

The PODfolio Podcast – Season 2, Episode 8: Solving the Rubik's Cube (of sustainable investment)

[MUSIC PLAYING]

MONIQUE MATHYS-GRAAFF: Solving the Rubik's cube one face at a time is actually the wrong way of doing it. And the reason it resonated with me, because I've been there in the context of solving for sustainability matters for decades.

[MUSIC PLAYING]

SPEAKER 1: Welcome to The PODfolio, WTW's investment podcast series aimed at institutional investors, industry professionals, and enthusiasts alike.

LOK MA: Hello, and a warm welcome to The PODfolio investment podcast. I'm your host, Lok Ma. Now, one of my favorite sayings is that a bad analogy is like a cucumber. I'll let you think about that for a second. But a good analogy is a great way of breaking down something complicated.

And the idea behind this episode was a conversation with our guest today around sustainable investment, a topic that's very important and talked about a lot. But there's also so much complexity around it, and I've often found it hard to organize the different interconnected aspects of that in my head. But my guest had what I thought was a lovely analogy to explain how it all fits together, and I instantly got it. And so of course, the natural thing to do is to invite her on to the show to share it with a wider audience.

Monique Mathys-Graaff, our head of Sustainability Solutions at WTW, thank you for coming to talk to us.

MONIQUE MATHYS-GRAAFF: Hi, Lok. Thank you so much. Looking forward to it.

LOK MA: So your way of thinking about sustainability is based on this idea of the Rubik's cube. I don't think we need a massive explanation of what the Rubik's cube is. Very, very quickly, it's an intricate plastic toy puzzle from the '80s made up of a 3 by 3 by 3 array of colored cubes. You could rotate these cubes, layers of these cubes, really, freely along three different directions. And the aim is to rearrange the toy so that each of the six faces is showing squares with stickers of the same color.

So Monique, the first and most important question of all, can you actually solve a Rubik's cube without cheating, without looking at instructions?

MONIQUE MATHYS-GRAAFF: [LAUGHS] What I would like to say is yes.

[LAUGHTER]

But the truth is, I'm not quite there yet. I've done it once, very closely watching a YouTube video. And that's the truth. So I've done it. I've done it once, but couldn't do it again without very close guidance and about two hours to get it done.

LOK MA: And for the avoidance of doubt, I am the same. I can't do it myself. My 10-year-old, he's absolutely obsessed with the Rubik's cube. So he knows how to do it.

So he can give me commands, and I can follow them. But I can't do it myself.

MONIQUE MATHYS-GRAAFF: And similarly in my household, my children can't do it, but they're very good at unraveling the little bits of success I do make on it.

[LAUGHTER]

LOK MA: So what I have figured out, without any help -- and I suspect this is the case with many of our listeners -- is how to solve just one side. So I can pick a side that's already got a good number of squares of the same color, and I can work out how to maneuver the other squares of that color onto the same side.

And there's a nifty little move, as I'm sure you know, you do for that, which is to move the squares that you want to keep out of the way, move the new ones that you want into place, and then bring the old ones back. So I can do that and get one complete face.

But at that point, I'm stuck because anything else I try to do from there will mess up the face that I just completed. And I think that, to come now on to our actual topic, that's what reminded you so much of the collective efforts of our industry to invest in line with the principles of sustainability, right?

MONIQUE MATHYS-GRAAFF: Yes. And so what you've described there, Lok, in terms of solving for the Rubik's cube one face at a time, is actually the wrong way of doing it. And the reason it resonated with me, because I've been there. In the context of solving for sustainability matters for decades is we try and solve for one topic at a time, one of the faces being a topic like climate or like inequality. But that's equally the wrong way you solve for sustainability.

LOK MA: And so the first step to solving sustainability -- how would you do it if you're not doing it one face at a time? How would you go about it?

MONIQUE MATHYS-GRAAFF: So the reason I have been trying to use this Rubik's analogy to try and explain the right way to do it is because actually, the Rubik's cube is divided into three sections, three independently moving sections. And rather than solving for each one of the six faces, it's actually much simpler when you approach it by solving for each of the three sections. And so when we think about that, it's really about starting section by section. And each section represents a discipline or things pertaining to sustainability that an organization needs to solve for in context.

And Lok, I just have to pause it to say, I'm listening to myself and sounding very arrogant. It's coming from a place of absolute scars, being battled, really, and seeing so many people with the best intentions burnt out trying to do sustainability or ESG well that I share this from a place of just wanting us to move forward together and for people to feel impact.

LOK MA: So do not worry about it at all. That is not the impression I'm getting. If anything, I think you touch on an important point, which I'd like to come back to later, which is the idea of socializing the lessons learnt, which kind of, I guess, is kind part of what we're doing now. But anyway. No, no, please carry on.

So kind of -- we talk about solve the first layer or the first discipline to doing this.

MONIQUE MATHYS-GRAAFF: So the first section that I would suggest would be your bottom-up context of thinking about the various sustainability matters, or to put differently, understanding, based on the information you have in your organization or in your investment portfolio what is the sustainability characteristics that you have today.

So that's about looking at your data, understanding what is your climate footprint, for example, what are your current practices pertaining to diversity and inclusion; what do you have in place in terms of your policies; are there any existing sustainability objectives articulated; what are the regulations pertaining to your activities as an organization-- so sort of the bottom-up assessment looking back, based on what you have, to understand what is in place.

LOK MA: So the first step to solving this puzzle, then, is what you say, a bottom-up approach, so things like gathering data, your current footprint, your practices, the positive, negative impact of what you're doing, all that kind of good stuff.

So back to the Rubik's cube. The first step, as I said, is not to solve a complete face. We're agreed on that. Doesn't work. What you have to do is my boy has taught me is to make just a cross of the same color, so just five squares. And you set yourself up for what comes next.

And that's starting to get, I think, to the crux of your analogy. To solve this puzzle, you can't just try to solve one aspect of the problem entirely and then move on to the next. You need to step back and see the overall structure of what you're trying to achieve. And you can think about how the latest steps are going to come in and fit around what you're doing now.

So we've done the cross. What comes next, Monique?

MONIQUE MATHYS-GRAAFF: [LAUGHS] The cross is a great start. But actually, ending the first section is going beyond the cross. Because the purpose of the cross is that you've anchored the central sections. Or the core of the Rubik's cube is now appropriately aligned. So all your central sections pivoted on the same axis, but that core doesn't change. Those central stickers, the center block of each of the six sides, actually can never change. And that's similar to an organization's purpose in the system.

If you are -- same way. If you are a plum, you're a plum. If you are a peach, you're a peach. In this context, if you are an organization that like Marks and Spencer's that's a retail organization, or if you are a media company, or if you are a Tesla -- a car company, what you do doesn't change just because you're ensuring you're doing sustainability well. And I think that's important.

So the first section, then, means that all of those cores are aligned based on the information you've collected. And that's the first section done.

LOK MA: And then the second section, then?

MONIQUE MATHYS-GRAAFF: The second section is now -- if the first section was looking backwards doing a bottom-up analysis in context of your organization's purpose, the second section is forward looking. It's your top down based on the information you know, anchoring around what your organization's purpose is. Therefore, what are your sustainability goals looking forward? And what should the organizational governance structure look like to enable the achievement of those goals?

Now, one cannot set your sustainability goals in isolation of two things. It needs to be done in context of the information you have. And it needs to be done in context of what the market, externally, will interpret those goals, success or failure. The second section is acting as the go between.

So the second section is now interpreting what you have done, what you can do as an organization, and saying, on a two to three years, we want in climate, in diversity, et cetera, to achieve this, and therefore, this is what we need to do. This is our policy pertaining to sustainability, or this is our exclusions policy, or this is our D&I policy.

Or we just want one policy. We're going to set up this division. We're going to ensure that we monitor these regulations in this department for these products. So it's the actual governance, organizational, firstly, prioritization, goal setting, and then deciding what that organizational structure needs to look like to enable those goals.

LOK MA: So the second step -- top-down strategy, as you say, what you've done, what you can do, setting your sustainability goals, policies.

Back to our analogy. So at this stage, the second step, you do actually turn the Rubik's cube over and start from the other direction for this step. And you've touched on this. There are a couple of strategic revelations which, if you don't understand, you'll never be able to solve the cube.

Firstly, most people think each face is 3 by 3, so there's nine squares. So six faces, you're looking at arranging 54 squares into the right place. No, no, no, no, you need to think in terms, as you say, of cubes, not squares. There are only 27 cubes in a structure, only 26 on the outside. As you say, the center, core of the organization, that's not so relevant. So the problem is actually a lot smaller than you might think at first.

Second revelation, as you say again, the six cubes in the middle of each face are fixed relative to each other in their position. You might think you're turning them, but their positions relative to each other never changes. You're only moving the cubes around them. Mind blowing.

With that in mind, so you could solve, in the second step, I think, is the middle layer, so that all the cubes are in the right place showing the right colors. So that's step two. Take us through the final step, Monique, please.

MONIQUE MATHYS-GRAAFF: So now we find the bottom section, the second section. And just to come back to that revelation -- I love the way you put that, Lok. The critical part about that is when you realize, actually, that it's always a yellow opposite a white, it's always a red opposite an orange, depending on how your Rubik's cube is configured.

When you know that, it's a bit like the revelation that when you know, based on the purpose of your organization, whether you're a development fund, whether you're a retail consumer-facing organization, once you're clear on those, you've set your targets in relation to those for sustainability, you're clear on your goals, the next step is managing the performance on an ongoing basis pertaining to those, right?

LOK MA: Yeah.

MONIQUE MATHYS-GRAAFF: And that's the last section. It's the shift between fiddling with a lot of different moving parts all the time, don't know what happened, to having really two clear anchors. We know what the data is based on what our business and our organization is generating in terms of its both positive and negative sustainability impacts.

We know what we're trying to achieve and how it links and unlocks our corporate internal strategy and supports external sustainability goals globally. We know what our goals are. And therefore, we manage performance consistently like any organization does all the time. Is the goal right? Do we have the data? Do we have confidence in the data?

Is that point meeting our goals? Is it sufficiently meeting our goals? Are we confident it will continue to meeting our goals? What are the risks around us meeting the goals in the future? Do we have the right organizational structure? Do we have the right resources?

Are clients' perceptions changing? Do clients still want us to perform in this way? Where do we need to pivot? So that is more complex, just like in the sustainability Rubik's cube, that last section, is a really complex algorithm, which is why I still need to watch the YouTube video, because it takes a lot of practice to learn.

But just like your child has been able to learn it, you can get it just does take more practice.

LOK MA: Yes, definitely last step most difficult, as far as I could tell. Lots of different algorithms to learn. We'll come on to that in a second. But in terms of the Rubik's cube, all sustainability is about sorting out

the practical things, the kind of technical aspects. So in the case of sustainability, we talked about, I guess, the overall governance processes, analytics, looking at performance, all that kind of good stuff. With the cube, also the most detailed and tricky step, again, the key is slotting into the good things that you've already done things that you've put in place knowing this bit is now going to happen. So remember I said earlier about thinking in terms of cubes and not squares, and the fact that there are fewer configurations than you might think.

So what you do now is you find pairs of corner cubes, or you find pairs of edge cubes that are in the wrong position, and you swap them around using a particular sequence of turns. So you keep doing that. And eventually, the cube is solved. Every face is a single color, and you feel like a total boss.

And isn't it amazing, the longevity of this toy over the years? Even now at the school of my youngest -- he's 10. So every class in his year, he's got a few kids that bring in the cube every day to play with. And that's in the year 2022.

The difference is back in the '80s, no kid I knew could actually solve it. In 2022, lots of kids could do it. The reason, of course, the internet and YouTube, in particular. And I want to now just kind of move on to talk about socializing the solution to this puzzle. How does this idea apply to the world of sustainable investment?

MONIQUE MATHYS-GRAAFF: That's such a great question, Lok. And it excites me tremendously that question, because I think one of the things certainly that I fear sometimes as a sustainability stalwart is that we lose the momentum of what organizations can achieve. And we don't help the people, we don't help the planet, because it's become too complicated.

And really, just like you've so well described, this toy, because that's really what it is, has been around for decades. Why? What has made it sustainable? And so sorry to be corny, but how do we make sustainability sustainable?

LOK MA: Indeed.

MONIQUE MATHYS-GRAAFF: And it is about making it applicable and available to as many people as possible. And so I believe that happens because we are able to share transparently around the simplicity of solving for sustainability in the right way. It doesn't mean it's simple. But having a knowledge that the organizational system needs to recognize it's not just one thing at a time, it's a few things. But when you anchor those things against organizational purpose, against organizational strategy and external -- and the external context of what is good enough from a performance perspective, that becomes really, literally like child's play.

We are in the early stages, yes, of learning what is the right way, learning the algorithm. But once we've learnt it, it will become a lot more easy. We will all see the value of it. I think one of the challenges, too, now is that the definition of, what is a good sustainability performance for an organization?

But where the Rubik's cube also helps me is because you and I can sit and say, oh, I did two sides, and we think we're very clever. Because there's no --

LOK MA: I've never done two sides. I'll do one side.

[LAUGHTER]

MONIQUE MATHYS-GRAAFF: But really, Rubik's cube, we need to solve all six sides. And you can see if it's done or if it's not done. And I think increasingly, as we are seeing standards and regulations coming to the fore, there is that clarity now which allows us to de-stress the situation, to not think of it as, as you so well described, multiple different independently moving pieces, rather only a few independently moving

pieces, systematic steps, if we do it step by step, clarify the role of who's going to get there, we continuously improve.

And improvement analogy here is that you're able to solve for it quicker. It's that the first year, it feels difficult and clumsy. And I don't know about you, but I still feel like an idiot when I watch this thing, and I get it so wrong, and I take so long. But just like we've seen the professionals do it, some of them can do it in, what, like 5 seconds, I think, is the record?

LOK MA: Yeah. World record is 3 and 1/2 seconds.

MONIQUE MATHYS-GRAAFF: 3 and 1/2 seconds, right? So newbie, yeah, like two days the first time, maybe 3 hours now. You'll get to 3 seconds if you really get good at it. There will be those organizations that do. There'll be those organizations that don't.

But together, we can get there. And the sustainability of organizations will continue to improve. We will be responsive because we every day, we will get new issues that we need to consider and digest in the context of the organization's purpose. And we're getting better and better at it all the time.

LOK MA: And I think an analogy that works on so many levels. So kind of thank you for bringing it to my attention. I mean, you talked about learning. And you talked about coordination. And both of those things very much apply with the Rubik's cube.

So when you start learning the cube, as you say, it's basically like 100% using brainpower. It's like learning the algorithms and learning how to apply them to your situation. When you get familiar with it, it's more like 50% brain power and 50% is more -- the trick is hand-eye coordination how all the different parts come together.

So I asked my boy yesterday, his best time solving it is 25 seconds. And so -- well, world record is 3 and 1/2. So I mean, let's not get too, too excited. But big part of being good with the cube becomes much more about coordination. And again, that's similar to --

It's kind of playing the piano when I watch him, actually. So his little fingers are flying around, working together. So I'm not going to belabor the analogy of coordination anymore. But you know kind of what I'm getting at.

MONIQUE MATHYS-GRAAFF: Yes, I love that. And the coordination, when you talk about sustainability, is so key. There are some organizational objectives and strategies you manage which is very internally focused, right? Like, we want a more efficient way to communicate with our clients on whatever.

There are some things that you just can't control specifically and directly. And sustainability is one of those. And so coordinating not just internally but also with a fast-moving external environment -- connecting with the system, yeah, is important. But what the regulation has assisted us, over and above all of the sort of philanthropy voluntary initiatives we have, the beloved alphabet soup, what regulation has helped us do is a bit like the YouTube video that shows you how to solve it now.

We have that. So the coordination of it, how your muscle memory learn to do it, isn't done in an [INAUDIBLE] of you sitting in a box and trying to figure it out but you actually don't have the blueprint. We now do have a degree of blueprint. The coordination should have less friction points, should get seamless.

The other coordination point I wanted to make is that -- so I have a really old Rubik's cube that I found in a hand-me-down shop. But it is so clunky, you can't move the sections seamlessly. And then I bought a brand new one the other day because it was on sale, and I love sales. [LAUGHS]

And the brand new one is so much easier. It feels like a ship on water now.

LOK MA: I know. Have you got one of those magnetic frictionless cubes? They're amazing.

MONIQUE MATHYS-GRAAFF: I didn't even know you could get that.

LOK MA: I think that's what you've got.

MONIQUE MATHYS-GRAAFF: And I guess that's also the coordination analogy. Like, your fingers need to remember it, but it also gets easier to do because the system is working much better.

LOK MA: Very, very good. Very good. So I think, to wrap up, then, an intricate puzzle that has captured people for many decades, this strategic idea of thinking about how things will fit together before you make a start, a solution that can be socialized and learned, requiring coordination of multiple components. So that analogy, Monique, is not a cucumber. And thank you very much for coming onto our show. Thank you so much.

MONIQUE MATHYS-GRAAFF: Thank you. It's been wonderful.

LOK MA: And for our listeners, I hope you enjoyed our discussion. And I hope this has inspired you either to pick up a Rubik's cube or to think about sustainable investment in this more strategic way, or both. And until next time, do take care.

[MUSIC PLAYING]

SPEAKER 1: You've been listening to a WTW podcast. For more information on WTW and the solutions we provide, visit wtwco.com.