

HONEYBEE CAPITAL

RESEARCH PUBLICATION #2 (abridged web version)

“INNOVATION AND INSPIRATION”

- *This is the shortened web version – to become a Honeybee client and see the full publication, please contact us at info@honeybeecapital.com.*

Main sources of input for this issue:

- Santa Fe Institute Business Network meeting
- Stephen Chu talk at MIT
- Reith Lectures at Oxford
- Conscious Capitalism Conference at Bentley
- Pema Chodron retreat on Tonglen meditation
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Most thought-provoking ideas and quotes from these events:

- Should we all be rooting for DE-regulation right now?
- Are regulation and innovation opposites, or complements?
- What’s the new Bell Labs?
- Does financial innovation necessarily lead to increased speculation?
- Look for the creative ‘and’, instead of accepting the ‘either/or’.
- “You can have a Nobel Prize and save the world at the same time.” - Stephen Chu
- “Life is not a math problem – there is not just one thing to maximize and then you’re done.” - Julie Nelson
- “Whenever you get confused, go to the store – all the answers are there.” - Sam Walton
- “I can see that it is a great piece of machinery – but how is the man behind the furnace going to feel?” - JRD Tata
- “There are some things money can’t buy, and some things it can buy, but shouldn’t.” – Michael Sandel
- “I would not give a fig for the simplicity on this side of complexity, but I would give my life for the simplicity on the other side of complexity.” - Oliver Wendell Holmes
- “The future is disorder. A door like this has cracked open five or six times since we got up on our hind legs. It’s the best possible time to be alive, when almost everything you thought you knew is wrong.” - Tom Stoppard, Arcadia
- “Uncertainty is truth... but that doesn’t mean you’re helpless.” – Pema Chodron

NOTES FROM SFI BUSINESS NETWORK MEETING

The Santa Fe Institute is devoted to creating a new kind of scientific research community, one emphasizing multi-disciplinary collaboration in pursuit of understanding the common themes that arise in natural, artificial, and social systems. I have never left a Santa Fe event without a new “mental model” for thinking about an important investment issue – sometimes the model is from biology, sometimes mathematics, sometimes physics... it is always interesting and helpful. This recent event for their Business Network focused on regulation and innovation in all sorts of systems.

Dan Rockmore, Dartmouth/SFI

- there is a natural pairing of crisis and regulation
- in times of systems collapse, you see increased regulation/control mechanisms (flu, terrorism, global warming all show evidence of this)
- BUT, increased regulation raises concern over the stifling of innovation – is this a fair concern, or is there just a different type of innovation that results?

David Krakauer, SFI

“Modes of Regulation in Biological Evolution”

- biological innovation is a mechanism/strategy capable of overcoming regulation
- there are two models of biological regulation:
 - artificial and natural selection – the “invisible hand”, there is exogenous control, it is noisy and all over the place
 - programmed regulation/development – the “command economy”, there is internal control to the development, it occurs along a reliable path
 - biologists are starting to combine these models, it’s not an either/or discussion anymore
- SO, HOW TO MAXIMIZE SUCCESS/MINIMIZE FAILURE IN INNOVATION/EVOLUTION??? IT’S CONTEXT DEPENDENT
 - When the rate of error is high (in a system of high complexity, like a cheetah or an equity research department) - selection mode is the best (it’s messy, self-evolving, well-suited to creative endeavors in a time of change)
 - When the rate of error is low (in a system of low complexity, like an earthworm or a simple automated production line) - top down, command and control, program mode is best

- WHAT TURNS INNOVATION (the change itself) INTO INVENTION (useful, lasting change, producing new results)??
 - You often need a changing environment for invention to become innovation
 - New theory, “niche construction” – organisms build their own environments (dams, hives, webs), so they determine their own selection – THIS IS A BIG CHANGE IN THINKING
 - So, this implies that **you’re constrained by your own ability to convert resources, not by the resources themselves**
 - However, your niche construction influences others too, leading to challenge of altruism/tragedy of the commons
 - SO, you need to be able to monopolize your niche, or you have no incentive to build it in the first place
- **Given all of the above, in areas (or eras) with high uncertainty, regulation should DECREASE to raise the chance of good outcome – yet this is the opposite of what people favor emotionally and politically. In times of uncertainty, people crave structure, even if the comfort it creates is false.**

NOTES FROM COMPTON LECTURE AT MIT – STEVEN CHU, SECRETARY OF ENERGY

“The Interplay Between Basic and Applied Research” - May 2009

<http://compton.mit.edu/speakers/steven-chu/>

- Sec. Chu has a multi-disciplinary research focus – his own research work was in criss-crossing arenas, and he started an umbrella research group at Stanford – now he’s aiming for more collaboration between DOE, EPA, DOA on things like biofuels
- **What’s the new Bell Labs?** (he worked there early in his career) There were huge ripple effects from the Bell Labs approach, both direct and indirect. The labs were set up for applied research, but they ended up doing tons of basic research too.
 - **Why did Bell Labs work?**
 - It was the BEST people – not some of the best, not formerly best but fading... ALL the best people were there
 - There was big incentive to share, no incentive whatsoever to hoard information
 - They are trying to replicate this type of effort in some areas now– the new biofuels institutes, and now batteries

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NOTES FROM CONCEPTUALIZING CONSCIOUS CAPITALISM CONFERENCE

BENTLEY UNIVERSITY, MAY 28-29, 2009

Are you already rolling your eyes at the title of this conference? Yes, it's true, we had yoga breaks instead of coffee breaks, which was tough even for me. So why should you care? 1) big companies like Unilever, Pepsi, Xerox are spending lots of time on these issues; 2) in tougher economic times, organizations with a strong and compelling mission naturally have more levers to use to motivate employees, respond to customers, etc.; 3) understanding where companies are positioned on this spectrum can lead to helpful investment insights (it is not a linear relationship where 'more' is automatically better or worse); 4) very few traditional investors are paying any attention to these issues – they are a huge potential 'edge' just waiting to be put to use.

MY KEY TAKEAWAYS:

- Beware of false choices – there is a pervasive either/or mentality in the business world, but often the most beneficial and creative solutions come from looking for 'and's.
- A 'true cost' mindset (as opposed to an 'accounting cost' mindset) clarifies a lot of seemingly complex issues
- Likewise, proper definition of 'profit' eliminates lots of semantic arguments
- These last 2 points are akin to just lengthening your investment time horizon – a lot of the noise automatically gets filtered out

JOHN MACKEY – WFMI - "Conscious Capitalism"

- The 20th century will be seen as a great battle between socialism and capitalism – capitalism won, but fell short in capturing hearts and minds
- The 21st century needs conscious capitalism
 - 3 primary tenets
 - 1. Business has objectives beyond maximizing profit
 - 2. Enterprise is organized to optimize value for ALL stakeholders
 - 3. Servant leadership
- great companies have always had great purposes
 - service to others – LUV
 - discovery/pursuit of truth – GOOG
 - excellence/quest for perfection – BRK
 - changing and improving the world – MSFT, Grameen
- long term profits are maximized by NOT making them the primary goal

- **Business is a complex adaptive system**
- Business metaphors fall short – war, machines, sports (variant of war) – not aligned with CAS nature of business. Are natural images better?
- **NOT A ZERO SUM GAME** – biggest misperception is around tradeoffs – if you look for tradeoffs you will find them, but with creativity you can often find win-win-win solutions
- **CSR IS NOT THE SAME AS CONSCIOUS CAPITALISM** – CC this is much more fundamental and integrated into the business itself

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NOTES FROM PEMA CHODRON RETREAT

I recently attended a weekend retreat with the well-known Buddhist nun, Pema Chodron. Though this might sound a bit far afield from the investment world, a lot of her teaching is as applicable in a business setting as in a personal one. Plus, if you haven't sat in a room full of 500 New Yorkers all trying to adhere to the code of silence, you have been missing out!

<http://eomega.org/omega/workshops/3ab29488839b6f302d06b9b8d693c80e/>

Here are a few highlights:

- “Uncertainty is truth, BUT that doesn't mean you're helpless.”
- “TRY TO MOVE TOWARDS **INVINCIBLE COMPASSION.**”