Reflections of a reluctant capitalist
An interview with Charles Handy

No other management theorist’s world view encompasses the irresistible rise of the flea, their symbiotic relationship with elephants and a written constitution for business. In addition, Charles Handy calls on the business world to rethink the money-obsessed mindset of executives and to look for a raison d'être beyond simply increasing shareholder value. Interview by Des Dearlove.

Charles Handy, the UK’s only home-grown international management guru, has long been regarded as one of the most eminent and influential business thinkers in the world.

Irish-born Handy is a former oil executive turned academic and is now enjoying a third career as a populist social philosopher. For reading the business runes or stretching the imagination, he has few equals. Yet, despite his often revolutionary message, his remains the genteel, civilised voice of management.

Handy worked for Shell until 1972 when he left to teach at London Business School where he was the first director of LBS’ Sloan Management Programme. Since then he was written a number of best-selling books including Understanding Organisations (1976), The Age of Unreason (1989), The Hungry Spirit (1998), and, most recently, The Elephant and the Flea (2002).

Among his best known ideas is that of the “cloverleaf organisation” – later called the shamrock organisation – with a small core at the centre of a system of “leaves” made up of outsourced work, contractors, consultants and temporary workers. Revolutionary at the time, it turned out to be an accurate prediction of the future.

Handy has been challenging the status quo ever since. To him, capitalism is a system – the best we’ve come up with so far – but merely a beginning. It is a stepping off point for what really matters to human beings – their aspirations, families and sense of self worth. His 1998 book The Hungry Spirit warned of the dangers of the mercenary society that corporations had created.

So how does Handy view today’s turbulent business environment? He talked with Des Dearlove.

You use a lot of metaphors in your work. How helpful are they to practising managers?
I think they’re very helpful to understanding things. When they’re in a hurry people think better visually than they do analytically. My metaphors are basically visual – the elephant and the flea, for example. Now that doesn’t tell you what to do but it does make you look at your organisation and yourself in a different way and I think that’s the first step to practicality, to understanding where you are and what the possibilities
are. Then you have to work out what exactly you do. I don’t go that next step in my writing. I don’t tell people what to do. I think that though there are generalities every individual situation is just a little bit different. So though I would give examples I wouldn’t be specific. I like to leave it at the metaphor level.

It’s a user-friendly way of getting into quite serious issues. It’s a lot easier than talking about things like re-engineering – where you have to find out what it means because it doesn’t immediately tell you anything. Metaphors immediately tell you something.

So your metaphors deliberately go in the opposite direction to the mechanistic language of a lot of management ideas?

Absolutely. I talk about doughnuts and shamrocks and all that sort of stuff. First of all it intrigues people. Second, as I said, it is user-friendly. And, third, it is terribly useful. My shamrock model, for example, is a way of describing how organisations are carving themselves up into sub-contractors and so on. I went to a conference in the US about 10 years ago, soon after that book came out there, and I met a group of people who told me they worked for the Shamrock Organization. I said how funny and they said no, we call it that because we read your book and decided to practice exactly what you said; so we decided to call ourselves the Shamrock Organization.

Is there a new model that you see developing at the present time?

Well for the elephants, the big organisations, there is what I call the federal model. It’s another metaphor. Not quite as homespun as shamrock and drawn from political theory but which is becoming increasingly significant. We are now realising that organisations are not mechanistic devices but communities of people. Therefore political theory – winning acceptance for your ideas, talking about leadership rather than management are all political ideas – is becoming relevant. It is about how you get communities to move in a certain direction. Federalism is a political idea that we know quite a lot about and which I believe is terribly relevant to large global organisations where some things have to be centralised and others must be decentralised.

For example, federalism says that you have to have a common law and a common currency. So translating that into organisation terms there have to be some basic rules. Some of these big organisations have a “bible” – a set of basic principles or rules for how we behave. And they have a common currency, by which I mean a common information system.

In the UK we don’t have a written constitution as they do in the US. Do companies need a written constitution?

I think they do. Federalism is all about negotiation as to who does what and who has the power and authority for what. It’s not hierarchical. In a mechanistic model it’s easy for an organisation to say the top man does everything and the bottom man has limits to his authority; the top man can tell the second top man what to do and everyone knows where the authority is down the line. But it’s much more complicated in a federal organisation. A federal organisation is often made up of alliances and partnerships and you actually do have to negotiate who has the power to do what and it really does need to be written down. These are legally binding things because you’re dealing with partners who may have a share of the operation. So a constitution has to be written down.

And the “constitution” becomes a higher authority that people can appeal to?

That’s right. There is a sort of “supreme court” function that is usually a sub-committee of the board – the audit committee or the oversight committee. The other interesting thing about the federal model is that there is a legislative function and an executive function – and they are different, though they may overlap to some degree. The executive function proposes things to the legislative function, which lays down the law. I think that’s increasingly happening in organisations.

You no longer have dictatorships at the top. Call it corporate governance or whatever, but the chief executive increasingly does not have total power to set the rules, to set the laws. It has to be done by a representative body and increasingly that body has to represent other interests than just the shareholders. People talk about the community and so on but I also think it has to represent employees and other members of the alliance, who then entitle and enable the CEO to do what he or she has to do. The CEO has to be obedient to these groups.
One big difference with a political leader, for example the US president, is that he is the elected representative of the people. Can you see companies electing CEOs in the future? I don’t think it’s impossible. I think the electorate would be confined to people who are directly in touch with him or her. I can’t see Coca-Cola polling everyone to elect a president. It wouldn’t be feasible. But I can see a more informal process going on, where soundings are taken – rather like the Conservative party of old in the UK. When boards have to change CEOs they do canvas opinion – but usually not enough within the organisation; they canvas outside. But increasingly I think they will canvas inside. Because to exercise authority in the modern organisation it’s not enough to have the position; you have to have the acceptance of your authority – your right to rule – to get people to do anything.

Would a written constitution have prevented what happened at Enron?
No. I don’t think so because there was an informal constitution there that would have overridden it. They overrode it with the permission of the supreme court function in the form of the auditing body and the board, which theoretically knew what was going on. So even if they’d had a written constitution they would have been able to override it. I suppose it might have helped to concentrate minds.

This is going to happen. Increasingly, non-executive directors and trustees of charities are beginning to realise that they are liable and that they will have to pay more attention to what’s going on. And I think they will want what should be going on to be written down. So I think written constitutions will be coming in.

Another strand in your more recent work has been the role of the entrepreneur. Are we at a point where everyone now has to see himself or herself as an entrepreneur?
No. Though we are all responsible for our own lives to a greater extent than we were, that doesn’t mean we will all be entrepreneurs although we all need to think of ourselves much more as independent agents. OK, we may be currently working for, employed by or indentured to a corporation but that’s not a guarantee anymore. When organisations decide to get rid of 30,000 people, a lot of those people are going to be very surprised. They may get a good pay-off but they have to realise that that particular stage of their life may have come to an end and nobody is going to look after them in the way they used to. In that sense we are all independent agents.

Now, the degree to which we’re entrepreneurs is another question. We’re not all going to be setting up independent businesses.

Entrepreneurs in the sense of being entrepreneurial units of one?
Yes. “Me Inc”. I think so more and more. I think we will increasingly see a career with an organisation as an apprenticeship – rather like going to college before you set out on your own – and I think that’s a very good thing. We would be very rash to think we could set up on our own without going to college and without any experience of the business world. That apprenticeship may go on for 20 years but even that brings you only to your early or mid-40s.

I think increasingly most of the elephants are going to have a managerial core with an average age of around the mid-30s, with a few wise old owls who stay, but an awful lot of people peeling off at around 40 and setting up on their own or in partnership and selling their services back into the elephants.

The elephants will be organisers rather than doing everything. And the people they organise may well be ex-employees who have been spun off to do their own thing. Maybe the corporation will keep a stake in them so it has it both ways. So organisations that see themselves as the seedbeds of future independent business people will be doing themselves and everyone else a big favour.

That’s a very different career path for an individual. So how does someone acquire a mindset that says they’re going to join an organisation from college and then make that major adjustment in their late 30s?
At the moment it’s probably in their late 40s but the age when people become fleas of one kind or another will come down. I think you have to change the zeitgeist – to say to people the world has changed. That’s why I use metaphors to try to popularise the
idea that there are elephants that are very big and visible but that in fact most people don’t actually work for them. Most people work for fleas – small organisations – or are themselves fleas.

I went out to dinner the other day with a family we know and the father took me on one side and said I’ve just been made redundant and I’m going to set up as a consultant with a friend – what do you think of that? And I said, well, you’ve become a flea. And then I talked to his daughter, who’s an investment banker, and she said I’ve just taken voluntary redundancy in the City and I’m going to be an independent person and I’m not going to do banking again. I sold my whole life to this great bank in Canary Wharf and I’m not going to do it any more.

So here were two people I thought were good respectable elephant people who totally unexpectedly – and I see them about once a month – were telling me that they had become fleas. They weren’t frightened; they were looking forward to it. They’ve served their apprenticeships; they know they have talents and they’ve got some money because they’ve been well paid. As more and more of that happens – and, indeed, the concept of the flea is legitimised – I think you’ll hear more people talking about being fleas.

You need a partner, I think, to help you think things through and to compensate for the skills you don’t have – and I see them about once a month – were telling me that they had become fleas. They weren’t frightened; they were looking forward to it. They’ve served their apprenticeships; they know they have talents and they’ve got some money because they’ve been well paid. As more and more of that happens – and, indeed, the concept of the flea is legitimised – I think you’ll hear more people talking about being fleas.

You have some concerns about portfolio careers, though?

Well not everyone can cope with it. When I did it I discovered two things. The first was that I had some skills that I didn’t realise were saleable – namely writing and speaking – which were nothing to do with my first career as an oil executive. Second, I discovered someone to sell them – my wife, who turned out to be a brilliant agent and businesswoman. It doesn’t have to be your life partner but you need somebody to help you. Indeed, to do everything on your own is very lonely. And even if you employ people it’s still very lonely. You need a partner, I think, to help you think things through and to compensate for the skills you don’t have, which in my case are marketing and being a good businessman.

But lots of people don’t do that. I get people writing to me saying they’ve accepted voluntary redundancy and are going portfolio. They’ve read my books and ask me to please help them fill their portfolios. And I say I can’t do that. You’ve got to discover your skills and market yourself. I tell them it will take two years to build the kind of brand recognition that they need and they’ll have to work very, very hard.

How do you build that kind of brand recognition?

It basically comes from doing good work in the first place – and a certain word of mouth. But you can help the word of mouth by giving yourself some kind of image. Putting a word or something on that image – so you get known for something. It’s no good just saying I’m a strategy consultant because there are a lot of strategy consultants around. So what’s your particular take on life? Maybe it’s the process by which you go about it – or maybe the ideas you have or the particular marketplace you operate in – “he’s the sort of guy that does this sort of thing”. So you’ve got to find a way of encapsulating that.

Do your ideas work equally well in developing countries such as India or China?

It does vary with the culture. Italy, for example, is a country of small businesses so it is naturally a flea land. Being a flea is totally accepted. But not so much in Spain, which is a hierarchical organisation place – people like to feel they belong to an organisation.

I think India is a land of fleas although maybe they are still at the stage where they need to grow a few more elephants. Because I’m not saying that elephants are doomed. Fleas need elephants because they are the organisers. Without them fleas would have nothing to crawl on and feed on. We need elephants. I don’t know China well enough to really comment. But again it seems to me it may need to grow some more elephants.

I think the concepts do apply but perhaps there are different stages in the mix of elephants and fleas. And the relationship between them is very important. If you treat fleas just as suppliers and you make them go out to tender and push down their costs then you won’t get the best out of them. You’ve got to treat them more as the Japanese would in their keiretsu.

You have been critical of the mercenary culture that exists among managers in big business. What causes it and how does it impact on society?
Yes, I’m concerned that capitalism is eating itself. I think money is an essential ingredient in successful societies. Most families that break down do so because the economics go wrong rather than the love disappears. I never want to be heard to say that money is not important. But it is a means to another end.

I think the danger with capitalism and with organisations and businesses is that money has become the end. We are just competing for who can get the most money – whether it’s a corporation, an industry or an entrepreneur. I find that deadening to the human spirit. You can never win that race. You may be Bill Gates for a time but sure as hell there’ll be another Bill Gates and so unless you start to use your money – as, to be fair, Bill Gates seems to be doing – for another purpose it is meaningless.

Of course if you are successful in business you will make money. But then you can only go on being a successful business if you continue to do something that is more useful to more people than other businesses and you need money to grow to do that. So I think the purpose of business is not to make money but to do something that is more useful to more people than anybody else. But most capitalists don’t think about it that way, I’m afraid.

And most managers don’t think about it that way, either. They want promotion because they can make more money to pay off a bigger mortgage and have a bigger house rather than because they can now be in a position to do something more worthy with their lives.

In the Elephant and the Flea there’s a passage about your father’s funeral and how it made you re-evaluate the meaning of success. Do you think managers have lost a sense of how to define success beyond just money?

For too many people that’s true. Money is an easy thing to count. It’s easy to put a scale on it and say someone is more successful than someone else. I think many people discover too late in their lives that that isn’t it. Success is something else. Luckily I discovered it in the middle of my life rather than at the end.

Does fleadom offer a second chance?

When I was working for an oil company my goals were quite clear: to get more responsibility. I’d already sold my time to them for the next 40 years so the only question was what was I going to do with that time. And they would tell me that. The only real question, therefore, that I could negotiate was how much they were going to pay me for my time. So obviously I was interested in more money, almost to the exclusion of anything else.

But when I became an independent flea I realised that there was a trade-off. I could sell all my waking hours and make quite a lot of money. But on the other hand I didn’t have to do that. I could sell half my time and make half as much money. So then you have to say to yourself what do I really want to do with my life? That’s why I say in the end it’s a question of philosophy not of economics. You do have to say: what is my life about; how do I count success; how do I want to be remembered; what difference do I want to make in the world – oh and by the way I need some money. But how much money and what am I going to sacrifice if I want more money?

My wife and I set strict limits on how much money because it takes up a lot of time. We try to do only things that we think are really useful; a bit of prostitution to pay for the groceries.

Do you think the anti-capitalist protests are a significant movement or somewhat marginal?

At the moment it’s at the margin but it’s expressing a feeling that many of the younger generation, and some of the older, feel – that the elephants are getting too powerful. I’m not so worried about it because I don’t think they can tell governments what to do. But there is that worry. Then there’s the deeper concern that capitalism is eroding our values – what we’ve just been talking about – that materialism is dominating everything else and that money is the measure of all things. Third, that the world is growing more unequal, particularly internationally, and many countries are not getting any better.

I share all those concerns. I don’t share their methodology. They have to attract attention. If you have peaceful protests no one notices. At the moment it’s at the margin but I think they are reflecting a growing unease, which I share, about where we are heading with this. And I don’t have any easy answers – nor do they. The problem is they are protesting but they don’t have any answers.
The only answers, I think, lie with changing the mindsets of the people who run these organisations. And I think that is changing. They’re beginning to see that they need to be less preoccupied with themselves and more with their bigger purpose in life. That’s not the same as social responsibility – which is a phrase I don’t like. I just want them to define their aims in a more helpful, unselfish way. We have to find better ways to make that legitimate, so that CEOs can go and stand before their financiers – their shareholders – and say this is what we’re doing and it is acceptable.

Social responsibility isn’t the right way because it looks like just having good PR. It has to be something bigger than that. I don’t have the words yet. I suppose it ought to be my next book.

“Proper selfishness” is another term you’ve used. It seems like an individual quality rather than an organisational one. Can you explain?

Yes it is, though in the Hungry Spirit I tried to apply it to organisations as well. You’ve first of all got to look after yourself. If as an individual you’re not at ease with yourself then you’re no good to anyone else. The same applies to corporations. If they are not healthy and thriving they are no good to anyone else.

Having done that, to make it proper selfishness you have to use that selfishness for some greater purpose beyond yourself. That is the bit that’s lacking. The selfishness bit is there. There are a lot of very fit individuals and very fit corporations around the place but what are they going to do? It’s what I’ve been calling recently the second level of success. The first level of success is proving that you are OK; the second level of success is then doing something with that.

There are some – usually small individually owned corporations or family firms – with a mission to do something other than just to make money. When they’ve got lots of money they say they want to make the best wine in the world or something.

My other thesis is that the balance of power has got to shift a bit away from shareholders, who finance the wealth creation, to the people who actually make the wealth. I think that’s going to happen not because I say so but because we’ve got to find better ways to reward the people who make the wealth – that probably means giving them an increasing share of the equity. Some of it will happen through putting shares in the company into trusts for the workers and so on. Share options is a rather insidious way of making cost-free payments to people. But I do think that if you or your group are responsible for making the wealth then you should have as much of a stake in the future of the corporation as the people who finance it. The idea of ownership will gradually go. The financiers will become less powerful and the employees will become voters as it were. That would be healthy.

But even if you’re a business leader it’s very hard to change the system. You are going to be judged on your financial performance

What I worry about with capitalism is that so much of it is just trading businesses – buying and selling. These businesses are communities of people; they are like villages or towns. It’s like buying York and selling it to Spain. I really don’t think it’s very nice. But under the present systems of Anglo-American open stock market capitalism it’s very difficult to see how you can stop that. The only way I think it’s going to change is to change the culture – that means CEOs standing up and saying I’m not going for maximising shareholder value in the short-term, I’m building a great community with enough vitality to last 50 years.

Are you bored with writing books yet?

Well I’m beginning to be bored of writing these sorts of books. So I’m going to change. I’m going to work more with my wife looking at interesting people – a mixture of text and photographs. We’re thinking of doing one called Double Harness about people like us who work together, where one of the partners runs the back office and the other runs the front. How they set their priorities and manage their relationships. Not just glamorous people – but electricians and plumbers and priests and doctors whose partners often do the books and manage the financial side. We haven’t paid enough attention to back office roles but they are really important.

But I probably won’t write any more books about the big world of corporates because I feel I’ve said everything I have to say about it. I’d just be repeating myself.