



HONEYBEE CAPITAL

HONEYBEE PUBLICATION #17: NOVEMBER 2011

CH-CH-CH-CH-CHANGES ISSUE

*And these children that you spit on
As they try to change their worlds
Are immune to your consultations
They're quite aware of what they're going through...
Ch-ch-Changes
Don't tell them to grow up and out of it
Ch-ch-ch-ch-Changes
(Turn and face the strain)...
Time may change me
But I can't trace time*

- David Bowie, "Changes"

Okay, first, go ahead and admit it, how many of you have been singing "I can't race time" all of these years? Racing time, well, you can see how that is a losing proposition – all the Botox in the world does not actually make you younger. But tracing time, now that's a different story! It seems to me that this should be possible, and perhaps fruitful. At Honeybee we've long been fascinated by systemic change, at both a macro and micro level – how it happens, how it doesn't happen, what makes it easier, what makes it so darn hard. In the past few months we've gathered some great new insights – from medicine, from art, and yes, from the Federal government! - on thinking about change. (Note that this issue is not meant as direct commentary on the Occupy movement, though it seems to me that anything that is puzzling or new or disruptive – or all three – is worthy of thoughtful examination.)

KEY TOPICS:

- **TIME + VOLATILITY + SILOS = NEED FOR CHANGE**
 - **HOPEFUL & HELPFUL IDEAS FROM SCIENCE AND ART**
 - **BEST-EVER USE OF MY TAX DOLLARS**
- **COOL LINKS AND LOTS OF BOOKS**

QUOTES OF THE MONTH:

Not all change is improvement, but all improvement is change.

– Don Berwick, head of CMS

We comfort the afflicted and afflict the comfortable.

– Brian Doerries, Founder, Theatre of War – nonprofit that produces ancient Greek dramas for veterans and their communities.

We need bankers, not banksters.

– Boston Occupy Wall St protester, quoted on NPR.

The inevitable never happens; the unexpected always does.

– Arvind Subramanian, author of Eclipse

It's a sorry map of the world that contains no Island of Utopia.

– Oscar Wilde

Everyone has some form of blindness.

– Daniel Kish, President, World Access for the Blind, at PopTech 2011

Be tough on ideas, but gentle on people.

– Milenko Matanovic at PopTech 2011

If you multiply geography by time you have right here.

– Dawn Lundy Martin, Poet, “Also Birds”

*You can't define what we do/ I won't be put in a box for you
I get out I get out I get out I get out*

– Ziggy Marley, “I Get Out”

We are all fundamentalists about something.

– Pema Chodron at Omega Institute, October 2011

GIANT LONG TERM THEME OF THE MONTH: TIME, VOLATILITY, AND OUR MIS-MATCHED SYSTEMS

I have been thinking a lot about time and volatility lately, partly inspired by recent market activity, partly by two feet of snow in October, and partly by the great egghead-y talks at the recent PopTech conference. Loyal Honeybees will recall that we've discussed some of the challenges of time in earlier issues, particularly with respect to generational or situational anchoring bias.

My prior considerations were more individually focused – can we uproot ourselves? How do these anchors help as well as hinder us? And so on. But lately I've been thinking on a more macro scale about how we can consider our more connected, web-like world in this tumultuous era. We face a fundamental mismatch between the volatility (and fragility) of our silo-based systems and the demands (and strengths) of our more interconnected and de-silo-ed world. **The real world does not match the structures we've created to manage it.**

After all of the above pondering, I have to admit, I was a bit wiggled out. My future visions had far too much Lord of the Flies and Mad Max in them for my taste. However, from great crisis comes great creativity! And fortunately, a lot of others are way ahead of me on this, so I have plenty of expertise to call upon. Here we highlight three inspiring ways to address our fragile, uncertain circumstances that have emerged in recent explorations.

SOLUTION #1: THINK BIGGER! A LESS-TERRIFYING APPROACH TO SYSTEMIC CHANGE

Consider the following principle from Don Berwick, former head of the Institute for Healthcare Improvement and now head of CMS (Center for Medicare & Medicaid Services). (**update – Dr Berwick resigned just after this issue was published.**)

The central law of improvement: every system is perfectly designed to achieve the results it achieves. The central law reframes performance from a matter of effort to a matter of design.

This is a hugely comforting! It means that by just understanding our current systems, we have the blueprint for producing what we've got, and therefore we have the capacity to design different, better systems for different, better outcomes.

I recently attended a session for first-year med students at a big hospital in Boston where the discussion built upon Dr. Berwick's concept. When examining their systems for measuring quality of care, the hospital realized

that its measurements were upside-down: for years and years they'd worked to evaluate every doctor's performance, gathering reams and reams of data. But really, why does a hospital exist? To help patients (right?). And what matters to a patient? Convoluted doctor-centric data? Nope. *The only thing that matters to a patient is what happens to them.*

So now the hospital tracks patient outcomes – which of course includes lots of doctor-specific data, but not in the same way as before. This brings us to Berwick's principle #2:

USE DATA FOR LEARNING, NOT FOR JUDGING.

I don't know about you, but after years of analytical work the idea of NOT using data for judgment is a radical one. But if this is possible, wow! Think of all of the defensive conversations that could suddenly become productive. Think of all of the elephants in all of the rooms that could finally be addressed.

Interestingly, the trouble in our hospital example was that the measurement was centered on process, not outcomes. I would venture that the problem in investment management is exactly the opposite – we tend to measure outcomes, not process. It's much easier! And both sets of systems spend a lot of time trying to assess individual performance. Does a shareholder really care if the pharma analyst has great stockpicking numbers? Not really – not unless that performance is important enough to drive the entire return on the shareholder's investment, or unless the investor is also the pharma analyst's mom. And yet most investment firms have seen a strange evolution – actual management of funds has moved farther and farther away from the single-person manager towards team management, but the measurements (and rewards) have gone in the opposite direction, with more and more complex measurements of individual team members' performances. We wonder why there sometimes seems to be a lack of cooperation on investment teams and lack of understanding that clients' results are what matter – yet that is exactly the system that's been designed.

This is not to say that team measurements are good and individual bad (not at all!), but rather to show that there is often a misalignment between an organization's goals and the way it measures contribution to those goals. Berwick's work shows that by re-centering the goal of the group, a better system – both for execution and for measurement - might be able to be designed.

The full text of a helpful (and brief) article from Dr. Berwick on this topic can be found at:

<http://gateway.tx.ovid.com.ezp1.harvard.edu/gw1/ovidweb.cgi>

SOLUTION #2:

“WE’RE FROM THE GOVERNMENT, AND WE’RE HERE TO HELP.”

Oddly enough, the most encouraging thinking on systemic change that I have found recently has come from (drumroll please).... The Federal government. I saw Captain Porter and Colonel Mykelby present their summary at the PopTech conference in October, and the audience gave them an even bigger ovation than Reggie Watts.

This is the single most interesting, thought-provoking, coherent, and hopeful commentary I’ve read all year. The fact that it was delivered by two guys with stripes and medals and epaulets all over the place is all the more encouraging. They are not painting a rosy, conflict-free view of the future, but they are reframing the storyline for the United States, from one of fear and defense to one of opportunity and prosperity. Please read the whole thing (it’s short):

[http://www.wilsoncenter.org/sites/default/files/A National Strategic Narrative.pdf](http://www.wilsoncenter.org/sites/default/files/A%20National%20Strategic%20Narrative.pdf)

This narrative addresses five major shifts, as categorized by Anne-Marie Slaughter in the introduction:

1. **From closed to open systems** – *“In our complex, interdependent, and constantly changing global environment, security is not achievable for one nation or by one people alone; rather it must be recognized as a common interest among all peoples.”*
2. **From containment to sustainment** – *that is, to move from thinking of power as force and control; rather, to consider power as strength and influence. “To grow we must accept that competitors are not necessarily adversaries, and that a winner does not demand a loser.”*
3. **From deterrence to engagement** – *“We have misunderstood interdependence as a weakness rather than recognizing it as a strength. The key to sustaining our competitive edge, at home or on the world stage, is credibility – and credibility is a difficult capital to foster. It cannot be won through intimidation and threat, it cannot be sustained through protectionism or exclusion.”*
4. **From zero sum to positive sum** - *“Our former notion of competition as a zero sum game that allowed for one winner and many losers, seems as inadequate today as Newton’s Laws of Motion did to Albert Einstein and quantum physicists in the early Twentieth Century.”*

5. ***From national security to national prosperity*** – “We will be a pathway of promise and a beacon of hope, in an ever changing world.”

SOLUTION #3: MAKE SOMETHING!

In times of change, artists have significant advantages. Many are used to seeing the world from a different vantage point. Many enjoy combining their work with other disciplines. Many are able to envision things that are beyond the imagination of others. I've seen several neat collaborations recently that stretch the mind and help me think in more curious ways – here are just two of them, both courtesy of PopTech.

Connected: The boundaries between sculpture and dance disappear in new work from Reuben Margolin (kinetic sculptor) and Gideon Obarzanek (dancer/choreographer). I can't describe it, you need to look:

http://www.reubenmargolin.com/waves/Connected/connected_video.html

Parazit: You may not always call a boisterous talk show art, but this one is pretty cool. Parazit, the VoA show, is turning media creation upside-down, pulling in photos, video, and audio from listeners and compiling a new, more complete view from all of the fragments. It's kind of like Shepard Fairey but with audio and video, and even more political (clearly). Parazit's Kambiz Hosseini notes, “we used to create content for people – now we collect content from people and give it back to them.”

<http://parazit-parazit.blogspot.com/> - plus zillions of YouTube links.

CURRENT BOOK LIST:

A NEW WORLD ORDER, by Anne-Marie Slaughter

DEVIANT GLOBALIZATION, by Nils Gilman

STEALTH OF NATIONS: The Global Rise of the Informal Economy, by Robert Neuwirth

To me, these books are a trilogy of tales for our new, webbed-together world: Slaughter discusses the political and philosophical implications of a system that is no longer structured by nation-states. Gilman explores the awful underside of globalization, where more efficient flow of trade combined with uneven social, economic, and legal conditions have led to an exploitable “moral arbitrage”. Neuwirth examines the gigantic informal

economy (NOT the same as Gilman's – we're talking street vendors, care providers, agricultural workers...) - \$10 trillion worldwide! – that is the basis of economic activity in so many communities, yet still uncounted by most analysis.

Slaughter: http://www.amazon.com/gp/product/0691123977/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399369&creativeASIN=0691123977

Gilman: http://www.amazon.com/gp/product/1441178104/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399373&creativeASIN=1441178104

Neuwirth: http://www.amazon.com/gp/product/037542489X/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399373&creativeASIN=037542489X

MODELS.BEHAVING.BADLY. by Emanuel Derman

Some Honeybees likely saw Professor Derman present at the recent Grant's conference in New York. That was my first introduction to his work, and I like his mindset – not dismissive of models' usefulness, but rather conscious of their limitations. In addition, Derman has a refreshing liberal arts sort of approach to modeling that makes his commentary accessible even to the non-quant.

http://www.amazon.com/gp/product/1439164983/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399373&creativeASIN=1439164983

Another helpful discussion of modeling challenges can be found in this Scientific American article: <http://www.scientificamerican.com/article.cfm?id=finance-why-economic-models-are-always-wrong>

WORKING TOGETHER, by Michael Eisner

I have to admit, when I first heard about this book, I thought it was a joke. "Working Together", from the man who was such a famously difficult manager? But as I read, I realized that I'd fallen prey to the same short-termism we are always decrying: my personal impression of Eisner was formed from my time as a media analyst, soon after Frank Wells' tragic death. Eisner was not so awful, not so mercurial – he was grieving for his partner. For his friend. And he had to do it publicly, under great scrutiny and amidst great (and sometimes gleeful) critique. The rest of the book is interesting, but the chapter where Eisner discusses Wells is genuinely touching, a rare find in a business book by a former big-poozbah CEO.

http://www.amazon.com/gp/product/B0055X53ZO/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399373&creativeASIN=B0055X53ZO

GENGHIS KAHN and the Making of the Modern World, by Jack Weatherford

Think you know all about Genghis Kahn, heartless warrior? Well, think again. Weatherford shows us that even in the most straightforward, powerful stories, there is nuance that is way more interesting than the headline. For example, did you know that GK instituted the first fair distribution of wealth amongst soldiers? And the first family benefits for veterans? This is one of those “truth is stranger than fiction” books – you can’t make this stuff up! In addition to the thought-provoking primary content, the recent availability of Genghis biographical materials – long-hidden by various conquerors of Mongolia – is a tale in itself.

http://www.amazon.com/gp/product/0609809644/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399369&creativeASIN=0609809644

PLENTY, by Yotam Ottolenghi and Jonathan Lovekin

LONG NIGHTS AND LOG FIRES, by Ryland Peters

This duo of cookbooks will get you straight through to spring. If you are already dreading the post-turkey overstuffed feeling, you might think an all-vegetable approach is best. In that case, Plenty is the ticket -- love the restaurant(s), love the cookbook(s). Plenty showcases vegetable dishes that are interesting enough to be satisfying, but not so convoluted that you feel they are trying too hard to be hearty (as many veggie cookbooks do). But if you can’t get enough of that cozy comfort food, Long Nights and Log Fires is for you – just spiced-up enough that you don’t feel like you’re re-creating your grandma’s pot roast. (Not that there’s anything wrong with that...). A few meals from these books and you’ll be bouncing right out of your football coma – or at least you’ll be ready for some sprightly snowball-making.

Plenty:http://www.amazon.com/gp/product/1452101248/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399369&creativeASIN=1452101248

Long Nights:

http://www.amazon.com/gp/product/1845979192/ref=as_li_tf_tl?ie=UTF8&tag=honeycapit-20&linkCode=as2&camp=217145&creative=399369&creativeASIN=1845979192

HUNGER GAMES TRILOGY, by Suzanne Collins

Yes, indeed, I read these three “young adult” novels in one fell swoop, and I did feel just like a 13 year-old, staying up until 3 a.m. reading about Katniss because, gosh, I couldn’t just leave her there! Actually if I’d read this when I was 13 I’d probably have had tracker-jacker nightmares for months.

Obviously the story is compelling, and it also raises bigger themes like trust, government, trust in government, and so forth. Soon to be a movie, possibly a big fat annoying one, so you might as well read the books first.

http://www.amazon.com/gp/product/0545265355/ref=as_li_tf_tl?ie=UTF8&tag=honeycapital-20&linkCode=as2&camp=217145&creative=399369&creativeASIN=0545265355

COMING UP NEXT:

Impact investing continues to evolve, quickly! Our next full issue will circle back to discuss the state of the market for impact investing, highlighting some new endeavors and structures and comparing the field's evolution with other markets and eras.

Wait, does this seem familiar? Does it seem like exactly what we promised for THIS issue? Indeed it's true... but before examining evolution that's specific to impact investing, we thought this issue's discussion of change on a more fundamental level would be helpful.

Shorter term, in response to inbound queries, we plan a quick micro-issue highlighting some neat ideas for alterna-giving this holiday season.

THE FINAL WORD:

Wouldn't you just love to hang out with Seamus Heaney and Ben Franklin, together? We end this issue with some counsel from both of them, taken from a Heaney commencement speech:

*Never be so canny as to ignore the uncanny... Remember that the anchor of your being lies in human affection and human responsibility, but remember also to keep swimming up into the air of envisaged possibilities; and to keep on finding new answers to the question that Franklin said was the noblest in the world, the question which he himself framed and which asks, **What good may I do in the world?***