

# Ethical climate in the Korean appraisal industry

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# Overview

- Introduction
- Research Background and Literature
  - Certified Korean appraisers
  - Empirical papers
- Data : 334 (74%) responses out of 450 surveys, 2017
- Discussion
  - Consistent or too correlated
  - Item analysis: what to measure
  - If Framed differently?
- Conclusion

# Introduction

- Kevin Chung/RAK Center for RE Investment Ethics Center at Konkuk University
  - Generous donation from Mr. Chung with RAK, Seoul, Korea
  - Develop required ethics courses for both graduate and undergraduate students
  - Review of RE and Urban Studies: To start publishing papers on ethics
- Business ethics research: Requests from trade associations
  - Korea Association of Property Appraisers
  - Korea Association of Realtors
- Development stage research of this kind
  - Grey area: Ethics vs. Fiduciary rules (Legally binding)
  - Easy~~

# Literature

- Victor & Gullen (1988) and Arnaud & Schminke (2012)
  - Ethical climates : collective reasoning of Org. members
  - Ethical climates : shared perceptions of appropriate moral reasoning
  - Classification: Self-focused and other-focused
- Brown, Trevino and Harrison (2005)
  - Ethical leadership
- Cheng and Wang (2015)
  - Effect of ethical climate on leadership and team identification
- Lee and Yoshihara (1997)
  - Business ethics of Korean and Japanese managers
- ARES(1999): Norman Miller and Okoruwa & Thompson (1999)
  - Codes of conduct of trade associations
  - Brokerage ethics: empirical analysis (n=58)
- Shin and Yoo (2017)
  - Focusing on large appraisal firms consisting of 150 or more appraisers
  - Revisited

# Certified appraisers in Korea

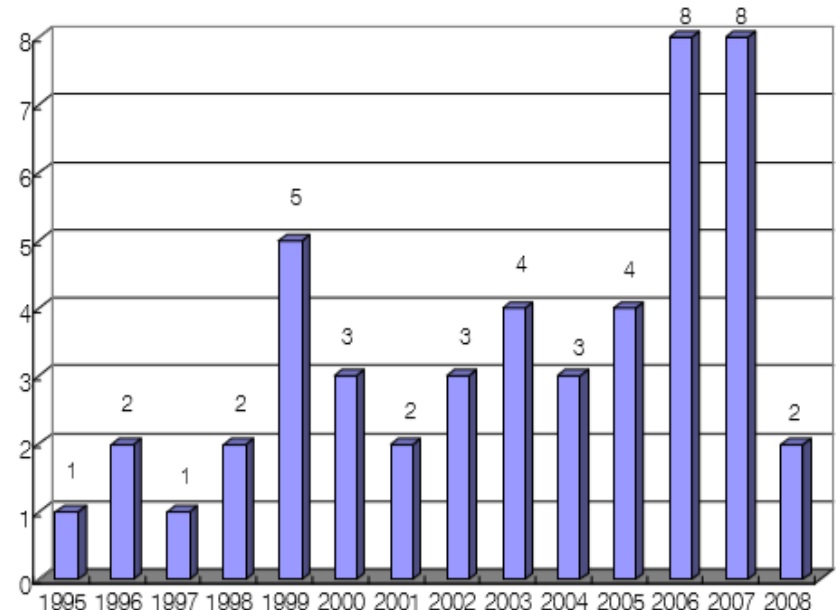
- In 1989, the Korean government's Ministry of Land, Infrastructure, and Transport introduced the current license. Only the certified appraisers are allowed to conduct this business in Korea.
- 1<sup>st</sup> level exams consist of Civil law, Principles of Real Estate, Accounting, Economics and Public Regulations on Real Estate Appraisal.
- 2<sup>nd</sup> level exams consist of Appraisal Practice , Appraisal Theory, and Public Regulations on Real Estate Appraisal. While 1<sup>st</sup> level exams are multiple choice, 2<sup>nd</sup> level exams consist of essays.
- They are also subject to one year of mandatory training.
- As of 2018, we have about 4,000 certified appraisers while the total population is 52 million. This equates to about 7.7 appraisers per 100,000 people.

# CPA in Korea

## Fee schedule: ad valorem

Appraised value (USD)	Fee (USD)	Average
.5 MM	695	0.14%
5 MM	4,345	0.09%
10 MM	7,845	0.08%
100 MM	56,845	0.06%
300 MM	136,845	0.05%
600 MM	226,845	0.04%

## Damage claim lawsuits against CPA (2008)



# Questionnaire

- 10 leadership questions: Brown et al. (2005)
  - My leader always makes a fair and trustworthy decision.
  - I can trust my leader.
  - My leader is a good example of my business conduct.
  - My leader takes care of both results and people.
  - My leader listens to me.
  - My leader considers what is the right thing to do before making a decision.
  - My leader is ethical even in private relationships.
  - My leader corrects me if I violate codes of ethical conduct.
  - My leader is happy to discuss with us regarding values and ethical standards.
  - My leader respects my concerns as his/her highest priority.

# Questionnaire

- 9 ethics management programs: Ferrell et al. (2008)
  - The CEO can immediately notice all ethical problems caused by staff.
  - My company continues to improve its ethics management system.
  - My company is good at sharing its ethical standards with customers, suppliers and other stakeholders.
  - If I violate codes of conduct, then I should expect certain punishment.
  - We frequently discuss about codes of conduct.
  - We have a reporting system.
  - My company tends to limit ethically immature staff from work.
  - We need to take ethics education courses.
  - We have job descriptions and procedure manuals incorporating ethical standards.



# Descriptive statistics

	Variables	Frequency	%
Gender	F	51	15.3
	M	283	84.7
Age	20's	15	4.5
	30's	146	43.7
	40's	103	30.8
	50's	37	11.1
	Over 60	33	9.9
Education	2 year college	7	2.1
	4 year Univ.	231	69.2
	Graduate	96	28.7
Major	Liberal arts	37	11.1
	Social sciences	67	20.1
	Business	109	32.6
	<b>Engineering</b>	118	35.3
	Other	3	0.9
Experience	Less than 1 year	12	3.6
	1 to 5	97	29
	5 to 10	86	25.7
	10 to 20	78	23.4
	20 or longer	61	18.3
Size of firm	Less than 50 appraisers	16	4.8
	50 to 100	39	11.7
	100 to 150	30	9
	150 or more	249	74.5
	n=334 appraisers		

# Descriptive statistics 2

Item	No. Questions	Min	Max	Mean	STD
Leader	10	1.60	5.00	3.69	.70
Ethics Program	9	1.00	5.00	3.38	.70

– One std. interval of leader: 2.99 to 4.39

- Reliability coefficient

Item	No. Questions	Cronbach's alpha
Leader	10	.95
Ethics Program	9	.93

– Are the results too consistent?

# Discussions

- Mann-Whitney's U & Wilcoxon's W test
  - a [nonparametric test](#) of two groups for statistical difference.
- Four Hypotheses
  - Age: Experienced: 45 or older
  - Gender: Male vs. Female
  - Major: Biz vs. STEM
  - Size of appraisal firm: 100 or more appraisers

- 1. The older (and consequently, more experienced) the appraisers are, the more sympathetic they will be to clientele effects.
- 2. Appraisers who have majored in business during their university years are more sensitive to profit than appraisers who have majored in other fields such as liberal arts, social science, engineering, and so on

- 3. Male appraisers value loyalty to people [*Guanxi*, as explained by Cheng and Wang (2015)] most highly, while female appraisers most highly value rationality.
- 4. Larger firms are likely to have more strict compliance procedures.
- Our results show that all of these hypotheses are not reject-able from a statistical point of view.

# Limitations

- Consistent or too correlated
  - High correlation (Leader, Ethics system)
- Standardized responses
  - High school exam
- Item analysis
  - What we want to measure
- If Framed differently?
  - Lee & Yoshihara (1997) and Okoruwa & Thompson (1999)