get people to argue with you. I argue so much with my staff I sometimes wonder who is in charge. I enjoy [life as chief executive], I really do. But sometimes I sit back and think 'bloody hell, this is difficult'.

Source: *Financial Times*, 6 June 2003.

Many trainers use the Blake and Mouton model to help managers develop towards the '9,9' style. Implicit in the approach is the idea of flexibility. Others question whether showing a high level of concern for both production and people is always the best approach. Sometimes a concern for production may be more important than concern for people – such as in a sudden crisis that requires swift action. Situational or contingency models offer a possible answer.

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Employees have gradually taken greater responsibility over everything from cafeteria menus to new product designs and plant relocations. They are always free to develop new skills in other areas of the business, and to transfer to different units if they are accepted by their new colleagues. Another innovation is that workers set their own production quotas and come in on their own time to meet them if necessary, without pressure from management and without overtime pay. Their managers have considerable autonomy over the strategy for their business unit, including setting levels of pay.

Employees can see all company financial information, and Semco developed a unique way of presenting financial information in a clear, simplified way. They also developed a course to teach everyone to read balance sheets and cash-flow statements. Employees in each business group use this financial information to develop their business plan for the next six months, deciding what staff they will need and fixing their salaries. There are 11 compensation options (such as fixed salaries, royalties or stock options), which employees can choose between.

Anyone who requests too large a salary . . . runs the risk of being rejected by their colleagues. So self-interest almost

always prevents them from asking for excessive pay-cheques. We also encourage people to set their own salaries without creating a deficit in their departments. That's why monthly revenue reports, budgets, costs, salaries, profit sharing, and transparent numbers [publishing salaries] are so important at Semco. If workers understand the big picture, they'll know how their salaries fit. (Semler, 2003, p. 197)

All meetings, including those of the counsellors, are open to all employees who wish to attend. This gives staff the information they need to make informed decisions, and reinforces the democratic nature of the decision-making process.

Moving an organization or business ahead by virtue of what its people stand for means removing obstacles like official policies, procedural constraints and relentless milestones, all of which are set up in the pursuit of quarterly or otherwise temporary success. It means giving up control, and allowing employees to manage themselves. It means trusting workers implicitly, sharing power and information, and celebrating true democracy. (Semler, 2003, pp. 112–113)

Sources: Based on material from Thunderbird, The American School of International Management, Case A15-98-0024, *Ricardo Semler and Semco S.A.*; Semler (2003); and other published material.

Case questions 14.2

- Where would you place Ricardo Semler on Blake and Mouton's managerial grid?
- Does the Semco story support or not the prescriptions of that model?

14.5 Situational (or contingency) models

Situational models of leadership attempt to identify the contextual factors that affect when one style will be more effective than another.

Situational (or contingency) models present the idea that managers influence others by adapting their style to the circumstances. Three such models are set out below (a fourth, developed by Vroom and Yetton (1973) featured in Chapter 7).

Tannenbaum and Schmidt's continuum of leader behaviour

Unlike the 'one best way' model implied by the behavioural models, Robert Tannenbaum and Warren Schmidt (1973) saw that leaders worked in different ways, which they presented as a continuum of styles, ranging from autocratic to democratic. Figure 14.4 illustrates these extremes and the positions in between. Which of these the leader uses should reflect three forces:

- 1 forces in the manager: personality, values, preferences, beliefs about participation and confidence in subordinates;
- 2 forces in subordinates: need for independence, tolerance of ambiguity, knowledge of the problem, expectations of involvement;
- 3 forces in the situation: organisational norms, size and location of work groups, effectiveness of team working, nature of the problem.

House's path-goal model

House (House and Mitchell, 1974; House, 1996) argued that effective leaders are those who clarify their subordinates' path to the rewards available, and ensure that rewards the subordinates value are available. They help subordinates to identify and learn behaviours that will help them complete the task and so secure the rewards for doing so. The model identifies four styles of leader behaviour:

- 1 directive: letting subordinates know what the leader expects; giving specific guidance; asking subordinates to follow rules and procedures; scheduling and coordinating their work;
- 2 supportive: treating them as equals; showing concern for their needs and welfare; creating a friendly climate in the work unit;
- 3 achievement oriented: setting challenging goals and targets; seeking performance improvements; emphasising excellence in performance; expecting subordinates to succeed;
- 4 participative: consulting subordinates; taking their opinions into account.

Activity 14.3 Critical reflection on sources of power

- Try to identify at least one example of each of the personal and positional power sources. Examples could come from observing a manager in action (including people in your university or college) or from your reading of current business affairs.
- Can you identify what the person concerned has done to develop their power?
- Have other events helped to build, or to undermine their power?

Case questions 14.3

- Which of the sources of power in Table 14.5 has Ricardo Semler used?
- What has he done to increase his power in the eyes of those he is trying to influence?
- What other forms of authority has he acquired?
- Which of the sources of power in Table 14.5 could the associates use?

14.7 Using positional power to influence others

Those who want to be effective influencers can increase their chances of doing so by building up those sources of power that come from their position within the organisation. Kanter (1979) observed that people are more likely to be influenced by strong and powerful managers than by weak and isolated ones. She identified many ways in which a manager's position in the organisation affects their power, such as:

- approvals needed for non-routine decisions (fewer approvals means more power)
- relation of job to current organisational priorities (central relation means more power)
- external contact (more opportunities for this means more power)
- senior contact (more opportunities for this means more power).

The nature of the job and the pattern of contacts that come with it give the manager access to three 'lines of power':

- **supply:** money and other resources that can be used to bestow status or rewards on others in return for their support;
- **information:** being in the know, aware of what is happening, familiar with plans and opportunities that are in the making;
- **support:** able to get senior or external backing for what he or she wants to do.

Political behaviour is 'the practical domain of power in action, worked out through the use of techniques of influence and other (more or less extreme) tactics' (Buchanan and Badham, 1999).

The more of these lines of power the manager has, the more will subordinates co-operate. They do so because they believe that the manager has the power to engage in political behaviour and make things happen: they have 'clout' – weight or political influence in the organisation. A person's position in the organisation gives them access to one or more of the sources of power shown in Table 14.5.

'To increase power, share it'

Kanter (1979) also proposed that managers can increase their power by, paradoxically, delegating some of it to subordinates. As subordinates carry out tasks previously done by the manager, he or she has more time to build the external and senior contacts – which further boost power. By delegating not only tasks but also lines of supply (giving subordinates a generous budget), lines of information (inviting them to high-level meetings) and lines of support (giving visible encouragement), managers develop subordinates' confidence, and at the same time enhance their own power. They can spend more time on external matters, making contacts, keeping in touch with what is happening and so building their visibility and reputation. A manager who fails to delegate, and who looks inward rather than outward, becomes increasingly isolated.

Delegation occurs when one person gives another the authority to undertake specific activities or decisions.

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The offices are open plan (like those at Oticon – Chapter 10), and managers have none of the minor privileges often associated with the role, such as parking spaces, executive dining rooms or secretaries. There are very few rules, as Semler believes in treating employees like adults.

We have absolute trust in our employees . . . (and) we are proving that worker involvement doesn't mean that bosses lose power. What we do is strip away the blind, irrational authoritarianism that diminishes productivity. We're thrilled that our workers are self-governing and self-managing. It means that they care about their jobs and about their company, and that's good for all of us. (Semler, 1994, pp. 4–5)

A major innovation occurred when some engineers offered to develop new products and lines of business, working with Semco equipment and facilities in return for a share of the royalties or savings from their ideas. They would report to senior management after six months – who would extend or revoke the mandate. The group was successful, and senior managers have encouraged this 'satellite' system throughout the group. These have become highly innovative divisions within Semco, and some two-thirds of the company's new products come from satellites. Workers thrived on having complete accountability and responsibility, understanding that failure to perform would result in the unit being discontinued.

This way of growing the business has enabled it to develop from the original industrial machinery unit, which has evolved into high-tech mixing equipment used in, for example, the pharmaceutical industry. Another unit (SemcoBAC) makes cooling towers for commercial properties, and a third (Semco Johnson Controls) manages large properties such as hospitals and airports. Other units are in environmental consulting, inventory management, HRM outsourcing: in 2004 it entered a joint venture with Pitney-Bowes, the world leader in mail and document management solutions. The common theme is that they are all in markets in which the solutions are highly engineered (and therefore difficult) and in which Semco can be a market leader, able to charge a high price. Underlying all of the transformation that has taken place, Semler identifies a common core value:

If you ask people what Semco is, their answer will be the same as it was two decades ago . . . People will talk about shared ideas . . . and that comes from the freedom to ask, Why? (Semler, 2003, p. 8)

Sources: Based on material from Thunderbird, The American School of International Management, Case A15-98-0024, *Ricardo Semler and Semco S.A.*; Semler (2003); and other published material.