

Chapter Three

A World of Fleas and Elephants

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The world of organizations is fast dividing itself into fleas and elephants. The elephants are the large organizations of business and government; the fleas are the technological start-ups and the new dot-coms, they are the small consultancies and professional firms, the self-employed experts and the specialty suppliers that service the elephants. On a humbler scale the fleas include the little businesses that pepper our main streets with restaurants, family-run stores, hairdressing salons, and real estate agencies, not to mention the hundreds of thousands of small not-for-profit organizations, as well as all our local schools and churches.

The elephants get all the attention, from academics as well as from the press, but most people have always worked in the fleas. The elephants consolidate, but the new ideas mostly come from the fleas. The elephants matter, particularly the multinational, global ones—they fertilize the world with their ideas and their technology, they amass the piles of resources that are necessary to develop oilfields, build aircraft, research new drugs, or spread their brands around the world. They apply the advantages of scale and the clout of size to promoting efficiency and to reducing the costs to the final consumer. To an elephant, in fact, size is crucial. In pursuit of ever greater size, we have, in recent years, seen elephants swallowing elephants or, as they would no doubt prefer to put it, marrying elephants in what they call strategic mergers.

Once married or swallowed, the elephants go on a slimming diet, shedding jobs by the thousand in pursuit of a necessary efficiency. They are addicted to a productivity formula of $\frac{1}{2} \times 2 \times 3$, or an objective of having half as many people employed in, say, five years' time, working twice as hard and producing three times as much. Fine for the stockholders, no doubt, but not so good for the half a workforce that gets offloaded. Don't, therefore, look to the elephants for the new jobs; they have to come from the fleas. This is a lesson that America learned long ago, one that Europe is only slowly coming to terms with.

Nor should we look to the elephants for imaginative new ideas. Efficiency is, in many ways, the enemy of creativity. Efficiency abhors waste, is uneasy with experiments that might go wrong, finds nonconformity uncomfortable, and prefers predictability to risk. Elephants prefer to pick up innovations once they have been proved to work. They can then develop them, give them scale and mass, promote them and deliver them at an acceptable price. The new ideas, in short, come from fleas, often from fleas that arrive out of a clear blue sky, from outside the industry altogether, the Amazon.coms of our new world. The trouble is that fleas tend to live on the backs of elephants, not inside their bodies. When elephants buy up the product of a flea to develop it, they will spit out the original flea as soon as they can.

Fleas, therefore, provide the new challenges for leadership, at all levels in society. What sort of leadership does a flea organization require, particularly an innovative flea? What are the characteristics of successful flea organizations? Can they, should they grow into elephants? How can elephants grow fleas, or at least encourage them, tolerate their irritation, and make use of their creativity? What makes an innovative flea individual, how are they educated, can they be trained, or is it all a matter of genes and luck?

Fleas are currently fashionable. The First Tuesday meetings, started in London and now operating in fifty cities around the world, are fashionable flea markets, attracting up to three thousand young would-be dot-com fleas of an evening. Students are leaving MBA courses before they finish to join a fledgling flea, suddenly conscious, perhaps, that business schools are the finishing schools of the elephants. Is that what business schools should be? Or should

they be flea nurseries? Can they be both, or are business schools elephants themselves, temperamentally incapable of harboring fleas?

The pressures of a global world, which demands an increased degree of scale, added to an unprecedented pace of innovation, requiring constant invention and reinvention, means that every society needs a mixture of both inventive fleas and efficient elephants. The questions that are listed here are, therefore, of some urgency if we are all going to benefit from the new frontiers opened up to us by technology.

The Leadership of Fleas

At the heart of every flea organization, at least at its beginnings, lies a creative individual. In 1999, the author and his wife, a portrait photographer, conducted a study of twenty-nine such individuals in London, England, individuals they called the “New Alchemists,” meaning that they had created something from nothing, or from the metaphorical equivalent of base metal. The flea organizations that they had created or transformed ranged from businesses of various sorts to arts or community ventures, including a school and a church. The study is reported fully in *The New Alchemists* by Charles and Elizabeth Handy (London: Hutchinson, 1999).

The sample was small and could not therefore be definitive, but it did provide some clues to the nature of these leaders and the organizations that they had created, all of which were successful in their own terms. The one defining and common characteristic was *passion*. These individuals were passionate about what they were doing, whether they were building new airlines (Richard Branson), new eateries in New York and London (Terence Conran), new theater companies (Declan Donnellan with Cheek by Jowl), Britain’s first and only private Anorexic Clinic (Dee Dawson), or Britain’s first Healthy Living Center (built around a rundown church in the East End of London by Andrew Mawson). If the venture was a business, money was the outcome of success but was not the reason for the passion. Richard Branson says that he turns his frustrations as a customer into businesses to “improve a bit of the world.”

This passion for what they did enabled them to endure anything—the long hours necessitated by starting a venture, the failures and mistakes that inevitably occur, and that they speak of as “lessons learned” rather than failures, and even the relative poverty that many experienced until the venture started to develop. The passion was often neither logical nor reasonable. Business plans would have looked wildly optimistic at the beginning, but none of them relied on outside financing at the start. Passion, not reason, provided the driving force. These individuals were mavericks, they were different and were determined to make a difference. That determination fueled their energy. Dedication, difference, and doggedness, therefore, were the hallmarks of the alchemists.

Their passion infected their organizations. By recruiting like-minded enthusiasts, albeit with diverse talents, the leader created a family in his or her own image. These families were “chaordic,” to use Dee Hock’s description of the mixture of chaos and order that seems to be characteristic of the new, fast-moving businesses. Because they were small and like-minded they could rely on empathy for much of their communication, a sense of “what would Richard (or Lucy) do?” governed their lives. Meetings were frequent but snappy. One alchemist had his boardroom table made five feet high to ensure that all meetings took place standing up. Success was shared, either by formal profit-sharing schemes or by joint celebrations in the case of the nonprofits.

They keep the cores of their organizations tiny, so as to reinforce the sense of empathy at the center and to create trust. Richard Branson operates out of a private house in London, still looking very much like his home (which it used to be), relying on a tiny core staff of six or seven. Being dyslexic he dislikes reading reports and formal documents, relying on his lieutenants to do the reading and preferring himself to listen and talk—to as many as he can meet. His very personal style reinforces an atmosphere of trust and empathy. Terence Conran lives above his design studios in London, and has built a workshop employing some thirty people in the grounds of his country home. Andrew Mawson’s Center, now employing over seventy people with some 120 projects on the go, is based around his church, where he is still the pastor. In these ways they continue to emphasize the personal nature of the orga-

nizations they started. Their organizations are all mirrors and extensions of themselves.

With the exception of Dee Dawson, none of the alchemists in the study had been anywhere near a business school. Many had left formal education as soon as they could. Being different, they chafed at rules and regulations and found examinations irrelevant even when they came easily. They had little time for reading, therefore their management theories were all homemade and very personal, derived from experience. One of them (Julian Richer, the founder of hi-fi retailer Richer Sounds) had actually written two best-selling books extolling his principles of management. This all helped to emphasize the personal nature of their organizations. Cash flow and recruitment were the things they kept a close personal eye on. Otherwise they encouraged experiment and initiative as long as they knew what was going on. Good personal communication was, therefore, critical—and they all spent a lot of time talking, listening, and walking around.

In many respects, therefore, they were typical of a family firm, only it was their colleagues who were the family. They were not interested in creating a dynasty or a way of life for their heirs. Their passion was to make a difference to the world—as quickly as they could. It was what gave their organizations energy and excitement, the sense of being on a shared voyage of discovery. What was unclear was where the voyage would end up. Would the organizations turn into elephants themselves, or would they die when the founder left?

Can Fleas Become Elephants?

Elephants were all fleas once, just as oaks start from acorns, but the reverse is not necessarily true—not all acorns become oaks and most fleas do not develop into elephants. Acorns and fleas both seem subject to nature's law of abundance, there are so many of them that enough survive even if most fail. In Britain last year there were almost as many small business failures as there were new start-ups.

To move from flea to elephant requires a change of style. Infection and empathy are no longer enough when an organization becomes large and geographically dispersed. In most cases the

change of style means a change of leader. Jim Clark, the founder of Silicon Graphics, Netscape, and Healtheon—and supreme among business alchemists—could never adjust to running the businesses he created. Michael Lewis, in his book *The New New Thing*, talks of the Serious American Executive who would move in to run the operations that Clark had created but could not manage.

As often as not, once the new business reaches a significant size it is bought by an existing elephant who then, immediately or in due course, gets rid of the pioneering flea-master. The elephant then takes the flea firmly in its trunk and introduces the techniques of efficiency, growing the business but in the process probably destroying much of the original excitement.

The organizations studied in *The New Alchemists* seem unlikely to either outlast the departure of their founder or to become large enough and cohesive enough to be classed as elephants. Richard Branson's Virgin Group consists of fifty separate companies, ranging from airline and railroad businesses across financial services to holiday and leisure. The only thing holding them together is Branson's enthusiasms and his Virgin brand, with its reputation for putting the customer's concerns first. On his departure it seems probable that the conglomerate he has built up will be divided into its several pieces. Conran's restaurant and design business, likewise, although large, is really a collection of individual businesses held together by the Conran philosophy and brand, a brand that may not survive the departure of its philosopher king.

Only the book empire built up by Tim Waterstone and still bearing his name seems likely to make it to the elephant category. That is partly due to the injection of finance and management expertise from the EMI group, who financed the merger of Waterstones, Dillons (a rival bookstore chain), and HMV (music stores). The result has been a perceptible change in the atmosphere of the Waterstone stores now that the founder has departed to higher regions and the chain handed over to professional retailers. Efficiency not empathy is now the watchword, Tim Waterstone himself is rarely seen and many of the original staff are leaving. Some might say that the magic has gone, others would argue that the

business has grown up. What is clear is that the atmosphere in an elephant is very different from that of a flea.

What is less clear is why most alchemists or flea-masters in Britain seem uninterested in becoming the leaders of global elephants, unlike their equivalents in America. It may be that they are less ambitious, or perhaps less interested in the power that comes from the control of a large organization. It may also be that they are unwilling to exchange the family organization for something less personal. Perhaps they don't know how to do it. Does this matter? Italy has built a successful economy on the back of a long list of family firms with world-famous brand names but still flealike in the number of their employees and in their leadership style. Germany, too, has a tradition of the *Mittelstand* firms, small and medium-size family firms specializing in particular unspectacular niches.

The *Mittelstand*, however, are beginning to sell out to the elephants now that the third generation of the family has taken over and much of the personal passion of the founders has gone. When it is just a business and no longer a passion it is best to trade empathy and enthusiasm for efficiency. Italy, too, may find that its family firms cannot easily maintain a global reach with a personal style of leadership. Europe will need its elephants if it is to keep pace with the giants elsewhere, which is why, for instance, BP has been aggressively mating with other elephants such as Amoco and Burmah Oil to create the world's second-largest oil company, and Vodaphone with Mannesman to build the world's largest mobile phone company.

Nonetheless, when fleas become elephants something is lost, even though much may be gained economically. The mood of the talented young favors the flea. Elephants have a hard job recruiting all the talent that they need, or in keeping those whom they do recruit. The question, therefore, for the leaders of the elephants is whether they can learn from the fleas and whether they can themselves grow fleas. As the chairman of one Anglo-Dutch multinational put it, "My problem is that I am not sure why any young person would want to work for a company like mine today with all the other opportunities around." If he's right, it is a serious dilemma because inefficient or sickly elephants could be catastrophic for an economy.

Can Elephants Harbor Fleas?

What is clear is that personality is as important to the leadership of an elephant as it is in a flea. Jack Welch will be remembered as much for the way he expressed the purpose of GE in his own behavior and passion as for the strategic choices that he made. Percy Barnevik, when CEO of ABB, managed to infect that huge federal organization with his own enthusiasm and zeal. One CEO of a multinational described his job as a mixture of missionary and teacher, endlessly communicating his message to his people.

Yet it is not enough for the leaders at the top to forget themselves in their function. That delight, that sense of vocation or passion, must be possible right through the organization. That requires space, space to express oneself in one's work, space to experiment, space to fail—and enough space to correct the failures before too much damage is done or too many people notice. It won't be possible to create those spaces in an excessively tidy organization. Elephants have to be loose-limbed if there is to be room for fleas other than at the top.

One answer lies in federalism. Federalism was conceived as a way of combining the collective and the independent, of being both big and small, the same but different. Americans and Germans, Australians and Canadians, Spaniards and Swiss have all got federal constitutions, designed to allow independence within a union, but even these do not always see the sense in applying the same principles to their businesses. To the British, federalism is the F word, a dirty word, one that implies a loss of control to the center. This serious misunderstanding of the principles of federalism will be a handicap in the future development of both their constitution and their economy.

This is not the place for a detailed discussion of federalism. The principles are spelled out in an article for the *Harvard Business Review*, "Balancing Corporate Power: A New Federalist Paper" (Reprint No. 92604).

Suffice it here to say that federalism is a mixture of both centralization and decentralization, centralizing only those things that everyone agrees it would be crazy not to centralize, and leaving as much autonomy as possible to the various states or business groups—the space for the fleas.

Federalism is messy, and political. There are disputes over the allocation of resources. Information is guarded when it should flow freely. There are boundary disputes, necessary compromises, competing lines of accountability. To make it work requires an active understanding of “twin citizenship”—the idea that one can have at least two loyalties, to one’s own group and to the larger collective, one can be both a Texan and an American. The lesser loyalty is easy, it is the larger one that requires work, because without it compromise is hard to obtain—why give up on local priorities for the greater good if you have no interest in that greater good? Hence the critical importance of the talk of *vision* and *values* and the necessity for the top leader to accentuate these in every word and action. Some distribution of the spoils of success from the center to the states also helps to reinforce the idea of a common good.

Properly done, however, federalism allows room for the fleas inside the elephant. ABB tries to restrict the size of its business groups to fifty persons so as to recreate that sense of a small enterprise, personally led and motivated. In a world of Hi-Tech, Hi-Touch (to use Ronald Naisbit’s evocative terms) can easily be neglected, yet fleas rely a lot on trust, trust in those they work with, and trust needs touch to be truly trust. Technology communicates facts but not feelings. Fleas need both for trust to flourish, and few of us can know more than fifty people well enough to gauge their feelings or to know whether they can be relied upon.

The alchemists instinctively know this, which is one reason why they are reluctant to grow too big. Federalism offers a way forward, but it is neither easy nor tidy. Small wonder, perhaps, that many leaders of elephants shrink from it.

There are alternatives. One way is to run an internal venture capital bank, backing innovative proposals, either from internal groups or from individuals who want to move outside. Gary Hamel (“Bringing Silicon Valley Inside,” *HBR* September-October 1999) describes one experiment of this type. In London, a young woman called Eva Pascoe was e-commerce director for Arcadia, a fashion retailer. A typical flea, she became irritated by the restrictions of the elephant and decided that she wanted to start her own Internet fashion store, Zoom.com. Arcadia agreed to back her, taking 60 percent of the shares—thereby ensuring access, not only to any appreciation in the shares, but, more important, to her innovations.

Some prefer to cultivate their own private flea gardens, a la Xerox PARC. Although the fleas often thrive in such corporate gardens there is a problem in bringing them or their ideas back into the mainstream. History is littered with examples of good ideas ignored by the same elephants who paid for them to be cultivated. It is simpler, perhaps, to go flea hunting, buying up innovative companies once they have proved themselves, dumping the bad or irritating bits and keeping the essential intellectual property.

Can Fleas Be Developed? Or Is It Luck?

The stories of the London alchemists provide some clues to the way fleas grow. Clearly genes have some part to play, but passion, self-confidence, and self-awareness, all critical to successful alchemy, can be grown in each one of us.

Early environment played a part in these people. They all benefited from *second child syndrome*. Two-thirds of the sample were second or third in the birth order of their family, but even the firstborn tended to be treated by their parents in the more relaxed way that second or third children experience. Parental expectations and inexperience are often loaded onto the firstborn with the result that the child can end up as high-achieving but also conformist and with a strong sense of duty. The pressure is often lifted for subsequent siblings. They are allowed to be more experimental, to explore a wider array of avenues for development, to experience failure without trauma and to express themselves in their own way.

These practices are not universal, of course. The point is that a child who is allowed space to experiment will soon learn that mistakes are not fatal, that self-expression is satisfying, and that confidence grows through successive experiences of success. Self-confident parents reinforce the message that we are in control of our own lives and are free to shape events as much as we are shaped by them.

Most of the alchemists in the study *The Group* were then fortunate enough to receive what Freud called "The Golden Seed." At some stage in their formative years someone somewhere told them that they had a special talent. It was often a teacher, sometimes a first boss, once a priest, occasionally a relative, sometimes a mother,

but only once a father. They tucked this private nugget away in their heart but, in times of doubt or uncertainty, they pulled it out to reassure themselves. Dee Dawson did not shine academically at school, but she enjoyed biology classes. When she took her national examinations at the age of eighteen, as one does in Britain, her teacher told her afterwards that she had got the best grades in the whole region for biology. “Then I knew that I was clever,” she said, and later, faced with going to medical school in her thirties she was undaunted—“You see, I know that I am clever,” she said.

They were also fortunate in that they discovered their vocation or their passion early on. Terence Conran fell in love with design at the age of fifteen, influenced by his mother and his teachers at that time. Oswald Boateng, one of Britain’s fashionable young tailors, discovered his talent for tailoring by accident when helping his then girlfriend to produce a fashion show. For Julian Richer it was the thrill of doing business, a thrill he discovered when buying and selling hi-fi equipment to his schoolmates. For Declan Donnellan, theater was always his fascination once he discovered it during his schooldays. For Tim Waterstone it was marketing that fascinated him, along with books. Combine the two and you find a passion for bookselling.

None of them were conventional learners, even though a few did quite well at school. They learned by experiment and experience, helped in most cases by an early mentor, someone who had backed them financially or psychologically and whom they could rely on to tell them the truth about themselves, someone also who acted as an early model for their own work and career. With the exception of Dee Dawson, it occurred to none of them that formal education might help, although the tailor Oswald Boateng did take some evening courses in business after his first bankruptcy at the age of twenty. Most of them preferred to compensate for their lack of expertise in some areas by hiring the expertise that they lacked rather than by studying it themselves.

This has profound implications for education at all levels, but particularly for those who would like to claim that they are developing future leaders at professional schools. It is clear that classroom study will not be adequate, indeed may be damaging to would-be alchemists. Even those whose destiny it is to lead the elephants or

parts of elephants need to have a feel for the way alchemists think and for how fleas are born. This won't happen by rational analysis of case studies, it needs real-life experience.

Perhaps the time is right to rediscover the merits of what the French call *formation* and the British "professional development," in which guided experience is mixed with classroom exposition and discussion. All the older professions in Europe—medicine, law, architecture, even accountancy—combine periods of apprenticeship or "articles" with formal classroom teaching. Why should leadership, a practical art if ever there was one, be any different?

Apprenticeship by itself can be a way of embalming the past in the present. It needs the challenge of intellectual analysis to keep it relevant and contemporary, just as the classroom needs the test of practice to keep it real. To misquote Wordsworth's definition of poetry: "Education is experience understood in tranquillity." Too often, in the past, the experience and the understanding have been unconnected. Unless we can find new ways to reconnect them the business schools will remain the finishing schools for the elephants, not the fleas.

Incubator units in the schools, more company-specific courses, more tutored apprenticeships and distance learning modules tied to project work, these are all possibilities that are currently being explored in Europe. The schools are finding, in short, that if the students won't come to where they are then they will have to go to where the students are. The school as an extended learning community is an exciting prospect, but it will require a lot of adaptation by all involved if it is to be more than a concept. Yet if the professional schools adapt in this way they could provide a model for the rest of education. Now that would be an act of great leadership, a goal worth striving for in a world hungry for new forms of learning.