

EFFECTS OF THREATS ON ETHICAL BEHAVIOR OF PROFESSIONAL VALUERS IN SRI LANKA

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Abstract

Ethical behavior means compliance with the ethical standards. Though there are fundamental standards, unethical behavior may emerge due to many obstructions (threats) arise in property valuation profession. To date, there is no evidence of adequate research on this issue. This paper focus on analyzing the factors affecting on the ethical behavior of valuers over mortgage valuation in Sri Lanka. Based on the quantitative approach the data was collected from 100 professionals. In particular, following factors such as self-interest threat, self-review threat, client conflict threat, advocacy threat, familiarity threat, and intimidation threat were analyzed. Results revealed that, all other tested factors except intimidation threat, influenced the ethical behavior of valuers in mortgage valuation. It is recommended to organize awareness programmes on ethical behavior frequently.

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Keywords: Ethical Behavior; Mortgage Valuation; Professional Valuer, Moral Conduct, Ethical Standards

Introduction

Ethics refers to a set of rules that describes acceptable conduct in society. Ethical behavior is the application of moral principles in a given situation. Moreover, it is to behave according to the moral standards accepted by the society. In terms of professional conduct, ethical behavior become utmost important as professionals serves to the society. Unethical practice may violate the decision and brings negative results to the society. Ethical behavior is characterized by honesty, fairness, and equity so on. Being thorough of ethical behavior can increase employee performance, job satisfaction, organizational commitment, trust, and organizational citizenship behaviors while satisfying the customer. Not only that, but correct behavior also increases the prestige of the specific profession as well as the professional.

As other professionals, valuer also play a significant role in the society. They obliged to provide a distinct service to the public. Hence, in performing their tasks, a valuer should ensure their ethical behavior in all decisions. Accordingly, they should be fair, truthful, unbiased, diligent, and, trustworthy in all respects and should be accountable to any user of their services. For that, professional valuers should continuously monitor theoretical and practical achievements in the profession and develop their professional knowledge while never knowingly associated with any illegal or non-allowed activity.

While the government valuation process follows major types of property valuations in Sri Lanka, most of the mortgage valuations are handled by the private valuers. Mortgage lenders generally require the value of the collateral asset to guide lending decisions. Nwuba *et al*, (2015),

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suggests that valuation outcomes can thus be of special interest to stakeholders in lending transactions and its reliability is necessary for prudent lending decisions. However, many researchers have observed that property valuers fail to operate with perfect market knowledge in some cases. Rather follows clients' instructions, succumb to different threats, and respond to different pressures when preparing a valuation and accordingly make judgments (Currin, *et al*, 2014).

Further, it has been argued that in threatening situations, the brain shifts into a state that facilitates the development of rapid defense mechanisms (Kouchaki and Desai, 2015). Moreover it is possible to argue that this self-defensive mode prompt the person to concentrate narrowly on their self-interest, which provide a platform them to be less mindful of principles that guide ethical and moral reasoning, thus leading them to behave unethically. It is commonly understood, that such valuations fail to capture true market and tend to gap behind the underlying market performance. This situation leads to unethical behavior of the performance and there is no information on what factors effect on it in different scenarios. Previous studies presents that a lack of awareness on ethical practices influences on unethical behavior and mostly, less experienced valuers are just as likely to act unethically (Mohomad *et al* 2018).

There are a few researches have been published pointing the need for undertaking research in the ethical behavior of Valuer's in valuation practice, while only focusing on identifying the behavioral elements that exist in Valuer's behavior and how those elements affect valuation accuracy. Hence, this should be further investigated. To date there is no adequate evidence on a research in the context of Sri Lanka on what factors may influence on ethical behavior of a valuer. In this scenario, this research was carried out to identify the factors affecting the ethical behavior of valuers in Mortgage Valuation in Sri Lanka. The research can be a platform in behavioral knowledge and awareness and provide insights as well as guidelines to the valuation practice.

The Objective of the Study

To analysis the factors (threats) affecting on ethical behavior of Valuers in Mortgage Valuation in Sri Lanka.

Literature Review

The term of professional refers to anyone who earns their living from performing an activity that requires a certain level of education, skill, or training. There is typically a required standard of competency, knowledge, or education that must be demonstrated as well as adhering to codes of conduct and ethical standards (Corporate Finance Institute, 2020). Professional ethics are the principles that govern the behavior of a professionals. It requires professional valuers to be fully devoted to their work and care for continuous improvement of quality and efficiency of their work. Like values, professional ethics provide rules on how a professional should act towards institutions and public (Immigration Advisers Authority, 2020). Professionals must adhere to ethics throughout their carrier. It leads to maintain the public's trust in the profession, encouraging the public to continue seeking their services. However, there are some universal ethical principles that apply across all professions, including: honesty, trustworthiness, loyalty, respect for others, adherence to the law, doing good and avoiding harm to others, accountability (Immigration Advisers Authority, 2020).

Valuation refers to the estimation of property value at a given point in time. This value reflects the transaction price of real properties in the open market. Valuations are widely used for the

purpose of financial reporting (CA Sri Lanka, 2013). Mortgage valuation is fundamental to bank lending decision (Aluko, 2010). As per (Adedamol, et al., 2013) a thorough valuation report is expected to provide a substantial level of professional shielding to property developers from the risks and problems of wrong investment decisions. Thus, as a professional, valuers also need to be responsible of their action in order to ensure that they arrived at reasonable values that can predict variations in their values and finally may lead to a logical and reliable market situation. Unfortunately, valuation outcomes are always exposed to uncertainties, which affects the fair market value of properties. One of the causes of the existence of uncertainty in valuation is human behavior.

In mortgage valuation, unethical conduct can occur due to various reasons. Literature suggests that females are more concern than males. Some threats discussed are, self-interest threat, self-review threat, client conflict threat, advocacy threat, familiarity threat, and intimidation threat. As per (Hero, 2013) self-interest threat occurs as a result of the financial or other interests of a professional member or of an immediate or the presence of a close family member. sometimes it may occur due to having a close business relationship with a client or concerning about the possibility of losing a client or possibility of potential employment with a client or contingent fees relating to an engagement so on. Self-review threat occurs when previous judgment needs to be re-evaluated by the same professional responsible for that judgment. Such situation may push the professional to biased results. Advocacy threat occurs when a professional promotes a position or opinion to the point that subsequent objectivity may be compromised. Familiarity threat occurs when, by virtue of a close relationship with a client, its professional becomes too sympathetic to the client's interests. Intimidation threat occurs when a professional may be deterred from acting objectively by threats, either physically or mentally.

Methods

Quantitative method was employed using Survey technique to gather information using a questionnaire. In addition to the threats discussed in the literature review, the variables of gender, and the valuer's responsibility to bank were also included as categorical variables. Ethical behavior is defined as 'practice of ethical principles' and formulated with five-point Likert scale questions. Simple random sampling method is utilized to collect data where 100 number of self-administrative questionnaires were distributed to the professional valuers who are serving to both government and private banks in the country. Reliability was tested using Cronbach's Alpha values and all are greater than 0.7 whereas from validity testing identified that Eigenvalue is greater than 1 hence provides an acceptable level for the analysis. Independent sample T test was done to identify the significance level of the threat factors.

Results and Discussion

Some of the demographic characteristics of the respondents indicated in Table 01

Table 1: Demographic Characteristics of the Respondents

Demographics details		Frequency	Percentage
Gender	Female	24	24.0
	Male	76	76.0
Marital Status	Single	11	11.0
	Married	89	89.0
Educational qualification	Diploma level	17	17.0
	Bachelor's degree	67	67.0

	Mater Degree	16	16.0
Employment Status	Government Sector	59	59.0
	Private Sector	27	27.0
	Retired	14	14.0
Years of Experience	5-10 years	39	39.0
	10-20 Years	49	49.0
	More than 20 years	12	12.0
Monthly Income	Less than Rs.50,000	28	28.0
	Rs.50,000 – 100,000	58	58.0
	Rs.100,000 – 150,000	14	14.0

Source: Analysis Data, (2019).

According to Table 01, the majority in the sample represents male category. Among them, 89% of the participants are married. Many respondents are qualified as graduates. More than 50% are government sector valuers. Most of the participants (49%) has 10 to 20 years of experience in the field and a majority earns Rs. 50,000 -100,000 monthly.

Table 2: Independent Sample T-Test

	Levene's T test for equality variance		T- test for equality means		
	F	Sig.	t	df	Sig. (2-tailed)
Gender	0.654	0.421	0.686	98	0.494
Valuer's responsibility to bank	0.265	0.608	4.130	98	0.000
Self-interest threat	0.779	0.380	2.597	98	0.011
Self-review threat	12.008	0.001	3.212	98	0.002
Client Conflict threat	7.682	0.007	-3.001	98	0.003
Advocacy threat	2.699	0.104	-2.118	98	0.037
Familiarity Threat	6.026	0.016	-6.086	98	0.000
Intimidation threat	0.165	.686	-0.200	98	0.842

Source: Analysis Data, (2019).

Table 2 indicates the result of independent t test (Levene's test). Equal variances assumed p value is used to test main hypothesis. There is no adequate evidence to prove, "gender and intimidation threat has an impact on ethical behavior of valuers in mortgage valuation. The valuer's responsibility to bank and familiarity threat is significant at 1% level and highly influenced on ethical behavior. Further, self-interest threat, self-review threat, client conflict threat, advocacy threat, also influenced on ethical behavior because the p. values are significant at 5% and 10% respectively. Hence, null hypotheses are rejected.

Conclusion

According to the summary of findings, the majority of the professionals who engage in mortgage valuation practice are males, married persons, qualified with a bachelor degree, working in the government sector, holding 10-20 years of working experience in valuation field and earn Rs. 50,000 – 100,000 as monthly income. There is no significant impact of gender and intimidation

threat on the ethical behavior of valuers in mortgage valuation. Results proves that factors such as the valuer's responsibility to bank, self-interest threat, self-review threat, client conflict threat, advocacy threat and familiarity threat has an impact on the ethical behavior of valuers in mortgage valuation. Therefore, the threats increase the probability to produce biased decisions in the judgement and violate the ethical behavior.

Finally, the research concludes that the lending valuation process is mostly associated with unethical behavior with biased decisions based on the threats discussed in the analysis. Results of this research identifies, the understanding level of ethical standards among the Sri Lankan valuation professionals is at moderate level and they follow almost non-fundamental and situational approaches in their ethical decisions. Hence, it is recommended to increase the awareness of code of conduct and ethical practices to mediate the influence of threats on valuers' decisions. Introducing programmes on ethical practices in continuous professional development programmes (CPD) conducted by IVSL is recommended to improve the awareness of ethical behaviour and to increase the autonomy of the valuer.

Acknowledgements

The researchers would like to acknowledge Center for Real Estate Studies, Department of Estate Management and Valuation, University of Sri Jayewardenepura.

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