

Daniel Piazolo; Gerhard Förster

Integrity as Performance Increasing Factor within the Real Estate Industry



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Prof. Dr.-Ing. Wolfgang Schulz-Nigmann

THM Technische Hochschule Mittelhessen
Fachbereich 14 Wirtschaftsingenieurwesen

Wilhelm-Leuschner-Straße 13

61169 Friedberg

<https://www.thm.de/wi/>

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- Kurzfassung:** Integrität ist ein performancesteigernder Produktionsfaktor - auch in der Immobilienbranche! Diese positive Sichtweise steht im Gegensatz zu weit verbreiteten Überzeugungen, da die Einhaltung ethischer Standards häufig als ein Aspekt der Performanceverringering angesehen wird. Zwar ist es Marktteilnehmern klar, dass Ehrlichkeit und ethische Standards in einer perfekten Welt wünschenswert sind. Trotzdem werden oft bestimmte "Kompromisse" als notwendig erachtet, um persönliche und geschäftliche Ziele zu erreichen. Hält man sich an eingrenzte ethische Standards reduziert man die zur Verfügung stehenden Optionen und damit seine Performance. In einem dynamischen Umfeld von Interaktionen gibt es jedoch ein anderes Ergebnis der Performanceauswirkungen der Integrität: Wie Michael C. Jensen es formulierte: "Integrität: Ohne sie funktioniert nichts". Das liegt an neuen Möglichkeiten, die ohne Integrität nicht existieren würden.
- Die Immobilienbranche wird mit vielen Korruptionsskandalen in Verbindung gebracht. So wird die Immobilienbranche im "Bribe Payers Index" der Organisation Transparency International als besonders gefährdet eingestuft. Folglich muss die Branche ihre Anstrengungen zur Stärkung der Integrität verstärken.
- Dieser Artikel untersucht den Immobiliensektor und zeigt auf, warum Teile der Branche anfällig für Integritätsmängel sind. Darüber hinaus wird diskutiert, wie Integrität trotz einer herausfordernden Eigenschaft gefördert werden kann: Integrität ist unsichtbar. Die meisten Fähigkeiten und Fertigkeiten können durch Beobachtung und Nachahmung erlernt werden. Was jedoch nicht gesehen wird, kann nicht nachgeahmt werden. Bildung ist daher zentral, um dieses Problem anzugehen und Bewusstsein und Verständnis zu fördern. Berufsverbände müssen sich mit diesem Thema befassen und lebenslanges Lernen unterstützen, um die Integrität ihrer Mitglieder zu gewährleisten.
- Schlagwörter:** Integrität, Korruption, Performance, Ausbildung, Ethik, Bestechung
-

Summary: Integrity is a performance-increasing factor – also in the real estate industry! This positive view is in contrast to wide-spread beliefs since the adherence to moral and ethical standards is frequently seen as a performance costing aspect. Even if it is clear to people that honesty and soundness of moral character is desirable in a perfect world, certain ‘compromises’ might be seen as necessary to achieve personal and business targets. Therefore, sticking to restricting ethical standards would reduce the range of options and consequently performance. However, in a dynamic setting of interactions there is a different outcome to the performance effect of integrity: As Michael C. Jensen put it: “Integrity: Without it nothing works”. This is due to new opportunities that would not exist without integrity.

Real estate is an industry linked with corruption scandals. In studies of the watchdog organization, Transparency International, the real estate industry scores high in the “Bribe Payers Index”. Consequently, the industry has to increase its efforts in strengthening the integrity of its participants.

This paper examines the real estate situation and why parts of the industry might be prone to lack of integrity. Furthermore, it is discussed how to establish and foster integrity despite an embedded challenge: Integrity is invisible. Most capabilities and skills can be learnt through observation and imitation. However, what you cannot see, you cannot imitate. Consequently, education is central to address this issue and to increase awareness and understanding. Professional bodies have also to address this issue and to support life-long education to ensure its members’ integrity.

Keywords: Integrity, Corruption, Performance Factor, Education, Ethics, Bribe

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Introduction

Ethics has been a focus for the international real estate community for a considerable time. For example, the survey of American Real Estate Society (ARES) members documented by Roulac (2006) shows that the respondents think that the real estate sector has performed better than the corporate sector at improving ethical behavior. Thereby ethical behavior was evaluated along five dimensions: trust, fiduciary duty, competence, disclosure and integrity.

However, the recent history of the real estate industry offers many examples which show that the real estate industry is still susceptible to non-trust and non-integrity behavior, especially corruption, and subsequent inferior performance. What can economic theory contribute to improve this situation fundamentally? The connection between trust and/or integrity and economic performance is discussed broadly in economic literature. A milestone in this area of economic theory was Gary Becker who explained non-economic issues like marriage or criminality using economic theoretical models and economically motivated behavior, e.g., direct economic relation between criminality and punishment (Becker, 1968).

Becker's economic 'imperialism' probably was some kind of an initiation for much scientific work about the role of the so-called "social capital", e.g., through Helliwell and Putnam (1999), which Pollitt (2002) described as „The economics of trust, norms and networks“. In this context economic theory deals with the specific kind of peoples' interrelationship in a society and its influences on the individual economic behavior and the performance of the economy as a whole. From this result empirical analyses can be drawn about the interrelationship between trust and economic growth. Cross-country analyses show a strong correlation between a country-related trust-index and the economic growth of the corresponding country. It is interesting that these studies revealed that this correlation between trust and economic growth is positive in developing countries but negative in western countries, especially in the US and the UK (Niazi/Hassan, 2016). The latter can be explained, as set out by Roth (2009), since the trust-index in a developed country can increase when social, civic, and society-criticizing groups are built, strengthened and enlarged. This in turn can lead to the fact that a growth-oriented economic policy of the government can only be poorly implemented which will have a dampening effect on the growth rate.

Another kind of „Economics of Trust“ (Bigel, 2016) concentrates more on the individual aspects of honesty, truthfulness, integrity and ethical behavior of persons and its categorization among interpersonal, social but also individual psychological categories of human behavior, above all the works of Ariely with his co-authors (Ariely/Bracha/Meier, 2009; Gino/Ayal/Ariely, 2009; Mazar/Amir/Ariely, 2006; Mazar/Amir/Ariely, 2008). Interestingly enough, a positive economic category can be seen therein when it is called „dishonesty pays“ (Mazar/Amir/Ariely, 2008, p. 633).

What can these scientific approaches offer to (a) explain behavior that is lacking trust, integrity and in particular corruption, and its correlation to the inferior performance of the real estate industry and (b) to find approaches to improve the situation of this industry? In this contribution the emphasis is on the issue of corruption in the real estate industry. But to understand corruption and its economy it is indispensable to explain corruption by economic theory. This is Part I of the contribution. To understand corruption, the above mentioned scientific works concerning social capital of an economy and the honesty of people in

general do not help specifically. Even Gary Becker cannot contribute to the issue here because, as set out later, punishment of corruption is not a powerful instrument against corruption due to the invisibility of corruption and the marginal probability of exposure.

This contribution examines the Jensen integrity-model towards trust, social capital, honesty and ethics. What distinguishes the Jensen approach to the above-mentioned authors? Several points of criticism or shortcomings concerning the above-mentioned literature can be raised:

a) Social capital, honesty and ethics respectively refer to a society as a whole and to single individuals respectively. This is not the focus here. The contribution wants to characterize and explain a specific worldwide industry with its characteristic features concerning corruption and missing integrity according to Jensen.

b) When asking for trust in an industry the decisive question is who should trust whom. In a market is there a need for trust between the demand and supply side? In an industry should competitors trust each other? Concerning corruption, two agents do trust each other in paying bribes and delivering illegal services by damaging other principals.

c) The commonly approved thesis is that trust and honesty can improve commercial and contractual relationships and, therefore, performance to a certain limited degree. However according to Jensen, integrity is as a positive economic category and can increase performance considerably by offering new opportunities.

d) The most important and critical questions to the authors of trust is the following: How does trust come into being if it does not fall from heaven? Our thesis is: Trust can only be born out of integrity. Therefore, integrity is the key issue and not trust.

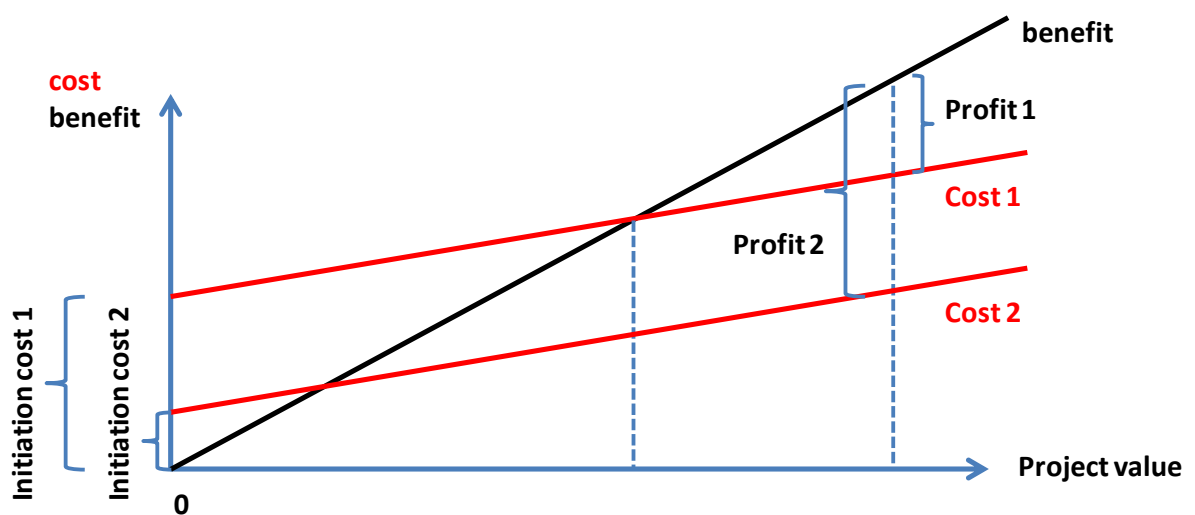
e) Furthermore, the importance of whistle blowers is neglected in the previous mentioned literature. Whistle blowers are crucial to expose corruption and therefore also significant in the following considerations.

Altogether it is clear that economic literature concerning trust, honesty, integrity as a normative category and ethics does not offer specific approaches (a) to explain the challenges for the real estate industry and (b) to find approaches for improvements. Corruption (Part I) is one of the reasons for bad performance. Integrity as a positive economic category according to Jensen (Part II) is the solution. Part III gives the conclusion.

Part I. Basic performance problems of the real estate industry through corruption

A publication of the World Bank Institute about corrupt cities stated “Corruption is a crime of calculation, not passion” (Klitgaard et al., 2000). According to this, everybody is corruptible depending on their respective ethical and moral basic principles. This calculation is different for the various industries in an economy. But if corruption is a crime of calculation, then there must be an economic cost-benefit-calculation which can teach us which factors are responsible for corruptive behavior and which give us the possibility to explain and/or forecast threats of corruption in specific economic investment decisions. Such a model is given in figure 1.

Figure 1: Model for economic cost-benefit-calculation of corruption



The benefit of corruption decisively depends on the value of the project. Thus, large projects are prone to corruption (profit 1). Corruption depends also on the costs of corruption, i.e. bribes. Thus, industries with large projects and long business relationships are especially prone to corruption (profit 2). It's interesting that the costs of corruption also have a specific fixed part which is crucial, too. This part stands for the corruption initiation costs. The smaller the corruption initiation costs the higher the probability for corruption. In the costs for corruption are also included the technical facilities for corruption, i.e. bank accounts on the Cayman Islands or bogus companies, and the probability of revelation multiplied with the costs of punishment. With a low probability of revelation of corruption, a factor which is part of the economics of crime since Gary Becker (1968), the probability of corruption will be high.

Insights of the cost-benefit-calculation of corruption model:

- 1.) the smaller the corruption initiation costs &
- 2.) the lower the probability of revelation of corruption
> the higher the probability for corruption.

Another factor plays a central role in the economics of corruption: Uncertainty about others' behavior. This can be shown using the prisoner's dilemma of the game theory.

Figure 2: Game theory's perspective

Corruption as Prisoner's Dilemma

		Construction firm 2	
		Non corrupt	corrupt !
Construction firm 1	Expected Profit Mio. €		
	Non corrupt	50 for 1 50 for 2	0 for 1 75 for 2
	corrupt !	75 for 1 0 for 2	25 for 1 25 for 2

- Non-cooperative is the offering-game if each construction firm knows without perfect certainty that the other construction firm is basically corrupt.
- Profit of a contract is 100. With similar offers the probability to get the contract is 50%.
- Bribes + expected punishment are 25.

Based on these considerations it is obvious that the real estate industry in general is susceptible to corruption. The reasons are:

- High project values offer high benefits of corruption.
- High complexity of the projects offers corruption with a low probability of revelation.
- Long corruption tradition in the real estate industry lowers the initiation costs and increases the non-cooperative behavior in the prisoner's dilemma.
- The inclusion of free professionals can decrease the probability of corruption under the condition that they maintain their integrity. In contrast to corruptive free professionals the probability of corruption will increase.
- Public and/or quasi-public customers with their employees (low payments).
- Long business relationships with public customers and their employees reduce the initiation costs.

The Corruption Point of View:

- 1.) The adherence to moral and ethical standards is a performance costing aspect
- 2.) Certain compromises are necessary to achieve personal and business targets
- 3.) Sticking to restricting ethical standards reduces the range of options and consequently performance

> Corruption pays off

To evaluate the dimensions of corruption in the real estate industry it is revealing to look at the statistics of Transparency International. The Bribe Payers Index of Transparency International gives information about corruption in industries and countries.

Figure 3: The ranking of countries in the Bribe Payers Index

RANK	COUNTRY/ TERRITORY	SCORE	NUMBER OF OBSERVATIONS	STANDARD DEVIATION	90% CONFIDENCE INTERVAL	
					LOWER BOUND	UPPER BOUND
1	Netherlands	8.8	273	2.0	8.6	9.0
1	Switzerland	8.8	244	2.2	8.5	9.0
3	Belgium	8.7	221	2.0	8.5	9.0
4	Germany	8.6	576	2.2	8.5	8.8
4	Japan	8.6	319	2.4	8.4	8.9
6	Australia	8.5	168	2.2	8.2	8.8
6	Canada	8.5	209	2.3	8.2	8.8
8	Singapore	8.3	256	2.3	8.1	8.6
8	United Kingdom	8.3	414	2.5	8.1	8.5
10	United States	8.1	651	2.7	7.9	8.3
11	France	8.0	435	2.6	7.8	8.2
11	Spain	8.0	326	2.6	7.7	8.2
13	South Korea	7.9	152	2.8	7.5	8.2
14	Brazil	7.7	163	3.0	7.3	8.1
15	Hong Kong	7.6	208	2.9	7.3	7.9
15	Italy	7.6	397	2.8	7.4	7.8
15	Malaysia	7.6	148	2.9	7.2	8.0
15	South Africa	7.6	191	2.8	7.2	7.9
19	Taiwan	7.5	193	3.0	7.2	7.9
19	India	7.5	168	3.0	7.1	7.9
19	Turkey	7.5	139	2.7	7.2	7.9
22	Saudi Arabia	7.4	138	3.0	7.0	7.8
23	Argentina	7.3	115	3.0	6.8	7.7
23	United Arab Emirates	7.3	156	2.9	6.9	7.7
25	Indonesia	7.1	153	3.4	6.6	7.5
26	Mexico	7.0	121	3.2	6.6	7.5
27	China	6.5	608	3.5	6.3	6.7
28	Russia	6.1	172	3.6	5.7	6.6
Average		7.8				

Source: Transparency International (2011)

Bribe Payers Index

gives information about corruption in countries and industries

Survey Question: "How often do firms engage in bribery?"

Answer: 10 corresponds to 'never'
 0 corresponds to 'always'

High levels of corruption are seen in China and Russia. But also Arabic and South-American countries are in the area of high levels of corruption. However, the corruption grade of the real estate industry is of the same magnitude.

Figure 4: The ranking of industries in the Bribe Payers Index

RANK	SECTOR	SCORE	NUMBER OF OBSERVATIONS	STANDARD DEVIATION	90% CONFIDENCE INTERVAL	
					LOWER BOUND	UPPER BOUND
1	Agriculture	7.1	270	2.6	6.8	7.4
1	Light manufacturing	7.1	652	2.4	7.0	7.3
3	Civilian aerospace	7.0	89	2.7	6.6	7.5
3	Information technology	7.0	677	2.5	6.8	7.1
5	Banking and finance	6.9	1409	2.7	6.8	7.0
5	Forestry	6.9	91	2.4	6.5	7.3
7	Consumer services	6.8	860	2.5	6.7	6.9
8	Telecommunications	6.7	529	2.6	6.5	6.9
8	Transportation and storage	6.7	717	2.6	6.5	6.9
10	Arms, defence and military	6.6	102	2.9	6.1	7.1
10	Fisheries	6.6	82	3.0	6.0	7.1
12	Heavy manufacturing	6.5	647	2.6	6.4	6.7
13	Pharmaceutical and healthcare	6.4	391	2.7	6.2	6.6
13	Power generation and transmission	6.4	303	2.8	6.1	6.6
15	Mining	6.3	154	2.7	5.9	6.6
16	Oil and gas	6.2	328	2.8	6.0	6.5
17	Real estate, property, legal and business services	6.1	674	2.8	5.9	6.3
17	Utilities	6.1	400	2.9	5.9	6.3
19	Public works contracts and construction	5.3	576	2.7	5.1	5.5
Average		6.6				

Source: Transparency International (2011)

Comparing the country-index with the industry-index shows that the real estate industry is on the level of Russia, China and Mexico etc. However, the index for the real estate industry

includes not only the real estate industry in China, Russia and Mexico, but in all western countries like Europe, the US and Japan.

Also, the analyses of PWC (2016) show the picture of high corruption threat in the real estate industry with a 30 % score for Economic Crime Rate within the industry “engineering and construction”. This score means that almost a third of all respondents have experienced economic crime within their industry “engineering and construction”.

Altogether it is possible to sum up the most important fundamental problems of the real estate industry:

- Corruption is a dominating element of the real estate industry.
- In addition, there is mismanagement especially in mammoth projects.
- This leads to immense damage of capital in the economies worldwide.

The real estate industry has to decide upon new principles of behavior and of business conduct which can help to prevent these weaknesses and shortcomings. It is not sufficient to focus on general discussions about ethics to solve the problems. Rather it is necessary to ensure the implementation of “Integrity” in Jensen’s specific sense to achieve considerable and tangible improvements.

Part II. Integrity as basis of „ethical principles“ for the real estate industry

Everybody would easily agree that ethical principles are valuable not only but especially for the real estate industry. However, it is quite a challenge to build up an awareness within the real estate sector that the implementation of integrity is not a costly accessory but an important performance increasing factor.

Michael Jensen, a Harvard professor in economics, has repeatedly shown the performance enhancing role of integrity like in Jensen (2010), Erhard, Jensen, Zaffron (2011) or Erhard, Jensen, Zaffron (2016). An individual has integrity if the individual honors his word. An individual can honor his word in two ways: Firstly, by keeping his word at the time he promised; secondly, as soon as he realizes that he cannot keep his word he informs the person concerned and he deals with the damages he has created by not keeping his word. Behaving in this way, an individual can honor his word even in the case he cannot keep his word, and thus he keeps his integrity.

“In this model of integrity, we define honoring your word as:

1. Keeping your word (and on time).

And, whenever you will not be keeping your word:

2. Just as soon as you become aware that you will not be keeping your word (including not keeping your word on time) saying to everyone impacted
-

- a. that you will not be keeping your word, and
- b. that you will keep that word in the future, and by when, or that you won't be keeping that word at all, and
- c. what you will do to deal with the impact on others of the failure to keep your word (or to keep it on time).

Notice that “honoring your word” includes two conditions, where the second condition comes into play whenever the first condition is not met” (Erhard/Jensen/Zaffron, 2009, p. 56).

In the model of integrity as set out by Jensen (2010, p. 19), a person's word is defined as consisting of each of the following:

Word-1. What You Said: Whatever you have said you will do or will not do, and in the case of do, doing it on time.

Word-2. What You Know: Whatever you know to do or know not to do, and in the case of do, doing it as you know it is meant to be done and doing it on time, unless you have explicitly said to the contrary.

Word-3. What Is Expected: Whatever you are expected to do or not to do (even when not explicitly expressed), and in the case of do, doing it on time, unless you have explicitly said to the contrary.

Word-4. What You Say Is So: Whenever you have given your word to others as to the existence of something or some state of the world, your word includes being willing to be held accountable that the others would find your evidence for what you have asserted.

Word-5. What You Say You Stand For: What you stand for, whether expressed in the form of a declaration made to one or more people, or even to yourself, as well as what you hold yourself out to others as standing for (formally declared or not), is a part of your word.

Word-6. The social moral standards, the group ethical standards and the governmental legal standards of right and wrong, good and bad behavior, in the society, groups and state in which one enjoys the benefits of membership are also part of one's word unless a) one has explicitly and publicly expressed an intention to not keep one or more of these standards, and b) one is willing to bear the costs of refusing to conform to these standards.

Giving one's word creates a new relationship and/or a new aspect of an existing relationship. It is crucial that integrity does not include reciprocity. A person can give his or her word to another person and have integrity even when the other person does not have integrity by not giving or keeping or honoring his or her word. There doesn't exist a golden rule of having no obligation to honor my word if my counterpart does not honor his word. The only consequence of an asymmetric integrity is that it damages the value of a relationship.

Jensen and his colleagues separate integrity on the one side from moral, ethics, and legal standards on the other side. Integrity is a positive economic category like technology, real

capital, human capital, efficiency of organizations, innovation, and education etc. which can be measured (high, low) and which have a distinctive impact on economic performance. Moral, ethics and legality are normative categories which can have causal impacts on economic performance, but which have to be evaluated normatively (good, bad).

Moral: Social virtues in a given society of a respective time era which are generally accepted standards of desirable and/or undesirable behavior in this society.

Ethic: Group-oriented virtues in a given group which are generally accepted standards of desirable and/or undesirable behavior in this group. This comprises procedures to discipline and to exclude group members.

Legality: Governmental rules of a law area and/or a sovereign state which are defined by a governmental authority in form of a system of rules and law and which are enforced by the monopoly of power of the state.

According to Jensen and his coauthors the following is taken for granted: When integrity shrinks *ceteris paribus* performance shrinks. Integrity is, therefore, a production factor which can be added to all other known production factors which contribute to the performance. This implicates that a lack of integrity cannot substituted by other production factors. Integrity creates opportunities for performance. If integrity is lacking this means that opportunities for performance are lacking. In this case performance can only be achieved based on the remaining opportunities. This implies that integrity is a categorical production factor which can produce a switch in a production system.

The Integrity Point of View:

- 1.) Business is a dynamic setting of interactions
- 2.) There are new opportunities that would not exist without integrity
 - > different outcome &
 - > performance effect of integrity

It is obvious that integrity is applied to a single person but according to Jensen, integrity can also be applied to groups of persons and organizations like companies. For groups and organizations, the same conditions to keep integrity apply as for the integrity of a person. In most cases these are speakers of a group or an organization. These speakers give their word in the name of the group or the organization. In addition, the behavior of the group – their action is their word – has to be interpreted accordingly. For companies the CEO is the speaker of the organization. But also, other officers or managers of the firm can give their word in the name of the company according to their responsibilities in the company. The relationship between the managers of a listed company as the agents to the shareholders of the company as the principals is of overwhelming importance. This is also known as the problem of agency costs in a principal-agent-relationship. In addition, the “strategic ac-

countability” of the manager of the firm means that the word of the manager is important and highly relevant for the sustainability of the behavior of management.

Jensen stresses the relation between the positive category “integrity” and the normative categories “moral” and “ethic”. He assumes that the moral of a society and ethics of a group are implicitly part of the word which is given. Corruption in this view is a breach of the ethics of the group of individuals which are part of the system of a free market system based on fair competition (cf. Rose-Ackerman, 2002, Lambsdorff, 2002, 2007). As an example, ethics should prevail for certified experts in the real estate industry. Breaching the ethics of the group of certified experts in the real estate industry means that there is no more integrity because one’s word can no longer be honored. Therefore, integrity and corruption are two categories of an open economic system excluding each other. Corruption creates enormous damage in the rule-based game of the markets through breaking the rules. Integrity in contrast creates new opportunities and increases the performance of the system which increases the legitimacy of the market system in the eyes of the society. Figure 5 shows the structure and the reach of integrity:

Figure 5: The Reach of Integrity



Professional ethics present a key functionality for the group of free professionals. Professional ethics are indispensable for the pursuit of a profession and professional services.

These services are described in economics as “credence goods” which are sensitive in the question of trust and integrity in the marketing and sales of the services. Professional ethics reduce the degree of adverse selection and the risks the professional services create to their consumers. Concerning corruption, credence goods have an additional problem: they are heavily susceptible to corruption, and the revelation of corruption is particularly difficult within credence goods. Therefore, professional ethics are very important within free professions. This is shown in the figure 6.

Figure 6: Professional: A servant of two masters?



In this respect the professional is a servant of two masters.

Professional ethics offer to the professional

- Positive and negative restrictions to protect the client
- Protection against corruption and bribes from the client

Therefore, professional ethics dominate the client.

If the client dominates professional ethics, there is no integrity.

Conclusion: The concept of integrity according to Jensen and his colleagues is an indispensable positive economic category. It means that:

- Integrity is a highly efficient performance factor like capital, organization, innovation, and education etc. Integrity creates new opportunities. Integrity creates efficient leadership. Efficient leadership is necessary to accomplish complex projects in real estate, which needs integrity by all participants as necessary condition for the success of respective projects.
- The real estate industry employs many different free professionals like appraisers, experts, and architects etc. Therefore, professional ethics are necessary which itself comes in through integrity of the different counterparts. Professionals live in a two-sided principal-agent-relationship. The client is a principal which can be corrupt. Professional ethics protect the professional against corruption. Professional ethics on the other side protect the client that he gets good services and no under-service or over-charging.

Integrity in the real estate industry means:

- no corruption, which substantially reduces the costs of real estate projects. This leads to more efficiency of private or public investments in real estate.

- an improvement in the performance and efficiency of the real estate industry in general, so that the returns earned by real estate capital as the main part of the real capital of the whole economy can be improved considerably.
- that the professional ethics of free professionals in the real estate industry like appraisers, experts, and architects etc. become evident so that the efficiency of the allocation of capital in real estate improves considerably.
- Mammoth projects in real estate will be accomplished more efficiently.

If it is agreed that integrity and freedom from corruption is so crucial, an answer is need for the question ‘how to implement integrity and to prevent corruption’. There is some evidence that the implementation of the integrity framework functions as a way to improve behavior by brokers (Black, 2013) and as a sale strategy (Kahle, 2017). Consequently, the real estate industry should benefit as well. There are feasible approaches to implement integrity in the real estate industry. One is the integrity pact from Transparency International.

- The integrity pact is a tool which was developed by Transparency International to support governments, industries and societies which are ready to fight corruption in the specific area of assignments of contracts (Transparency International, 2017).
- The idea is as simple as effective. In a limited market, in a single competition situation, all participants sit together. The governmental authority or the private company which puts an infrastructure project out to tender and all private companies which compete for the infrastructure project are part of the integrity pact. The aim is that all participants at the table make an agreement which implies rules to secure that all participants commit to abstain from corruptive behavior in the respective specific project.
- At this time the concept is used worldwide, in developed countries like Italy or South Korea and in developing countries like Paraguay or Mexico.

The integrity pact has two sides:

1) Self-commitment of public and/or private customer:

Under the integrity pact the customer organization and its public or private employees are obliged as follows:

- No government official or employee of the customer nor their respective family members are going to accept or demand a present, a bribe or any kind of advantage in reaction to an advantage in the structure of the offer, the contract and the fulfillment of the contract.
 - The customer will disclose all technical, legal, procedural and financial issues concerning the respective project to all suppliers which are part of the integrity pact.
 - No government official or employee of the customer will pass on confidential information to a supplier if this information gives illegitimate advantages in the phase of competition for the order or in the phase of fulfillment of the order.
 - All government officials or employees of the customer who are part of the process of selecting potential suppliers, of evaluating the formal supply, of designing the contracts, and fulfilling the project, reveal in a suitable way all potential conflicts of interest. It is highly welcome to publicize their and their family’s wealth status.
-

- All government officials or employees of the customer will inform the respective governmental and official departments about realized or attempted breaks of the integrity pact and its obligations.

2) Self-commitment of suppliers:

Under the integrity pact the suppliers which compete for the project and the suppliers which fulfill the project are obliged in the name of the management of the supplier in the following way:

- Not to offer or to give to a government official or employee of the customer nor their respective family members a present, a bribe or any kind of advantage in reaction to an advantage in the structure of the offer, the contract and the fulfillment of the contract.
- Not to cooperate with other suppliers which are also competing for the project concerning prices, costs, transparency and fairness of the respective procedures.
- Not to accept advantages in reaction to unprofessional behavior.
- To open up all payments to other agents and intermediaries by informing about the value or the payments, the means of transfer, the place of transfer and the reason and/or the services which are behind the payments. These payments should not exceed the fair value for respective delivered legal services.

In addition to the integrity pact, Transparency International recommends codes of conduct. The idea is to prevent corruptive behavior and to reveal corruption as a common effort of all employees in governmental institutions, offices and in private companies.

- The codes of conduct offer rules and regulations to deal with threats of corruption and instructions in case of suspicious or actual corruption.
- Message 1: Corruption is not a trivial offense but a criminal behavior.
- Message 2: Corruption possibly starts with small obligingness.

Following a code of conduct:

- Your behavior should show that you neither accept nor support corruption.
 - Reject every attempt of corruption and inform your boss as soon as possible.
 - If you presume that someone is asking you for an illegal advantage, cooperate with your colleague as a witness.
 - Organize yourself in a way so that everything you do can be scrutinized.
 - Separate your work and business from your private live. Ask yourself whether there are conflicts of interest between your business obligations and your private interests.
 - Support your department and your employer concerning exposure and clearing up of corruption.
 - Inform your boss if there are concrete and obvious signs of corruption.
 - Support your department and your company in detecting faulty organizational structures which can favor corruption.
 - Do further training in prevention of corruption.
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- Inform yourself about the rules and regulations concerning the prevention of corruption according to law.

In addition to the integrity pact and the codes of conduct of Transparency International there are also specific initiatives for the real estate industry. The Institute of Real Estate Managers (IREM) has adopted a code of professional conduct starting 2017 (Mullins, 2017). Thanks to the International Ethics Standards Coalition (2016) there is also a wide-spread international initiative: Over 100 organizations from all over the world confirmed that the past practice of inconsistent ethical standards is unacceptable and that setting standards can help to reassert the role of ethics. In December 2016 the International Ethics Standards for the Real Estate industry were published.

From the considerations in part II, the following conclusions can be drawn:

- Integrity, as Jensen and his coauthors understand it, is a necessary and sufficient condition for an improved efficiency of the real estate industry as one of the most important industries of the whole economy.
- As well as improving the efficiency of the industry, especially with regard to successfully and efficiently completing mammoth projects, the struggle against corruption has to be given highest priority.
- There are already promising initiatives like the integrity pact and the codes of conduct of Transparency International and the International Ethic Standards for the real estate industry. It should be obligatory to implement larger real estate projects according to these principles.
- The professional ethic of the free professionals has to be enforced and supported.
- For companies the management philosophy of the leadership-concept of Jensen and his colleagues (Scherr/Jensen, 2007) has to be followed.

A discussion on integrity and corruption in the real estate industry cannot be completed without addressing the issue of whistle blowers. Because of the invisibility of integrity, legitimacy and corruption, there exist serious problems concerning transparency. If corruption cannot be detected, corruption cannot be fought against. The challenge with corruption is its exposure.

Whistle blowing by insiders might be a solution to fight and control corruption (Dyck at al., 2010). However, recent experiences in the history of corruption show that the costs internal whistle-blowers suffer turn out to be rather high. But because whistle blowing is indispensable for the fight against corruption, rules are needed in the real estate industry worldwide and their respective professional associations to make whistle blowing socially acceptable.

Part III. Conclusion: Importance of Education and Protection of Whistle Blower

Addressing integrity also requires a discussion about appropriate education. The reason lies in the invisibility of integrity, legitimacy according to Lamb (2014) and corruption. This is shown in figure 7.

Figure 7: Visibility versus Invisibility of Integrity

	Integrity	Legitimacy	Corruption
visible	Non-integrity	Illegitimacy	-
invisible	Jensen "veil of invisibility"	Legitimacy	Corruption Non-corruption

According to Jensen, 'integrity' as superior behavior is rarely accepted due to the invisibility of integrity. Furthermore, corruption is often also invisible. Consequently, a society is confronted with the problem of both exposing and fighting corruption. Both invisibilities have serious consequences. Many economically relevant actions are visible. By watching these actions, they can be learned by imitation. What you cannot see, you cannot learn by watching and imitating. This is true for integrity, legitimacy and anti-corruption.

Therefore, the real estate industry has to embark on a huge education program:

- Free professionals have to be educated concerning their integrity and the relevance of their professional ethics.
- The management of real estate companies must learn about the leadership-philosophy of integrity.
- Real estate projects must be implemented according to the principles of the integrity pact of Transparency International and the principles of integrity as a performance factor. Project managers in the private and public area have to be educated in this field.
- The real estate industry should improve its image in society by pioneering integrity and anti-corruption in the respective education system worldwide. Education in schools, colleges and universities should be complemented by teaching integrity as Jensen understands it.
- The professional associations of the real estate industry like gif, ERES, RICS, the International Ethics Standards Coalition, and others, should work together to develop and implement concepts of integrity and anti-corruption in the real estate industry.
- Highly critical are the questions concerning whistle blowing. Whistle blowers are indispensable in the fight against and control of corruption. History, however shows that many industries and professions severely punish their whistle blowers. The costs which could be named exposure costs are extremely high. It is easier to side with corruption than to become a whistle blower. Therefore, there is so much corruption and so little whistle blowing, exposure of corruption, and avoidance of cor-

ruption. In this respect, organizations like gif, ERES or RICS are requested to support and protect whistle blowers in the real estate industry.

It will take some time to convince all the people in the real estate industry by good example and intensive education to implement integrity, and to protect the whistle blower. Besides the fight against corruption, it is crucial to foster the principles of integrity to substantially improve the efficiency of the real estate industry, and to convince the real estate professionals concerned that integrity will improve their own personal performance. The performance paradox can and must be broken by education.

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Über die Autoren

Prof. Dr. **Daniel Piazzolo** ist Professor für Immobilienmanagement und Risikomanagement an der THM. Davor war er Geschäftsführer der IPD Investment Property Databank GmbH, Frankfurt, und auch Mitglied im Board of Directors der britischen Mutterfirma IPD Ltd. (nun Teil von MSCI). Von 2002 bis 2005 arbeitete er als Projektleiter im Immobilienbereich bei der FERI. 1995 bis 2002 war er wissenschaftlicher Mitarbeiter am Institut für Weltwirtschaft (IfW) in Kiel. Daniel Piazzolo hat an der London School of Economics und an der Yale University studiert. Er ist Mitglied in der Professional Group Valuation der RICS.

Dr. rer. pol. **Gerhard Förster** arbeitete nach dem Studium der Volkswirtschaft und der Promotion als Assistent an der Universität Freiburg und als Abteilungsdirektor in der Strategie-Abteilung einer Frankfurter Großbank. Danach schloss sich eine langjährige Tätigkeit als Seniorberater bei spezialisierten international tätigen Unternehmensberatungsgesellschaften in Frankfurt an. Seit Beendigung dieser Tätigkeiten beschäftigt er sich mit Integrität in der Ökonomie und hält Vorlesungen über Korruption in der Immobilienwirtschaft an der Deutschen Immobilien-Akademie (DIA) an der Universität Freiburg.

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