**TRANSCRIPT**

**PENSIONS FOR PURPOSE PODCAST – SERIES 1, EPISODE 7**

**ORGANISATIONAL MATURITY – WITH CHARLOTTE MOORE, KAREN SHACKETON AND STUART WOOLLARD**

**Charlotte Moore:** Hi, welcome to the latest edition of the Pensions for Purpose Podcast. I'm Charlotte Moore and I'm your host. I'm delighted to welcome Karen Shackleton, Founder of Pensions for Purpose, to the podcast for the first time. I'm also happy to welcome Stuart Woollard, Co-Founder of the Maturity Institute. Today, we will be talking about how to value the human risk of different organisations. So let's kick the discussion off. Stuart, please do tell us, what is the Maturity Institute? How did it come into being and what's its purpose?

**Stuart Woollard:** Thanks very much Charlotte, it's really nice to be here. So the Maturity Institute was set up just over 10 years ago and a number of people around the world, we got together and really decided that we needed to do something around, look at organisational health in a different way. So, in the investment world and generally in the business world, we look at the health of organisations through a financial lens. So all investment analyst models generally are dominated by financial spreadsheets, analysis, etc. And what we knew we needed to do, was to look at the organisation through a human lens, to understand the health of an organisation through the people that either worked with it, what customers, suppliers, investors, in fact, the whole human system of any organisation and understanding the value, and particularly the human risk that the whole human organisation brings. So that's essentially where we started and we have developed a diagnostic methodology to measure the quantifiable impact of the health of a human organisation and we call that organisational maturity. So we're looking at all the interrelated factors through which human beings or people create value and risk in an organisational context. The underlying purpose was really to show that organisations that are truly purpose driven, so are really here to ultimately serve society but, more importantly, have a coherent set of management systems and a healthy corporate culture, when you combine those elements, they actually create value for all stakeholders. So we wanted to help to bust a myth that by becoming a human-centred or human-powered organisation, maturity shows that you can drive value for all, for all stakeholders, not just shareholders. So really getting to the heart of one of the fundamental problems that's emerged in the last sort of couple of decades, and particularly since the financial crisis, that the kind of form of capitalism we have today, particularly in a world of ESG and sustainability, is not one that's fit for purpose. So that's where we started.

**Charlotte Moore:** And Karen, could you explain to us why you think it's important for pension schemes to take account of the maturity index of their own organisations, and also all the ones they work with and invest in because pension schemes, it's a very intermediated business so there's lots of moving parts there.

**Karen Shackleton:** Well, since we set Pensions for Purpose up in 2017, it's fair to say that we've spoken to a very large number of sustainable and impact managers, and it has become clear that there is quite a wide variation in terms of how well they really think about what they are doing in the sustainable agenda or the impact agenda. There's a huge difference between a manager who is very focused on impact, their entire organisation reflects their beliefs and their mission, their purpose. And a very large global fund manager, where you kind of talk to them and think, well, "do you really believe what you're saying you are investing in? Do you actually believe that for yourself?" because, of course, you then have the profit angle coming in. And so we've noticed a huge difference. It's fair to say that many of the large firms are on a journey here and they are learning about impact investment and understanding it. So, using something like the maturity index is, it's a fantastic opportunity to learn more about your own organisation and work out what you need to do to become more aligned to the impact that you're actually achieving.

**Charlotte Moore:** And what about those other organisations, the advisers and also the companies they're actually investing into?

**Karen Shackleton:** Yes, I mean, I think pension funds have to look at their own organisations, their committees, how they're set up themselves, and they have to think about when they're procuring for services, looking at the asset managers, looking at the investment consultants, looking at the legal firms, are they aligned? And then also following through, as you say, looking through to the underlying investments, engaging with the companies that they're investing in so that they too are becoming more mature organisations. So it's a very holistic look, right, it's a real 360 assessment of themselves, the third parties and their investments.

**Charlotte Moore:** And that's a lot to take on, Stuart. And we've talked in very sort of general holistic terms, can you give us some sort of, some ideas of what pension schemes should be prioritising internally, and then what they should look for in their advisers and companies they invest in? Any like specific examples you could give us to make it a bit more concrete?

**Stuart Woollard:** Yeah, it's a big territory and it's not easy. Let's start at the endpoint, the companies themselves that pension funds are investing in. I think a good example recently, we've obviously seen the University Superannuation Scheme and a lot of media attention on their investment in Thames Water, and a couple of years ago that investment was worth around 956 million, according to the Financial Times and, today, USS have effectively announced that that investment is largely written off, and that's an extraordinary amount of money to lose for pension beneficiaries who are in that plan. So what we do through maturities, is to show that, you know, an organisation like Thames Water and look at them through a maturity lens and particularly maturity rating, you get a very different perspective. So understanding the risk that an organisation is carrying through a human lens, looking at purpose, values, decision making, innovation, learning, all the human attributes that drive value and risk gives you a very different picture of an organisation. And it certainly doesn't replace financial analysis, but it fills a really, really important gap. So, I would argue that if USS or the other investors in water companies in the UK, for example, had a good look at maturity through their investments, they would get a very different perspective, and it should shape their decision making around that end investment and, in fact, USS have announced that their investment in Thames Water will influence how they invest in similar companies. And so my question is, okay, how is that experience influencing and maturity can certainly help you do that. So there's a really clear, much clearer and more holistic view of what's going on in the companies that you're investing in. Karen's mentioned asset managers and investment advisers and, obviously, pension funds are very interested in that group of organisations. There, I guess one of the big issues, there are lots of claims made by investment firms around being able to invest responsibly and sustainability and, as Karen said, most of these organisations are on a journey. And so, for pension funds, it's really important to understand where they are on that journey, right? So because they want to be able to make sure that they're the people that fit in the mandates, they have the investment firms that are mandated to manage their beneficiaries, money, are who they say they are. And I think this is one area, and I'll give you an example, we talked to one of the large asset managers who have been interested in the maturity index because they wanted a much better way of showing how responsible they were and how good they were, and saying there aren't really any good, external, objective, independent measures of demonstrating who we are, so to, effectively, our clients and the pension funds. And the third aspect, of course, is pension funds themselves. You know these organisations, you know how mature are pension funds themselves, and one of the things about the maturity index is also a management system effectively. You can see where you are and, as Karen said, where you are on the journey, and the journey is all about improvement. And we know from our own data and our work with some of the leading universities in the world, that, you know, the more mature you are, the more value you generate and the more you are better able to manage the, particularly those human and cultural risks that each organisation carry. So, in that respect, those three different layers, pension funds themselves, the investment managers and advisers, and then the end companies that are being invested in, there are three ways you can deploy our work and get value from it.

**Charlotte Moore:** So give us an idea about when we talk about maturity index, can you give us an idea of what the actual hard data is, what are you looking at? What's the kind of thing that you measure? What does an immature company look like compared to a mature company? Is an immature company, like having tantrums every two minutes, a mature company is the peacemaker. I mean, I've just got a vision now of a tantruming toddler versus, you know, a responsible elder child.

**Stuart Woollard:** Yeah, not quite that. I guess, so the underlying methodology looks at 32 different causal factors, 32 different questions, if you like, that we ask. One of the most important ones, is to look at the underlying human ethos of an organisation, so, very simply, is an organisation managing its human system through a cost lens or does it look at it through a value lens? So, in practical terms, for example, we've seen lots of companies when they end up in financial trouble, they often go through a very quick period of laying off lots of people. So in the US, all the big tech companies have laid off huge swathes of staff. And what we've seen through that is, whatever those tech companies are saying about how they manage people, ultimately at the highest level when push comes to shove, really they're looking at people as cost, they're not looking at them as a source of value. And what you generally find is that, by managing people as a cost and when you end up doing mass layoffs, you end up damaging the business more. So, for a lot of those organisations, going through very quick periods of downsizing, laying people off because of the cost pressures and you're managing people as a cost, what you end up doing is going through that exercise two or three times before you get to the other end and, actually, there's a lot of research evidence to show that you damage your own performance by laying people off and seeing them really as a payroll cost rather than a source of value. So that's one of the key sort of fundamental elements of maturity but there's lots of different aspects. So to what extent is an organisation a true learning organisation? So, you know, does everybody matter to how you learn, how you acquire and share knowledge. That talks a lot to inclusivity, which then connects to sort of diversity. We look at things like mental health and wellbeing. So to, you know again, if you can think about an organisation that's managing people as a cost, it tends not to focus on mental health and wellbeing. Those that do see people as a source of value, see wellbeing as a fundamental requirement for being a successful organisation. So these are all the kind of elements that we're looking at and they all link together, right? So you know, the purpose of an organisation's values and principles, how it communicates, how it makes decisions and that's the other overarching thing about maturity, Karen mentioned the word holistic. Organisations are whole systems and we tend to compartmentalise things. So we tend to look at management through compartments. So we might look at employee satisfaction or we might look at wellbeing, or we might look at diversity and inclusion, or we might look at our purpose, but actually, rather than see these things as separate things that we should be managing and look at, they're all interrelated and they're all linked. And so what maturity does is to give you that holistic view, so that you can really understand how your organisation is managing all people through a value and risk lens.

**Charlotte Moore:** That's really fascinating because I think there's so many interesting pressures. I mean, in the asset management sector, for example, you know, it's a very cyclical industry, it tends to be boom and busty, and they tend to react by getting rid of people. There are people that actively try and get rid of older people because they're more expensive. There's a terrible phrase of juniorisation, so then you're losing a load of institutional memory and people who know how to do things. And, of course, you've got the challenge of we're all operating in the western world of an aging population with limited demographics, so we see plenty of examples around us of people being asked to do more and more and more, and that happens across that whole investment chain within the pension scheme, within the asset managers, and even within the companies they're investing in, it's really fascinating. Karen, can you talk to us about how you think about the maturity of an organisation or thinking in this way, in this holistic way, can help a pension scheme to become a better corporate steward?

**Karen Shackleton:** I think the first point that I picked up on what Stuart was saying, was that actually, this is part of a pension fund trustee board's fiduciary duty, to make sure that they are delivering best value to their members. And because all of this does feed into better value ultimately for a business, then I can't see why pension funds wouldn't be looking at this. But what's the best way to go about this? Well, the way we tend to work with pension funds is to help them identify a set of priorities. I mean, it's impossible to do everything in one go and so let's sort of pick off certain key themes that they can then prioritise. They can then decide how that translates through into an engagement plan, for example, in the companies that they invest in. They may delegate that to an asset manager but I think the mistake that pension funds do make is that they then think right their job is done. It's not done then. They have to constantly challenge their managers on their engagement programme, ask for evidence of improvement and, ultimately, I think pension funds are increasingly coming to the view it should be engagement with consequences. If the company doesn't respond to the challenges that are being put to it by its asset managers, that ultimately the asset manager will be divesting from that company because it is not well managed, because it is not a mature organisation that is aligned to its mission and purpose, and the sort of objective that it's proclaiming to be delivering to the marketplace. So, for me, it's about clear, clear priorities, clear delegation, challenge and monitoring progress, and that's how I think we will end up changing the way companies operate.

**Charlotte Moore:** Stuart, anything to add there? I mean, I think there's an interesting, about a holistic mindset, just starting to think about companies in this way, not just looking at bottom line, right, which leads you in a certain direction, and then the specific points that Karen talked about. So anything you can add to that on making pension schemes better corporate stewards by using this way of thinking?

**Stuart Woollard:** Yeah, I think you touched upon the most important starting point, which is starting to learn about this really. We, one of the reasons we set up the Maturity Institute was there's a huge lack of understanding and that comes from ourselves as much as anything else. We needed to bring lots of people together to really build the discipline really of maturity and it's a very different way of thinking. You know, we start to think about people and already you narrow your thinking, "Well that's an HR issue, or that's a health and safety issue or this is an issue for compliance", and it's not. It's fundamentally a board and C-suite issue. It's fundamentally about how people create value and risk. So the starting point is to start widening your horizon. I'll give you a simple example. We trained a whole group of investment analysts and I sort of suddenly get a little bit nervous about doing it, because I wondered how, what their reaction would be, and I was just gobsmacked by one of the most senior analysts on the team when we went through the training programme and they finally understood where we were coming from. This analyst, who had the ear of many CEOs, so a very influential person in the investment world, turned round to the group and said, "You know I like to think that, we like to think as investment analysts, that we know our companies better than anybody else, that we know our sectors better than anybody else, but going through the process of learning has given me a whole new perspective on the companies in my sector." And I think that was the most, it's much better said from somebody than me, but I think that's what we're trying to capture. So I would say, you know, learn about this because even if you don't use the underlying methodology, it will shape your thinking, it will give you a much wider perspective, a much, a different perspective about your own organisation, the organisations that are working for you to manage your investments on your behalf, but also those end companies where you've got significant investments right? Let's go back to Thames Water. We'll go back to organisations like Boeing. You know, fundamentally, you know, corporate scandals, corporate failures, the catastrophic failures. I always say to groups of people, when I'm teaching about maturities, find me a scandal, find me a fault or failure which hasn't got a human cause at its root. And, generally, they're all human causes. And so, if we don't really know this stuff, then we're missing something really, really, quite important.

**Charlotte Moore:** Yeah, I mean, I used to be an investment analyst and actually its quite simple. When you were analysing companies, there was very limited ways they could fail. It was either your operating profit margin started to decline, or your financial costs started to go up, or you made some terrible, terrible human error. And there was, that's basically the, almost every corporate failure can be fitted into one of those three scandals and all of those usually have, at the heart, some human element. Either, you know, that people haven't recognised the risk of what's happening to their business model, or they've gone on and taken out a big loan at the wrong time, when it's too expensive, that, as you say, it can all go back to human error, can't it, Stuart? I just, I wanted to talk about sort of the collaborative impact of all of this. We've mentioned how helpful it is for that individual equity analyst and he has the ear of CEOs to start thinking this way. And one of the things we're seeing happening, in a rather disturbing trend, is kind of the collaboration we had in the industry is beginning to fracture, as we're seeing individual asset managers pull out of things like Climate Action 100+. And I wonder if more pension schemes, asset managers and investment advisers started thinking in this way, if that's going to maybe help to build collaboration. Karen, have you got any thoughts on that?

**Karen Shackleton:** So I think there are examples of where collaboration exists at the moment and is effective. The local authority pension schemes, for example, have a collaborative organisation called LAPFF, the Local Authority Pension Fund Forum, bit of a mouthful, LAPFF, and they engage with companies on behalf of their member funds, which is the majority of the local authority pension schemes in the UK. And they've been hugely effective and, you know, sort of plenty of examples of where they've made progress with climate, where they've made progress with modern slavery and working conditions, and I would like to see either a sister organisation or a broader organisation covering the whole pension sector, because so often the issues that we are concerned about with organisations, are going to be concerns that everybody shares. And I think that you could just be so much more effective if you work collaboratively. Pensions for Purpose was set up to be a collaborative organisation, because we felt that talking about this agenda was something which everybody would benefit from learning about and so, if we all work collectively as members, that would benefit the industry as a whole. And a lot of our research is done on that basis as well, sort of trying to work collaboratively and comment on the industry and where the industry is going. So I'm a big, big fan of collaborative working.

**Charlotte Moore:** Okay, well I think we're sort of approaching the end of our podcast so I just wanted to have one sort of final question, and we've got quite a bit of time to so feel free to answer in depth I would say to both of you. So if, for our listeners out there, if there is one thing that you want them to have as the key takeaway of this podcast what is it you would like that to be? Stuart, do you want to start?

**Stuart Woollard:** Yeah, I'll try and answer it in depth, but yeah, what's the key takeaway? I think there's a couple really. We've talked about, you know, since the financial crash in 2008, we've talked, particularly in the investment world, has talked a lot about corporate culture. There are a lot of words out there, and there's a lot of narrative which is pretty good narrative about the importance of culture, particularly from a risk perspective. But really, what we've been doing and we know now is that we can quantify that risk, we can measure that risk. And, you know, if I'm sitting in a pension fund today or I'm sitting in an investment manager today or an investment adviser, particularly within the Pensions for Purpose network, you know, what risk are we carrying? What risk are we carrying as an organisation? What risk are we carrying through the organisations that connect to us? What human and culture risk are we carrying in the investments that we've made today? And if I don't know the answer to that, then I need to find out, because I could have some catastrophic phase literally tomorrow or next week or the week after. I think one of the things that you made, and a really important point, Charlotte, is that, you know, we tend to find risk manifests and we tend to look at it through a backward lens. So you know, it's only when Boeing's aircraft fall out of the sky, do we realise that they've had a long-term cultural problem and that it's not fixed today, right? In 2024, five or six years after two aircrafts fell out of the sky, we now know that Boeing was ridden with quality problems, human problems and fundamentally cultural problems. And there are many, many organisations that we invest in, that we use as our suppliers, or that we might be carrying ourselves as an organisation, and we simply don't understand the extent of that risk. So if I'm on a board of a pension fund, I should be knowing how much risk are we carrying? I'll give you another example. We did some work for a mining company, quite a big mining company, and we were actually able to measure their maturity between 2018 and 2023.And actually we were commissioned to do the work by a consultant to the organisation that said, "Actually, we think we did some pretty good work, we think we really improved the maturity of this mining organisation". And, of course, mining you don't really expect to associate healthier human organisations with higher value, because you expect capital intensive, you know, commodity prices affect share price more than anything else, and what we found was that mining company did improve its maturity quite significantly in a five-year period. And that was associated with much better operating margin, share price improvements and actually the price of the commodity that they mined and sold actually was highly volatile over that five-year period, so there was no association between their share price, their financial improvement and what they were mining out of the ground. So, you know, what's happened is by providing that report to the board of that particular company that board has suddenly put culture and people on the strategic agenda again, they've called the consulting company back in and said, "We've lost sight of this over the last 18 months, and we know we need to make sure it stays on the agenda and it's a fixed part of our agenda. It's not something we just talk about. It's not something that we just do, you know, six to nine months, and then, you know, have a lot of heat and light, and then it kind of dissipates and we go back to business as usual." So really, you know, the key takeaways if I'm sitting in a pension fund today, you know, let's get a much better understanding of that. Let's really learn about this stuff through a holistic lens. Let's look at the maturity of our own organisation, the organisations that work with us, the organisations that we invest in because, if I don't understand that, then I'm going to find risk manifesting. The reason where we started, you know, over 10 years ago, we worked with an S&P, Standard and Poor's, Affiliate Company and they said it much more eloquently than we did. They said "We understand the health of organisations through a financial lens. It's backward looking, it's not a leading indicator and it's a lagging indicator, and if we better understand the organisation through a human lens, we fill a gap, but we also start to look forward. We can start to see the organisation, what might happen next. Once we understand the organisation through a human lens, that risk that we can quantify and understand, suddenly we can look forward, and we can much better predict the health of an organisation, our own organisation, and the organisations that we work with or work for, you know, looking forward suddenly becomes a leading indicator." So I think, you know, that's my sort of long-winded, in-depth key takeaway, if that makes any sense at all, Charlotte.

**Charlotte Moore:** So I'd sum it up as, if you look at the maturity index of a company or an organisation, by which I mean, how do they treat their human beings, that can act as a leading indicator and predict future risk. That's my journalistic summing up of your long-winded answer. [Laughs]

**Stuart Woollard:** There you go, there you go, much better than me!

**Charlotte Moore:** Karen, what's your one key takeaway that you want people to have?

**Karen Shackleton:** Well now I'm terrified, of course, as to what my journalistic summary is going to be! But, for me, I think it's about recognising the link between value, risk and maturity. And so I would really like to make a call to action, to the industry, to pension funds, trustee boards, to put this on your agenda for discussion. Start asking questions. If you want to learn more, Stuart's got an amazing set of resources. We can work with pension funds as well to help the journey. And then to find out the information from your third-party providers, and then to look through to the companies. One thing that we haven't talked about much is B Corp certification and I think that's quite an interesting one because, to me, we've been through the B Corp certification process, and there is a link between what Stuart has been talking about and the process that you have to go through for certification. And a growing number of financial services firms are now going through that process to get their own B Corp certification. But I think that's perhaps a good measure. So find out how many companies in your investments are B Corp Certified, for example. Become informed. Decide what matters to you most. I mentioned before about having priorities, because you can't do everything all at once. Set some goals, then go back at the end of the year or 18 months, or however long you decide it's going to take to implement your plan, refresh it, review, assess progress and then set milestones for the following period. But my key takeaway for myself is when I first started talking to Stuart, I looked at the questionnaire that they send out to organisations and, at the time, I thought, "Oh we should do that one at Pensions for Purpose" and so my key takeaway for today is that I need to go back and ask the team to do the questionnaire, and let's see what we come up with between us, although we are a small company, Stuart, so I expect there's maybe some blips that come in because of that. But I'm still interested to know what people think.

**Charlotte Moore:** Well, no journalistic summary necessary I think, Karen. You were very clear there, and that's no shade on Stuart, either, because I did ask him to give a complete and very long answer. So I'm going to end the podcast there. That has been a truly fascinating discussion. Thank you both, Stuart and Karen, for your valuable input. Thank you too, to the listener, for listening to us and I hope you continue to enjoy the podcast and future episodes. Thanks for listening.