



Unit

4

Business Ethics

In This Unit

Overview • What does ethics mean and why is it important? • Ethics and morality • Situation ethics • Ethics and the law • Three categories of ethical violations • Checklist for ethical decision making • Ethical issues in sports • Ethical issues in education • Ethical issues in business • Ethical issues in real estate • Florida's ethics requirement • National Association of REALTORS® Code of Ethics • National Association of REALTORS® Pathways to Professionalism

Learning Objectives

When you have completed this unit, you will be able to accomplish the following.

- Distinguish between the terms *ethical* and *legal*.
- Discuss types of ethical violations and the reasons that ethical lapses may cause business failures.
- Describe the steps taken to improve the ethical behavior of real estate professionals.

OVERVIEW

This unit will describe the importance of ethics, morality, and fairness in all of our endeavors, whether in business, sports, or our personal lives. Ethical behavior works toward the greater good of society. But if everyone did one *unethical* thing today it would certainly have a bad effect on the community.

WHAT DOES ETHICS MEAN AND WHY IS IT IMPORTANT?

In their article “What Is Ethics?” Manuel Velasquez, Claire Andre, Thomas Shanks, and Michael J. Meyer state, “Ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do.”¹

Businesses can achieve significant benefits by instilling ethical behavior and corporate responsibility into their executives and employees. When the leaders of a company follow strict ethical codes, they set a baseline for the behavior of all workers in the company. A business with a trusted reputation is more likely to attract and retain employees who find those characteristics important. Employee morale tends to be higher. Customers feel safer when purchasing the products or services of a company with high ethical standards.

SITUATION ETHICS

Situation ethics are a system by which acts are judged within their contexts instead of by categorical principles. This is very different from an absolute system of right versus wrong. The Ten Commandments are absolute: “thou shalt not steal”; “thou shalt not kill.”

In contrast, situation ethics allows variations of most ethical beliefs. Most moral codes say stealing is wrong. But would we be more accepting of a theft of food to nourish a starving child? Is there a sliding scale of right versus wrong, depending on the situation?

The situation ethics test is “Do your actions conform to the local practices?” “When in Rome, do as the Romans.” Using situation ethics can be a slippery slope, however. Some people in prison today might have used situation ethics in deciding whether to do a certain act (e.g., “All my friends shoplifted when they were young.”) Stealing to feed a starving child might get some sympathetic votes from a jury. But what if a business executive said he defrauded his clients so that his children could attend a good college? Not so much, right?

Example of Situation Ethics

Part 1. A Wall Street trader pays the employees of several companies for information about their financial statements before the statements are made public. With this insider information, he is able to make large profits in his stock transactions. Based on this information, please answer the following questions.

The trader was acting unethically. True or False?

The trader was acting illegally. True or False?

Part 2. You have carefully and consistently invested your children’s college funds into the stock of the company where you work. Both start college next year. At a small dinner party with friends, the company’s comptroller takes you aside. He says, “We’ve been good friends for a long time, so I need to tell you that several officers of the company are likely to be indicted for fraud soon. The company may have to file for bankruptcy, so take care of yourself.” Based on this information, please answer the following questions.

I would sell the stock and protect my children’s college funds. True or False?

1. Manuel Velasquez, Claire Andre, Thomas Shanks, and Michael J. Meyer, “What Is Ethics?” Santa Clara University, August 18, 2015, <https://www.scu.edu/ethics/ethics-resources/ethical-decision-making/what-is-ethics/>.

I would disregard this important information. True or False?

My answers in Part 2 were consistent with my answers to Part 1. True or False?

When we talked about the Wall Street trader's (another person's) actions, it was easy to pass a judgment. When it concerns your own situation, it may seem different, but it's really not. The exercise may help you see how easy it is to get into trouble using situation ethics.

Pros of Situation Ethics

- Situation ethics avoids the impersonal, black-and-white, right-and-wrong ways of thinking of other forms of ethics.
- Situation ethics is more responsive to circumstances and cultural traditions.
- Actions should respect individuals and communities.
- Ethical decisions are handled one at a time based on a particular situation.

Cons of Situation Ethics

- Many people believe that situation ethics means no ethics at all because whether something is ethical always depends on the circumstances.
- There's no universal truth.
- Results are unpredictable; there's a lack of consistency from one situation to the next.
- Situation ethics may allow acts that are destructive to others if those acts result in a greater good to the community.

Practice Question

1. Many people believe there is no universal truth in situation ethics.
 - a. True
 - b. False

ETHICS AND THE LAW

The terms *ethical* and *legal* are often believed to be synonymous. While the terms seem related, they are different. An individual's action may be:

- legal and ethical;
- legal but unethical;
- illegal but ethical; or
- illegal and unethical.

Legal and ethical. Broker Sally decides to offer a \$1,000 discount to buyers who purchase houses through her brokerage firm. A competitor files a complaint with the DBPR stating that Sally's action is illegal. The competitor also files an ethics complaint with the Board of Realtors® about the program. The DBPR will decline to prosecute the case because the program does not violate the law as long as disclosure of the payment is made to all parties. The grievance committee will be unable to find a specific provision of the REALTORS® Code of Ethics that has been violated.

Legal but unethical. Broker Jim answers a call from Mei, a prospective buyer who asks to speak to Edith, another associate in his office. Mei tells Jim that she was referred to Edith by a friend and wants to see a particular property. Jim explains that Edith is not in the office, but that he would be happy to show her the property. Jim shows Mei the property and writes a purchase contract. When Edith learns of the situation, she complains to the broker.

The broker tells her that Jim's action was likely not a violation of Chapter 475, but that it violated the brokerage firm's ethical code. The broker pays the commission split to Edith and dismisses Jim.

Illegal but ethical. A real estate sales associate moves but fails to notify the DBPR of his new address within 10 days. The associate has violated the law but has not committed an ethical violation.

Illegal and unethical. A real estate broker is facing financial difficulties and is unable to pay the office rent. A closing is scheduled for the following week that will bring a substantial commission to the firm. Based on this, the broker pays the rent from his trust account, and then reimburses the account when the sale closes. The act is clearly illegal as well as unethical.

Practice Question

2. The terms *ethical* and *legal* mean the same thing.
 - a. True
 - b. False

THREE CATEGORIES OF ETHICAL VIOLATIONS

In *Ethics for the Real World*, Howard and Korver suggest that most ethical violations fall into three categories: deception, stealing, and harming.²

- **Deception.** Lying is a form of deception. It is telling someone something we know to be untrue. There are a lot of euphemisms for lying (e.g., little white lie, spin, fib, embellish). In one study, 60% of people lied at least once during a 10-minute conversation and told an average of two to three lies.³ Another form of deception occurs when we withhold material facts that are necessary for that person to fully understand a transaction.
- **Stealing.** Forms of stealing include shoplifting, embezzling, or taking the property of others without permission. Examples of stealing include downloading digital files without paying, or buying a dress only to return it a day after wearing it to a party.
- **Harming.** Physical harm is the use of or threat to use violence against another person. Examples include selling a car with brake problems to an unsuspecting buyer, driving while impaired, or working for a chemical company that knowingly poisons the groundwater in a community.

CHECKLIST FOR ETHICAL DECISION MAKING

Drawing insights from a number of books on ethics, Bob Vanourek and Gregg Vanourek, the authors of *Triple Crown Leadership*, suggest some simple tests that leaders can take to evaluate their actions with an ethical eye, including the following:⁴

- **Mirror test.** How will you feel when you look at yourself in the mirror? Does it summon a guilty conscience?
- **Front page test.** If the newspapers ran an article about your act with your name and photo, would your reputation be diminished?
- **Reciprocity test.** If you were on the receiving end of your action, how would you feel? Does the decision violate the golden rule?

2. Ibid., 13.

3. Robert S. Feldman, James A. Forrest, and Benjamin R. Happ, "Self-Presentation and Verbal Deception: Do Self-Presenters Lie More?" *Journal of Basic and Applied Social Psychology*, June, 2002, 24, 163-170, <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.329.7737&rep=rep1&type=pdf>.

4. Bob Vanourek and Gregg Vanourek, "Ethical Decision-Making: Simple Tests," *Triple Crown Leadership* (blog), June 28, 2013, <http://triplecrownleadership.com/ethical-decision-making-simple-tests/>.

In the working world we learn strategy, financial modeling, marketing techniques, and more. Perhaps it's time we studied ethical decision-making techniques as well.

Practice Questions

3. The three categories of ethical violations are deception, lying, and stealing.
 - a. True
 - b. False
4. It is possible that an action might be prudential, but not ethical.
 - a. True
 - b. False

ETHICAL ISSUES IN SPORTS

Is winning everything in sports? Some athletes and coaches believe that cheating is necessary and permissible to get the win. Sports fans are dismayed when it turns out that their hero's extraordinary achievements were the result of using performance-enhancing drugs (PEDs).

Biking While Drugged

Lance Armstrong, a legend in the Tour de France, was stripped of seven winner's titles and banned from the sport. During an interview with Oprah Winfrey, Armstrong stated that his "mythic, perfect story" was "one big lie."⁵

Smile, You're on Candid Camera!

The New England Patriots football team consistently led the National Football League (NFL) in wins. It was later found to be systematically videotaping play-calling signals made by the opponent's coach. This made it easy to predict, during a game, what play would be run. In 2007, the NFL fined coach Bill Belichick \$500,000.⁶

Basketball Bribes

The NCAA college basketball scandal first became public when the FBI released its preliminary findings from a multi-year investigation in September 2017.

Included in those documents were expense reports and balance sheets that detail what appear to be a number of illegal bribes, benefits and/or payments to some of the biggest college programs and most prominent current and former players in the sport.

In one case, a major sports apparel company paid up to \$100,000 to a player to attend a well-known college. The college later suspended the player when the scandal surfaced.⁷

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5. "Lance Armstrong & Oprah Winfrey: Interview Transcript," BBC, January 18, 2013, <http://www.bbc.com/sport/cycling/21065539>.
 6. "Belichick Draws \$500,000 Fine, but Avoids Suspension," ESPN, September 14, 2007, <http://www.espn.com/nfl/news/story?id=3018338>.
 7. "Every Current Player Implicated in the FBI's College Basketball Probe," *Sports Illustrated*, February 24, 2018, <https://www.si.com/college-basketball/2018/02/24/college-basketball-scandal-fbi-probe-players-involved>.

Gamesmanship vs. Sportsmanship

In an article by Kirk O. Hanson and Matt Savage of the Markkula Center for Applied Ethics, the authors distinguish between *gamesmanship* and *sportsmanship*.⁸

Some of the key tenets of gamesmanship include the following:

- * Winning is everything.
- * It's only cheating if you get caught.
- * It is the referee's job to catch wrongdoing, and the athletes and coaches have no inherent responsibility to follow the rules.
- * The ends always justify the means.

Examples of gamesmanship include faking an injury, tampering with equipment, and taking performance-enhancing drugs.

Sportsmanship, on the other hand, is an ethical approach to athletics. In this model, the athlete's goal is to pursue victory honorably by making her best effort. Sportsmanship requires four key virtues: fairness, integrity, responsibility, and respect.

How Does This Apply to Your Practice?

Real estate brokers and sales associates should avoid "gamesmanship" when working with buyers and sellers:

- * Making the sale is *not* everything.
- * Getting caught is *not* the determinant of whether you are cheating.
- * The DBPR and the REALTOR® Code of Ethics are the referees, but it is your duty to follow the rules.
- * The end does *not* justify the means.

ETHICAL ISSUES IN EDUCATION

As any teacher could tell you, some students attempt to improve their grades by acting unethically. They might cheat on exams or copy another student's homework to try to get ahead.

College Admissions Cheating Scandal

In 2019, the Department of Justice indicted more than 50 business leaders, celebrities, and athletic coaches for a conspiracy to get the children of wealthy families admitted to elite American universities. Many have pleaded guilty and may serve a prison sentence of less than one year. Others who contest the charges face much greater penalties.

Orchestrated by Rick Singer, CEO of the college admissions prep company The Key, the scheme involved more than 750 families who paid about \$25 million total to "snowplow" the way for their kids to get ahead in the world. The scheme was operated from 2011 to 2019.

Many college coaches participated by recruiting student "athletes" who had no noticeable abilities in their sport. Some students had stand-ins take their college entrance exams in an attempt to get better scores.

These wealthy families resorted to illegal methods to help their children. For every one admitted under false pretenses, one deserving child was rejected.

8. Kirk O. Hanson and Matt Savage, "What Role Does Ethics Play in Sports?" Santa Clara University, August 1, 2012, <https://www.scu.edu/ethics/focus-areas/more/resources/what-role-does-ethics-play-in-sports/>.

Plagiarism and Artificial Intelligence

Plagiarism is the act of using someone else's words or ideas without giving proper credit. It is a serious academic offense that can result in penalties such as failing grades, suspension, or expulsion. Plagiarism can also damage one's reputation and credibility as a writer or researcher.

The use of AI to generate or assist writing can pose new challenges and dangers for plagiarism detection and prevention. AI-based tools such as ChatGPT, Grammarly or GPT-3 can produce "human-like" text that may not be easily distinguishable from original work. Some AI tools can also paraphrase, translate, or summarize existing text, making it harder to identify the original source.

However, AI can also be used to fight plagiarism by comparing the content being examined with a huge database of previously published material using algorithms and natural language processing (NLP) approaches, looking for similarities and spotting possible plagiarism. Some AI tools can also "watermark" their output by subtly tweaking the specific choice of words, making it easier to detect machine-generated text.

Therefore, it is important for writers and educators to be aware of the potential benefits and risks of using AI for writing, and to follow ethical and academic standards when doing so. Plagiarism can be avoided by properly citing sources, using quotation marks for direct quotes, paraphrasing in one's own words, and checking one's work with plagiarism detection software before submission.

[Author's note: We'll give credit here. This section on plagiarism was written by ChatGPT.]

Internet Plagiarism Violates Copyright Law

Real estate professionals must be careful to not use copyrighted images or other materials in their web pages and advertising. When your web master has completed the copy for your web page, search a few of the sentences to ensure that the material was not lifted from another broker's website.

ETHICAL ISSUES IN BUSINESS

There are hundreds of books on business ethics. Most experts agree that a company's ethical behavior is heavily influenced by top management. As the following case study shows, top management often gives exactly the wrong signals for employee behavior.

Dieselgate

Volkswagen was once the world's largest automaker, with brands from Audi to VW to Porsche. Volkswagen was the proud marketer of "clean diesel" cars, but it was discovered that the company programmed its diesel engines to activate emissions controls only during laboratory emission tests. 11 million VW automobiles were sold worldwide that had the software. The scandal cost the company billions of dollars and seriously damaged the brand.⁹ The former chief executive was indicted by the Justice Department for conspiracy in May 2018. Two other employees involved in the fraud have been already sentenced to prison.

9. Guilbert Gates, Jack Ewing, Karl Russell, and Derek Watkins, "How Volkswagen's 'Defeat Devices' Worked," *New York Times*, March, 16, 2017, <https://www.nytimes.com/interactive/2015/business/international/vw-diesel-emissions-scandal-explained.html>.

In an article titled “VW: No Mission, No Vision, No Hope,” Ann Skeet¹⁰ describes the lack of a written mission statement in Volkswagen publications as a contributing cause. The company received an evaluation score from the Strategic Management Institute of 1.6 out of a possible 4.5 points for its lack of a statement of values. The Volkswagen story demonstrates the importance of training and the publication of a mission statement and an ethical code in every organization. Organizations must commit their ethical code to a written document. In order for the code to work, the organization’s leaders must personally follow the code and insist that the staff do the same.

Bankergate

For years, Wells Fargo Bank was believed by many experts to be America’s finest bank. It mostly escaped becoming ensnared in the 2009 financial crisis.

But in September 2016, the Consumer Financial Protection Bureau (CFPB) charged that thousands of Wells Fargo employees had opened 2 million deposit and credit card accounts that customers had not authorized.

There’s an old expression that says “if you see one cockroach, there are a thousand more.” That rings true here. Further investigation showed the figure was later found to be 3.5 million unauthorized accounts. Then an entirely new concern was found—more than 500,000 potentially unauthorized accounts for online bill payment.

A separate scandal involving auto loans the bank issued affected about 570,000 customers. The bank took out unneeded insurance policies in customers’ names and charged them, sometimes resulting in defaults and vehicle repossessions.

Wells Fargo employees described intense pressure with expectations of sales as high as 20 products a day. Others described frequent crying, levels of stress that led to vomiting, and severe panic attacks. Some employees said that calls to the company’s ethics hotline were met with either no reaction or resulted in the termination of the employee making the call.

As a result, 5,300 employees of the bank were fired. The CEO resigned and lost \$41 million in stock options and \$28 million in earnings.

That’s likely not the end of the revelations. The bank’s reputation has plummeted. The magazine *The Economist* estimates the value of its corporate stock to be tens of billions of dollars less than the values of similar banks. It may be the price of shame as well as uncertainty.

In October 2016, the number of new consumer checking accounts dropped 44% from the previous year. Credit card applications were down by 50%.

CNN reported the results of a survey of Wells Fargo customers:

- Only 3% were affected by the scandal.
- 30% claim they are actively exploring leaving the bank.
- 14% say they have already decided to switch banks.

The management consultancy firm that prepared the survey, cg42, says the results “paint a bleak picture” for Wells Fargo and suggest the “full financial impact of the scandal is yet to be felt.”¹¹ In fact, Wells Fargo announced in April 2018 that it may be required to pay an additional \$1 billion in fines.

10. Ann Skeet, “VW: No Mission, No Vision, No Hope,” *The CEO Magazine* (blog), December 30, 2015, <http://media.the-ceo-magazine.com/guest/vw-no-mission-no-vision-no-hope>.

11. cg42. 2016. “Wells Fargo Mini-Study.” Last modified October 2016. <http://cg42.com/wp-content/uploads/2016/12/cg42-Wells-Fargo-Mini-Study-102016vF.pdf>

Wells Fargo is doing what it can to reestablish trust, but this may take many years. Some analysts suggest that a corporate name change might be necessary.

- Organizations must vigorously instill an exemplary code of conduct at every level, not only because it's right to do so, but because it's simply good business.
- Organizations must not just talk the talk; they must walk the walk by establishing an ethical environment for conducting business.

Practice Question

5. The Volkswagen story demonstrates the importance of training and the publication of a mission statement and an ethical code.
 - a. True
 - b. False

ETHICAL ISSUES IN REAL ESTATE

For years, Florida has had the dubious distinction of having more mortgage fraud cases than any other state. Many mortgage brokers, appraisers, real estate licensees, sellers, buyers, builders, and others have exhibited serious ethical lapses and have been convicted of financial fraud, identity theft, mail fraud, and other crimes.

Many surveys reveal that most Americans don't trust real estate licensees. The last Gallup Poll that asked the question in 2018 found that only 24 percent of respondents ranked real estate professionals' honesty and ethics as "very high" or "high."¹² Car salespeople and members of Congress tend to score lower. Nurses, firefighters, and pilots typically score better. Is it because there are fewer ethical people selling cars or houses? Probably not. It's more likely that most people who are selling *anything* tend to score lower because the public perceives there may be a conflict of interest.

Real estate licensees must take care to act ethically and professionally to dispel the perception of distrust shared by many people.

FLORIDA'S ETHICS REQUIREMENT

State regulators and professional organizations in this country recognize that a strong code of ethical behavior is an important quality that results in greater protection and satisfaction of consumers. While Florida does not require licensees to join a professional association, the state now mandates that all licensees complete three hours of Business Ethics and Practices training as part of the 14-hour continuing education requirement.

NATIONAL ASSOCIATION OF REALTORS® CODE OF ETHICS

When the National Association of REALTORS® (NAR) was formed in the early 1900s, a primary goal of the association was to improve the business practices in place and to provide guidelines for ethical standards for the future. NAR released the Code of Ethics in 1913. Adherence to the Code has been a requirement for membership since 1924. The Code is regularly revised to reflect current developments.

New members joining NAR must take a 2½-hour orientation course on the Code of Ethics and pledge to conduct their real estate practices professionally and ethically, as set forth in the Code. All members of NAR are also required to complete a minimum of 2½ hours of continuing education ethics training in every three-year cycle. Every real estate board and association must provide access to courses on ethics through classroom, correspondence, or internet-based instruction.

12. <https://news.gallup.com/poll/1654/honesty-ethics-professions.aspx>

NATIONAL ASSOCIATION OF REALTORS® PATHWAYS TO PROFESSIONALISM

The following information is reprinted from the current NAR *Code of Ethics and Arbitration Manual*.¹³

Note: While the Code of Ethics and Standards of Practice of the National Association establishes objective, enforceable ethical standards governing the professional conduct of REALTORS®, it does not address issues of courtesy or etiquette. Based on input from many sources, the Professional Conduct Working Group of the Professional Standards Committee developed the following list of professional courtesies for use by REALTORS® on a voluntary basis. This list is not all-inclusive and may be supplemented as a result of local customs and practices.

Pathways to Professionalism refers to REALTORS®, but the principles within it can apply to the practice of any real estate licensee. Please note that only members of the National Association of REALTORS® may refer to themselves as REALTORS®, and adherence to the principles within Pathways to Professionalism or the Code of Ethics does not constitute membership in the National Association of REALTORS®.

Practice Question

6. Florida licensees must take three hours of business ethics and practices training as part of the 14-hour continuing education requirement.
 - a. True
 - b. False

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Pathways to Professionalism

These professional courtesies are intended to be used by REALTORS® on a voluntary basis, and cannot form the basis for a professional standards complaint.

Respect for the Public

1. Follow the “Golden Rule”—Do unto others as you would have them do unto you.
2. Respond promptly to inquiries and requests for information.
3. Schedule appointments and showings as far in advance as possible.
4. Call if you are delayed or must cancel an appointment or showing.
5. If a prospective buyer decides not to view an occupied home, promptly explain the situation to the listing broker or the occupant.
6. Communicate with all parties in a timely fashion.
7. When entering a property, ensure that unexpected situations, such as pets, are handled appropriately.
8. Leave your business card if not prohibited by local rules.
9. Never criticize property in the presence of the occupant.
10. Inform occupants that you are leaving after showings.
11. When showing an occupied home, always ring the doorbell or knock—and announce yourself loudly—before entering. Knock and announce yourself loudly before entering any closed room.
12. Present a professional appearance at all times; dress appropriately and drive a clean car.
13. If occupants are home during showings, ask their permission before using the telephone or bathroom.
14. Encourage the clients of other brokers to direct questions to their agent or representative.
15. Communicate clearly; don’t use jargon or slang that may not be readily understood.
16. Be aware of and respect cultural differences.
17. Show courtesy and respect to everyone.
18. Be aware of—and meet—all deadlines.
19. Promise only what you can deliver—and keep your promises.
20. Identify your REALTOR® and your professional status in contacts with the public.
21. Do not tell people what you think—tell them what you know.

Respect for Property

1. Be responsible for everyone you allow to enter listed property.
2. Never allow buyers to enter listed property unaccompanied.
3. When showing property, keep all members of the group together.
4. Never allow unaccompanied access to property without permission.
5. Enter property only with permission even if you have a lockbox key or combination.
6. When the occupant is absent, leave the property as you found it (lights, heating, cooling, drapes, etc.). If you think something is amiss (e.g., vandalism) contact the listing broker immediately.
7. Be considerate of the seller’s property. Do not allow anyone to eat, drink, smoke, dispose of trash, use bathing or sleeping facilities, or bring pets. Leave the house as you found it unless instructed otherwise.
8. Use sidewalks; if weather is bad, take off shoes and boots inside property.
9. Respect sellers’ instructions about photographing or videographing their properties’ interiors or exteriors.

Respect for Peers

1. Identify your REALTOR® and professional status in all contacts with other REALTORS®.
2. Respond to other agents’ calls, faxes, and e-mails promptly and courteously.
3. Be aware that large electronic files with attachments or lengthy faxes may be a burden on recipients.
4. Notify the listing broker if there appears to be inaccurate information on the listing.
5. Share important information about a property, including the presence of pets, security systems, and whether sellers will be present during the showing.
6. Show courtesy, trust, and respect to other real estate professionals.
7. Avoid the inappropriate use of endearments or other denigrating language.
8. Do not prospect at other REALTORS®’ open houses or similar events.
9. Return keys promptly.
10. Carefully replace keys in the lockbox after showings.
11. To be successful in the business, mutual respect is essential.
12. Real estate is a reputation business. What you do today may affect your reputation—and business—for years to come.

(Revised 11/13)

Case Study

USC OR BUST(ED)!

✳ **Facts:** William “Rick” Singer was a self-styled “college admissions counselor” who helped many wealthy families cheat their children’s way into elite colleges. His sales pitch taught parents that there are three ways to get their kids into Harvard, Stanford, or USC.

The front door is entered by merit: the kids getting good grades and SAT scores. This method is not always successful for the wealthy because they must compete with a bigger pool of talent.

The back door is entered by giving lots of money to the colleges and hoping for good results. This is helpful, but not guaranteed; some colleges separate their admissions policies from the endowment section.

The side door was his specialty: cheating, lying, and bribing. This involved falsifying test scores and faking the sports abilities of the non-athletic children to get them sports scholarships. It also meant bribing some of the coaches so they would award a scholarship.

Two well-known actors cheated to get their children into USC—Lori Loughlin and Felicity Huffman. Felicity Huffman allegedly paid Singer \$15,000 to falsify her daughter’s SAT scores. Loughlin and her husband paid more than \$500,000 to Singer to get their two daughters scholarships on the crew team. Neither daughter could row.

✳ **Practice Question:**

7. The parents who participated in this activity
 - a. are guilty of criminal conduct and should be fined and imprisoned.
 - b. are violating ethical norms but should not face criminal charges.
 - c. are doing what any loving family would do to help their children.
 - d. have done no harm to other persons and should face no penalties.

✳ **What Really Happened?** It turns out that over the years, parents paid Singer nearly \$25 million so their kids could attend elite universities.

The scheme worked like a charm, until the FBI showed up with arrest warrants. More than 50 people were charged with federal crimes for their conduct, including parents, standardized test administrators, and coaches.

In October 2019, Felicity Huffman completed her 14-day sentence at the Federal Correctional Institution in Dublin, CA. She was given a year on probation and had to pay a \$30,000 fine and devote 250 hours toward community service. Loughlin agreed to plead guilty and received a punishment of two months in prison, two years of supervised release, 100 hours of community service, and a \$150,000 fine. Other parents received sentences of up to nine months in prison and large fines. Rick Singer has cooperated with the feds in “naming names” and will be sentenced after the other cases have been completed.

Judge Nathaniel Gorton, who presided over many of the cases, reportedly said at one parent’s sentencing, “There is no term in the English language that describes your conduct as well as the Yiddish term ‘Chutzpah,’” which, by definition, means “shameless audacity.”