



A state of integrity



Noble mission: The space launch system rocket and Orion capsule — nicknamed Integrity by the Artemis II crew — lift off from the Kennedy Space Center Paul Hennessy/Anadolu via Getty Images

traffic jam, which means that large numbers of people are late for appointments, which could lead to numerous business activities being compromised. Put differently: one out-of-integrity car has created a lack of integrity on a number of fronts.

Wise words

As part of his integrity lecture, Jensen dwelled on a related topic, namely the importance of keeping your word. And, if you can't keep your word, you should honour it. I hear you ask: What is the difference?

Clearly, the preferred outcome is to always keep your word. You take out a loan, you promise to pay it back one day and you stay up to date with all payments of interest. Your credit record remains intact and the bank is happy; the whole system is in a state of integrity.

But life is not perfect and there will be times when you may not be able to keep your word — perhaps you miss a payment due to financial difficulties. So how do you honour your word if you are not able to keep it? You contact your friendly bank manager and you renegotiate payment terms to something more palatable for all parties. The system gets back to integrity.

I was reminded of all these concepts with the Artemis II space mission last month. Before takeoff, the crew decided to name their spacecraft Integrity. As commander Reid Wiseman summed it up in response to the question why: "We started with the Nasa core values and then we looked at the Canadian Space Agency core values. And then we talked about what matters to us most in our core values. What do we want this to be? Peace and hope for all humankind, that is what we really want."

This may sound a bit like a Miss Universe speech, but it was still refreshing to hear the concept of integrity being celebrated in such a way. Now wouldn't it be nice if the leading politicians in the world started subscribing to these values as well?

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About a decade and a half ago, I attended an investment conference in South Africa which, from memory, was sponsored (at least in part) by the CFA Institute. What I will never forget, however, is that I met Prof Michael Jensen that day, and his presentation left a deep impression on me.

Jensen may not quite be a household name, but he was one of the most important financial economists of his time. His main contributions include the fact that he essentially came up with the term "alpha", which is widely used in investment circles today, signifying a manager's actual skill (as represented by out-performance relative to a market benchmark, or "beta").

He was also prolific in the field of agency theory: in plain English, understanding how professional managers of a firm behave when they are not the actual owners of the business. Or, perhaps more importantly: how should you compensate management to ensure that the interests of all stakeholders are best aligned? As Charlie Munger famously said: "Show me the incentive and I will show you the outcome."

But it's the work that Jensen did in the latter part of his life which was the topic of his presentation on the day that I met him: he started spending most of his time on the concept of integrity. When most people see that word, they probably think of it in normative terms, essentially as a synonym for morality and ethics. But this was not what Jensen meant by integrity — he focused exclusively on the literal meaning of the word, as derived from the original Latin: a condition of being whole, complete and in perfect condition.

A simplistic example: a bicycle wheel will be in a state of integrity when every spoke is intact. Remove one, and the wheel will probably still work just fine, with no noticeable impact on performance. Take more away, and the risk of an accident starts increasing accordingly. And compromise the integrity of the wheel by removing, say, half of all the spokes, and you might not even be able to put all your weight onto the bicycle without crashing to earth.

Jensen explained how the lack of integrity in one area of life can lead to problems elsewhere: a car missing a key component becomes unreliable, which leads to it failing in traffic, which causes a