

RENEWING ETHICS



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A note from AFIRE's Ethics Chair on the need for maximizing ethics in an age where globalization is under threat:

In the current era of globalization, failures of governance, investment, and development can no longer be easily swept under the rug. The basic principles of how digital social networks operate through lack of hierarchy, transparency, authenticity, and cooperation, have also had a serious impact on the old patterns of power distribution between the corporations and their stakeholders.

The necessity and importance of transparency as a tool for building trust—particularly within the real estate industry—has grown immeasurably. Accessibility of information for everything from procurement and supply chain operations to tax incentives and executive compensation has sharpened corporate understanding of the need for value-based conduct, and the willful imposition and acceptance of barriers and self-restraints.

With globalization now under threat, doing the right thing is not just the right way to do business, but in the end, it's the only way to do business.

SOS (SAVE OUR SOULS)?

The inherent *raison d'être* of the business world is profit. According to this assumption, is it possible to attribute moral responsibility to a business organization? Should companies create intra-organizational mechanisms to ensure moral behavior?

On this note, internationally respected author and business consultant Patrick Dixon once said, “Strong ethics keep corporations healthy. Poor ethics make companies sick. Values are the immune system of every organization.”

Despite broad agreement that businesses can and should according to prescribed moral standards, there are still businesses who perceive integrity as a constraint rather than a motive. As a result, they operate according to moral codes only to the extent that the market or law requires. But what is legally allowed may not be always the right thing to do. While law often merely imposes minimum standards of behavior, ethics set the maximum. Ethics are aspirational.

Such businesses will often tout their actions as a benefit for society under the broad guise of social responsibility. They seek to win moral *bona fides*, even as these “responsible” actions are merely moral substitutes, or what has become an acceptable kind of business strategy to bolster reputation as one means of many leveraged merely to support the bottom line

But it is not the pursuit of profit that creates injustice. Instead, it is the pursuit of maximum gain; that is, *proper profit versus maximum profit*.

SOCIAL IMPACT AND RESPONSIBILITY

At a fundamental level, even before ethics, the cooperation between the professional teams in a company plays a crucial role in its chances of success. In order for any productive cooperation to take place, employees must share a similar set of beliefs and values, themselves instilled by the company's management.

At this point, ethical problems arise from conflicting personal and work values or from values not aligned.

Setting business standards based on core values helps employees play by the same rules. Most people want to work in a company where they feel trusted and where they can trust others; a place where the values and ethics are known, shared, and followed. Working in an organization with people who share the same values and goals makes people feel that they are part of something bigger than themselves and supports commitment, retention of staff, and continuity of business development.

Beyond internal cohesion, ethical standards ultimately provide organizations with a collective ability to resolve ethical dilemmas. Without standards, we restrict our ability to do business effectively. When organizations don't articulate clear values, individuals are left to their own devices to determine which values should guide them.

THE BEST THING YOU CAN DO IS THE RIGHT THING

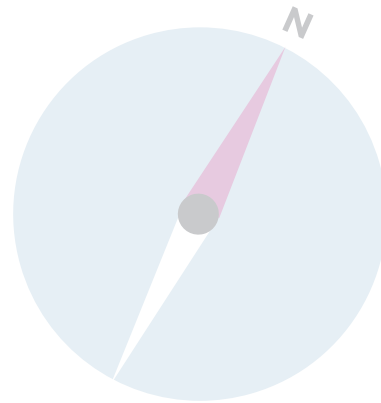
The Edelman Trust Barometer defines trust in business as a combination of competence and ethics, with ethics being defined as having a purpose, sharing it transparently, and delivering it with integrity. And integrity itself consists of the actions, values, methods, measures, principles, expectations, and outcomes of a given action.

It is the will and responsibility of a company's leaders to set the moral tone and to create a day-to-day example of ethical behavior. If the management philosophy is based on ethical practices, it has the ability to inform an employee's conduct and business decisions, which will not only be beneficial to them as individuals, but also to the organization as a whole.

Building a business on a foundation of ethical behavior helps create lasting, positive benefits, including reputation, cultural cohesion, and personal fulfillment. And as newer generations of business stakeholders demand increased transparency and responsible investing, a clearly stated ethical imperative within a business allows them to efficiently respond to stakeholder needs and demands.

As we have seen in the start of 2022 and the unprecedented global economic response to Russia's invasion of Ukraine, in the modern era of globalization, moral failure cannot be secreted away. The assets and investment vehicles of Russia's wealthiest oligarchs are being seized, and some of Russia's largest businesses are being crippled by global sanctions—all the result of a moral failing.

Even as it can seem that our ancestors have had little influence over our generation, we have the duty and privilege to understand right now how we are shaping the world for future generations.



RENEWING ETHICS: A BRIEF STUDY

CONFLICT WITH LOCAL MANAGEMENT

A real estate investment firm focused on large, commercial assets offers diverse investment opportunities to its investors, executed through an experienced local manager with a deep familiarity with their local markets. The firm's relationships with local managers include ongoing monitoring and protecting investors' interests in existing investments.

One of the firm's local partners is a US real estate company that develops and manages assets. The investment firm participated in several, well-performing investment opportunities offered by this local manager, by raising funds from investors and representing their interests in the different projects.

After several years of collaboration, the local manager offered the investment firm an opportunity to raise funds for a new project. The proposed opportunity was located in the same area and had characteristics similar to one of the manager's previous investments, though that previous investment was so far not performing as expected. Notably, the occupancy rate drastically lower than anticipated in the business plan. The investment firm was not involved in this underperforming existing project, but was well aware of its challenges.

The investment firm's executives believed that the new offer represented an inherent conflict of interest, because the new asset competed with the existing investment for tenant demand and management resources. The firm therefore turned down the offer from the manager.

Unsatisfied with the firm's decision, the local manager claimed that even though the new offer shares similar characteristics with an existing investment, the new asset would not compete for tenants. The investment firm nonetheless disagreed and added that the new investment would rob management resources, vital for ongoing underperforming investments. The firm urged the local manager to refrain from purchasing the asset and indicated that it will cease to participate in new projects if the manager decides to proceed with the new opportunity.

Facing various pressures, the local manager exited the opportunity to purchase the new asset. And although the investment firms' executives approved of the local manager's final decision, the manager's conduct throughout the proposal process left doubts in their minds. As such, they began to more closely moderate the manager's business, including any new investments publicly announced.

After a few weeks of monitoring, the investment firm noticed that the local manager posted a picture of its latest investment: the property that the manager had otherwise indicated that it would exit. The manager's website showed the same picture and same address for the asset, but under a different project name.

The investment firm felt that it had been misled by the local manager, calling into question the firm's existing projects with the manager—and the possibility of conducting any further business together.

FOR FURTHER EXPLORATION

1. What responsibility does the investment firm have with its investors related its soured relationship with the local manager? would you share with investors in the project? And when?
2. What are the short- and long-term ramifications of this conflict between the investment firm and the manager? Should the investment firm end the partnership while there are ongoing investments?
3. How should the investment firm's partners reply when asked by investors and other business partners and peers about the local manager? Are the partners obliged to share this experience?

BE THE CHANGE YOU WISH TO SEE

At the organizational level, businesses have a social responsibility for their decisions and behaviors, which affect the quality of our lives in almost all areas.

Even as it can seem that our ancestors have had little influence over our generation, we have the duty and privilege to understand right now how we are shaping the world for future generations. Our decisions in the present cannot be subject to our individual needs, because our stakeholders aren't only focused on their needs, either. We can make a positive impact by preserving the earth and environment—perhaps one of the most critical issues of our time (and one in which the real estate industry can have a massive impact)—but we can also establish a moral heritage. Even if we are unaware, we are establishing this heritage in our homes, with our families and our friends, and we should codify it in our work, as well.

From a moral point of view, the interests of future generations are equivalent in importance to the interests of our generation.

When we act with integrity, we make society better. When we help make society better, we improve the lives of our families, our friends, and ourselves.

As business and investment leaders, it is in our hands to make a difference.

ABOUT THE AUTHOR

El Rosenheim is CEO of Profimex, the Israel-based private equity real estate arm of Bamberger-Rosenheim Ltd., founded in 1969. Profimex has co-invested in assets valued at more than \$60 billion since its inception in 1997 and specializes in diverse, cross-border investments and serves high-net worth individuals (HNWIs), private and public companies, as well as institutional investors.

Although a given building may not be at immediate risk, the economic health of the entire community may be at risk, and thus, the commercial value of buildings is very likely to be impacted.


REVIEWER RESPONSE

These days, there seems to be an often-spoken thought that capitalism and ethical business practices cannot abide in the same place. This article does a good job of identifying that ethics have seemed to shrink as a strong influence on corporate/business practice, but it does not make a strong enough case for why it is important for business to refocus on the impact and importance of being an ethical concern.

It is unlikely that at any point in the history of business, unethical practices were non-existent, but it was hoped that unethical firms were the exception, not the rule. Is the question now whether the world really cares enough about ethical business practices to consistently call them out and push them to either do better or disappear? Should we be asking how business leaders infuse their organizations with values and ethics so that their imprint on the world is positive and one that others look to emulate? What about the heightened value that the current generation of talent is

looking to find in their work, providing yet another reason for companies to look at how their values are displayed and integrated into the very fiber of their 'being'? Isn't there a need to equate "success" with "ethical?"

It seems expected that the reader already shares the same perspective of the moral value of being ethical and doing business for the "good of being good," though it is important to push the business case for the outcomes of being ethical and having the type of values that leave positive imprint on the world. Even with the discussion scenario offered at the end of the article, the "capital" value of being ethical is left for conjecture, when there are true quantitative and qualitative examples of that value. This topic should be top of mind, though we must take every opportunity to leave the reader with clear examples and reasons to look at the tangible outcomes of how to be successful and ethical at the same time.



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