

ETHICAL SALES CLIMATE AND COMPETITIVE INTENSITY AS ANTECEDENT OF ETHICAL SALES BEHAVIOUR AMONGST AGENT TAKAFUL

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ABSTRACT

In today's highly competitive and rapidly changing business environment, ethical behaviour of the agents is important concern to prosper or even survive. Considering the organizations, ethics play a very important role in its performance for long-term success is perhaps especially true in the sales profession, where individual and organizational success depends on ethical behaviour of agents for customers. There are different factors that contribute to the development of ethical behaviour. Therefore, the purpose of this paper is to investigate the influence of ethical sales climate and competitive intensity towards ethical behaviour of agents in Takaful industry. Data for this research were distributed to 669 of family Takaful agents, 212 respondent returned but only 170 are usable. Hierarchical regressions were used to test the hypothesized relationships. The results indicate that ethical sales climate and competitive intensity have significant relationship towards ethical sales behaviour. The findings have the potential to contribute to practice, enabling businesses to better manage the ethical behaviour of their sales teams. This paper appears to be the first to simultaneously investigate both ethical sales climate and competitive intensity as antecedents of ethical standards and behaviours. As such, it provides an important base for research in this critical area.

Keywords: Ethical Behaviour; Ethical Sales Climate; Competitive Intensity; Takaful Agent

INTRODUCTION

Ethics has recently been a key issue of consideration among scholars as well as practitioners (Mohammed, 2015; Nazli Anum Mohd Ghazali, 2015; Zhang, Walumbwa, Aryee, and Chen, 2013; Zuber and Kaptein, 2013). Research in business ethics has drawn considerably attention particularly in personal selling. Despite of that, there has obviously been a recent increased concern over unethical business practices (Nor Aziza Abdul Aziz, Abdullah Hj. Abdul Ghani, and Hasnizam Shaari, 2016). Also, increased significantly over the previous decade by investigating complex dimensions of ethical decision-making in greater depth and with more analytical sophistication (McClaren, 2013). Previous studies mentioned that it is important to incorporate and implement ethical practices in the organization as ethical issues have become one of the major challenges to be focused in the financial industry (Ferdous & Polonsky, 2013). One area within marketing where unethical conduct can easily occur is the selling arena which is in financial services tend to be marketed (McClaren, 2013; Yi, Dubinsky, and Lim, 2012). Apart of that, the increased attention given to organizational ethics, corporate malfeasance continues to plague business, particularly in the financial services industry that is debated (Abratt and Penman, 2002; McClaren, 2013). Indeed, many business scandal have been enacted by individuals operating under the organizational policy codes as a form of interpersonal interaction (Abratt and Penman, 2002). Unethical agents such as overstating capabilities or misrepresentation of warranty could cause customer arguments the possibility of reciprocal commitments (Lagace, Dahlstrom, & Gassenheimer, 1991). The missionary selling context of agents is one in which the detailer provides services and operators. In related work with service marketing Crosby, Evans, and Cowles (1990), stated that the degree of complexity and abstractness of service increase the important of the individual responsible for delivering such service.

Ethical sales behaviour has been showed as behaviours on the part of agents that promote the welfare of the customer (Román & Munuera, 2005). In order to develop sustainable competitive advantage through marketing efforts agents must achieve of acquiring, maintaining and enhancing their existing market shares, and further retaining customer loyalty (Shadab, 2012). Despite that, researchers have found that there are both individual and organisational factors driving ethical behaviour (Ferrell, Johnston, & Ferrell, 2007; McClaren, 2000, 2013). Not surprisingly, there are calls for systematic efforts to investigate the ethical practices among agent within banking and insurance industries (Cadogan, Lee, Tarkiainen, & Sundqvist, 2009; Dubinsky & Levy, 1985; Ferdous & Polonsky, 2013; Hoffman, Howe, & Hardigree, 1991; Trawick, Swan, & Rink, 1989), but little examines factors that influence the ethical behaviour of agent Takaful (Cadogan et al., 2009; Hasnah Haron, Ishak Ismail, & Shaikh Hamzah Abdul Razak, 2011; Nor Aziza Abdul Aziz et al., 2016; Yi et al., 2012). Hence,

the researchers intent to explore such relationship ethical sales climate and competitive intensity towards ethical behaviour. In the perspective of family Takaful agents, the authors point out these issue because after intensive literature the researchers realized that there are still tremendous gap need to close. By covering this area it can offer enormous contribution to the Takaful industry. Nowadays, Takaful product as a substitute to the conventional insurance product (Mohd Fauzi Abu -Hussin, Nasrul Hisyam Nor Muhamad, & Mohd Yahya Mohd Hussin, 2014). It seen as the recently trend the demand for Takaful product kept growth as El, Babikir, Alhabshi, and Sharif (2013); Hamid, Osman, Ariffin, and Nordin, (2009) claimed the trend lead by Malaysia population itself. This is because majority of Malaysian citizen are Muslim. Past study stressed out conventional product contains ambiguity on the conventional product in term of *riba'* and *gharar* (Hendon Redzuan, Zuriah Abdul Rahman, & Sharifah Sakinah Aidid, 2009; Marhanum Che Mohd Salleh, Nurdianawati Irwani Abdullah, & Siti Salwani Razali, 2013; Mohamed Sherif & Nor Azlina Shaairi, 2013). Despite the important of understanding agent's ethical behaviour, only a few studies have empirically addressed the Takaful agents compared with conventional agents as a main respondents (Fee-Yean, 2010; Hasnah Haron et al., 2011; Nor Azila Mohd Noor, 2005). Furthermore, the result also depicts inconsistent finding in the view point of agents insurance between Takaful and conventional (Hasnah Haron et al., 2011). In light of this issue the past study shown that there was an increase in complaints of misconduct amongst Takaful agent (Mohammed, 2015). Therefore this study is organised into five parts. After the previous introduction to the background of the study, the following section presents a reassessment of the related literature in order to develop hypotheses for testing using structural equation modelling. Subsequently, the research methodology is described, including questionnaire survey, study sample, and analysis methods. An analysis of the empirical study data is presented in the fourth section. Finally, the theoretical and practical implications of the study findings are discussed in section five.

LITERATURE RIVIEW

Concept of Takaful

Takaful or Islamic insurance created in Malaysia about 20 years ago, has grown into an important component of the Malaysian financial system, as well as had developed numerous of products that suit the needs of customers. Takaful sector is one of the principal mechanisms of Islamic finance. It is based on the Taa'wun principle literarily means cooperation and helpful for each other. The operation of Takaful is almost similar to mutual insurance but is quite distinguished by the regulatory principles dictated by Sharia'ah. It is believed that the remarkable performance of Takaful institutions is based on the superior ethics and values which uphold the principle of brotherhood and mutual assistance as a mechanism for risk sharing pooling. A mix of Islamic and conventional ethical considerations is adopted for measuring business ethics in Takaful industry. The essence is to build reputation for Takaful industry to achieve and uphold high standard of business ethics beyond that of conventional insurance in order to attract Muslim and non-Muslims alike who placed higher premium on moral value and social conscience. Basically, the Takaful comprises three main principles: (1) mutual responsibility, (2) cooperation with each other, and (3) protecting one another from any kind of difficulties, or disasters, or other misfortune (Mohd Fauzi Abu -Hussin et al., 2014). Within the increasing developments of the Islamic financial system, the Takaful industry has experienced significant growth and developments, indicating a clear manifestation of the recognition of Islamic insurance as an important source of enhancing the Shariah (Islamic law) compliant protection against vulnerability or risk arising from untoward events (Mohamed Sherif & Nor Azlina Shaairi, 2013; Shieila Nu Nu Htay, Nur Shazwani Sadzali, & Hanudin Amin, 2015).

In additional, Takaful industry has develop with all the innovative products in meeting the demand from the policyholders. With respect to that, the growth of this industry has consistently registered a strong growth momentum and proved viable and resilient despite a financial crisis and strong competition from conventional insurance (Mohamed Sherif & Nor Azlina Shaairi, 2013). Despite the rapid expansion demand for Takaful products, the frequency of crises and scandals that noticeable in the Takaful industry to encourage the mass media, government and the community to give serious consideration to the issue of ethics (Chowdhury, 2011; Ferdous & Polonsky, 2013). While, business and sales ethics are important globally (Mohammed, 2015), researchers have found there are generally more ethical business problems in developing countries (Al-Khatib, Vollmers, & Liu, 2007; Ferdous & Polonsky, 2013; Ojikutu, Obalola, & Omotoso, 2013).

Ethical Sales Behaviour

Ethics is the branch of moral philosophy that deals with moral judgments, standards, and rules of conduct (Hansen and Riggle, 2009; Hunt and Vitell, 2006) and society requires individuals to behave according to those rules (Gundlach & Murphy, 1993). Ethical sales behaviour is something difficult to understand and often based on a particular situation (Lagace et al., 1991). In the contexts of Takaful Industry emphasis on ethical development should be enhanced among agents. Usually, marketing function provides a crucial link either to the

organization or environment (Yi et al., 2012). Therefore agents who behaves ethically is more effective at building customer relationships, as well as getting customers satisfied, trusted, and committed (Hansen & Riggle, 2009; Tuan, 2015). Previous studies (Hansen & Riggle, 2009; McClaren, 2013; Román & Ruiz, 2005; Ross & Robertson, 2003) pointed out ethics with marketing activities viewed as something that raises doubts and problems. Clients or prospect customers often rely on agents who are representatives of business to provide the correct information and proper guidance (Hoffman et al., 1991). Therefore, good ethics in business can enhance business results, which leads to sustainable development of organizations (Briggs, Jaramillo, & Weeks, 2012; Tuan, 2015). Ethical sales behaviour considered to be a mutual relationship based on a fair and equitable exchange, and when customers see a good relationship, action feedback may occur. The agent has a personal interaction with the customer and their actions more visible, otherwise unethical behaviour can have a profound impact on the public. Therefore, unethical behaviour in sales as perceived by the customer is defined as an agent behaviour in the short term to get customers with easy money.

Ethical Sales Climate and Ethical Sales Behavior

Ethical climate has been defined as “the prevailing perceptions of typical organizational practices and procedures that have ethical content” (Victor and Cullen, 1988). Ethical sales climate has a great impact on employees to behave in organizations, their attitudes, and good returns to the organization This element influences perceptions of the intensity of ethical issues and ethical decisions (Ambrose, Arnaud, and Schminke, 2007; McClaren, 2013). Its formed to produce the human relationship with the social environment determined by the behavior of the individual factors, and environment (Charles and Michael, 2005; Grover and Cathy, 2005). Studies assessing how ethical climate affects ethical decision making in firms have proliferated in business and organizational literature (e.g., Deshpande, 1996; Elm and Nichols, 1993; Fu and Deshpande, 2011; Martin and Cullen, 2006; Wimbush and Shepard, 1994). Eventually, ethical sales climate seemingly serves, in part, as a kind of control mechanism that guides employee behaviour. Thus, this study proposes the first hypothesis is

H₁: There is a significant relationship between ethical sales climate and ethical sales behaviour among Takaful agents.

Competitive Intensity and Ethical Sales Behaviour

In the financial services industry, agents should seek to establish and maintain long-term relationships with their customers and to pursue long-term profit, owing to the highly competitive environment (Chen & Mau, 2009; Román & Ruiz, 2005; Yi et al., 2012)..

Agents ethical behaviour can be shaped by the nature of the industry in which sales activity occurred (Piercy, Cravens, & Morgan, 1998; Yi et al., 2012). A greater competitive intensity might well foster augmented ethical behaviour. The contemporary competitive market environment requires agents to develop and retain long-term relationships and establish trust with prospect customers (Rahmah Ismail, Ishak Yussof, Abd. Hair Awang, & Syahida Zainal Abidin, 2010). Therefore there are relationship between competitive intensity and agents’ ethical behaviour suggests that financial services agent’s perceptions of their industry’s competition can influence their ethical behaviour (C. H. Schwepker, 1999; Yi et al., 2012). So agents must evince honesty, fairness, and high integrity to gain the trust of customers and to attain long-term relationships (Morgan & Hunt, 1994; Román & Munuera, 2005). As claimed by previous researchers McClaren, (2013), Ross and Robertson (2003), Zhuang, Herndon, and Tsang (2012) selling arenas perceived to be less competitive, agents might well believe that customers have little choice other than their offering and therefore will tolerate less than ethical behaviour. Besides that, trust also enhances cooperation, buyer commitment to salespeople, and establishment and maintenance of long-term buyer- salesperson relationships. Based on the prior analysis, the following hypothesis is offered

H₂: Competitive intensity has a significant relationship on ethical behaviour by Takaful agents.

Research Model

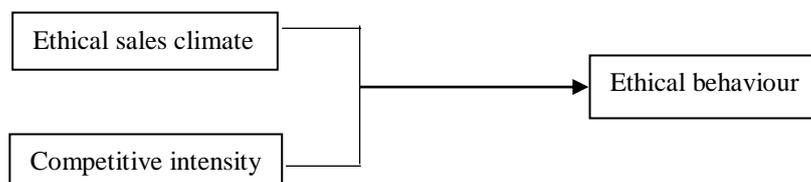


Figure 1: A Conceptual Model of Ethical Behaviour

In Figure 1, the conceptual model builds on the general theory of marketing ethics presented by Hunt and Vitell (1986, 2006). Our review of the literature indicates that ethical sales climate and competitive intensity are likely to be critical determinants of ethical behaviour (Ferrell et al., 2007; Román and Munuera, 2005) of Takaful agents. In developing this theory, researchers argue that these two variables influence ethical behaviour indirectly, by changing the ethical standards of the sales team.

METHODOLOGY

Sample and Sampling Technique

This study applied the quantitative methods. Data for the study were collected from a cross-sectional sample of Takaful operators located in the northern region of Peninsular Malaysia, namely Perlis, Kedah, Penang, and Perak. However, only three Takaful operators such as Etiqa Takaful Berhad, Syarikat Takaful Malaysia Berhad, and Takaful Ikhlas Berhad agreed to participate in the study. There were 1313 Takaful agents in the list report of Institute Statistic Malaysia (ISM) for the year 2013. The data was collected from 669 respondents of family Takaful agent in northern region in Malaysia. Usable questionnaires were returned by 221 respondents. A questionnaires where respondents were selected through propositioned random sampling method and calculated using Cochran's (1977) formula by Bartlett, Kotrlík, and Higgins (2001). However, after eliminating uncompleted questionnaire only 170 were usable respondents for an effective response rate of 32 percent.

Test for non-response bias

Examination of non-response bias was conducted. Each company's early respondents were compared with late respondents (Zikmund, 2003) on the key study variables: ethical behaviour, ethical sales climate, and competitive intensity. No significant differences ($p > 0.05$) were found. Therefore, non-response bias does not appear to be a major problem in the present investigation.

Measurement

Ethical behaviour refer to the attitude for business involves demonstrating respect for important moral principles that include honesty, fairness, equality, dignity, diversity and individual rights. Meanwhile idealism can be describe as the belief that ethical judgments are morally absolute in terms of moral principles, norms or laws. Relativism is defined as the belief that all moral standards are relative to a society and culture, and moral actions depend on the nature of the situations and circumstances.

All the responses were based on Five-point Likert scale measurement ranging from "strongly disagree" to "strongly agree". The discussion of each construct as below:

- a) *Ethical behaviour* was utilized Defining Issues Test (DIT) that was developed by Rest (1979) based on the theory of Kohlberg (1963). By using DIT, three scenario of ethical dilemmas was applied.
- b) *Ethical Sales Climate* was assessed with a frequently used by previous studies measured from Schwepker, Ferrell, and Ingram (1997). The items focused on salespersons' perceptions of the presence and enforcement of codes of ethics and corporate policies on ethics
- c) *Competitive Intensity* was assessed by adapting items from (Lusch and Laczniak, 1987). This measure tapped the agents' perceptions of competitive intensity, entry of new competitors, and marketing spending because of competitive intensity.

RESULT

The descriptive statistics of the sample are listed in Table 1. The sum of the respondent of this research is 170 of Family Takaful agents. Male respondents higher than female. While, the most agent Takaful who participated under the range age between 25-29 years old. Moreover, as expected, the largest race in this sample comes from Malay followed by Chinese and Indian respectively. In summation, the result showed the level of education of respondent derive from degree holder and the level of tenure among respondent within the range 2-5 years. Lastly, Table 1 demonstrated of working experience as agent in the range of 10 to 13 years.

Table 1

Descriptive Statistics of Respondent Characteristics

Demographic Profile		Frequency	Percentage (%)
Gender	Male	103	60.6
	Female	67	39.4
Age	20- 24 years	25	14.7
	25-29 years	47	27.6
	30-34 years	45	26.5
	35-40 years	23	13.5
	41-45 years	21	12.4
	More 45 years	9	5.3
Race	Malay	131	77.1
	Chinese	32	18.8
	Indian	7	4.1
Level Education	SPM	40	23.5
	Diploma	57	33.5
	Degree	68	40.0
	Master	4	2.4
	PhD	1	.6
Tenure	2-5 year	102	60.0
	6- 9 year	41	24.1
	10- 13 years	25	14.7
	14 – 17 years	1	.6
	18 – 21 years	1	.6
Working experiences in field of agents	2- 5years	27	15.9
	6- 9 years	39	22.9
	10- 13 years	65	38.2
	14 – 17 years	23	13.5
	18 – 21 years	11	6.5
	more 21 years	5	2.9

The exploratory factor analysis was used to determine the construct validity of ethical sales climate, competitive intensity, and ethical sales behaviours. The Principal Component Analysis (PCA) was used to assess the dimensionality of the measures, in this light, PCA performed to assess the factorial structure of the scales. The results of the factor analysis showed the Kaiser-Meyer-Olkin (KMO), which surpassed the .6 and the Bartlett Sphericity test (BTS) which was significant with $p < .05$. One possible reason is the number of samples which was less than 200 people, Hair, Black, Babin., and Anderson (2010) suggested that the adequacy of the sample measured is .45. All of the variables passed both the statistical tests of Kaiserr-Meyer-Olkin (KMO) which is a measure of sampling adequacy and Bartlett's Test of Sphericity for statistical significance. These tests confirmed the factorability of the data collected through the scales. The reliability score for ethical sales climate and competitive intensity were 0.835 and 0.864 respectively. On the contrary, the pre-conventional, conventional and post-conventional were 0.640, 0.818 and 0.731 respectively. In the meantime, even though the value of the Cronbach Alpha for pre-conventional items was low, researchers had retained all the items, because theoretically, these items are important and should be maintained (Abdullah Abdul Ghani, 2000; Hairuddin Megat Latif, 2014). The results of the factor analysis as shown in Table 2, indicated that each factor was validly represented by its relevant items.

Table 2

Validity and Reliability of Instruments

Item	Competitive intensity	Ethical Sales Climate	Ethical Sales Behaviour		
			Pre	Cont.	Post
CI1	0.868				
CI2	0.871				
CI3	0.737				
ESC1		0.710			

ESC2		0.722			
ESC3		0.892			
ESC4		0.740			
ESC5		0.479			
S1A			0.712		
S1B			0.693		
S2A			0.860		
S2B			0.770		
S3A			0.556		
S3B			0.529		
				0.772	
				0.685	
				0.697	
				0.638	
				0.721	
				0.823	
					0.796
					0.858
					0.699
					0.747
					0.759
					0.985
Percentage variance explained %	66.77	60.67	36.96	52.57	49.89
KMO	0.692	0.808	0.663	0.839	0.815
Bartlett's Test of Sphertity	116.8	340.3	148.16	308.31	306.58
Reliability	0.864	0.835	0.640	0.818	0.731

The relationship between variables showed in Table 3, ethical sales climate and competitive intensity on ethical behaviour were found statistically positive. Positive result indicated that the higher of ethical sales climate, the higher of agents to work ethically. Therefore, based on result all the hypotheses were accepted. The findings from Table 3 revealed that the ethical climate and competitive intensity have positive significant towards ethical behaviours. In all, ethical sales climate and competitive intensity significantly explained 71.3 percent of variance in ethical sales behaviours ($R^2=0.713$, $F=85.63$, $p<0.01$). The positive result indicated that the higher ethical sales climate, the higher agents are influenced to work ethically. The overall findings presented selling pressure and ethical sales climate ($\beta=.298$; $t=4.882$; $p < 0.01$) and competitive intensity ($\beta=.216$; $t=3.644$; $p < 0.01$), Moreover, the empirical findings indicate that ethical sales climate, and competitive intensity, have relationships with ethical sales behaviours. Therefore, all the hypotheses were accepted. The results of the hypotheses testing are summarised in Table 3.

Table 3
The Effects of Ethical Sales Climate and competitive Intensity on Ethical Behaviour

Predictors and criterion	β	t	sig	Result
Ethical sales Climate → Ethical Sales Behaviour	0.298	4.882	0.000**	Supported
Competeitive Intensity → Ethical Sales Behaviour	0.216	3.644	0.000**	Supported
R^2	0.713			
F	85.63			
Sig	0.000			

DISCUSSION AND IMPLICATION

The ultimate aim in this study is to investigate the influences of ethical sales climate and competitive intensity towards ethical sales behaviour in Takaful industry with a case study in three Takaful operators in Malaysia. Based on finding, the effect of ethical sales climate and competitive intensity is positively significant support the hypothesis on ethical behaviour. Thus H_1 and H_2 are supported. This research empirically answers the question of more definitive answers regarding ethical behavioural agents in the Takaful industry involved in the sales activity.

The results of this research have proven that the ethical sales climate has a significant relationship to ethical behaviour. This is evidenced by the correlation analysis test that demonstrates the strength of the relationship that exists between the ethical sales climate and ethical behaviour. In that regard, multiple regression tests conducted showed that the ethical sales climate was proven empirically to ethical behaviour. While the ethical sales climate comes from western countries, the results of the study find that the ethical sales climate can be applied and practiced in eastern countries, especially Malaysia. Therefore, the result on ethical sales climate is consistent with prior studies Ojikutu et al. (2013), Peterson (2002), Shacklock, Manning, and Hort (2011), and Unal (2012). These previous researches also exhibit that ethical climate can be proved empirically to have a positive and significant relationship to the ethical behaviours of agents. Based on the result, it is apparent that by introducing systems and procedures, agents can improve their ethical behaviours and good manners to comply with the laws and guidelines when carrying out their sales activities. The adherences to the guidelines and zero tolerance to unethical activity are some of the effective ways to avoid unethical behaviours among Takaful agents. The result of competitive intensity is parallel with studies (Abdallah, Obeidat, & Aqqad, 2014; Lam, 2012; Schwepker, 1999; Yi et al., 2012). That mean the positive relationship between competitive intensity and agent ethical behaviour suggests that financial services agent's perceptions of their industry's competition can influence their ethical behaviour. In the Takaful industry agent should seek to establish and maintain long-term relationships with their customers and to pursue long-term profit, owing to the highly competitive environment. By controlling the level of inter-firm intensity in a specific industry, channel executives can enhance the degree of competitive intensity so that it can improve agent's ethical behaviour. In addition, providing solid sales and product training to sales personnel, offering competitive products and services that possess competitive advantages, using unique and attention-getting promotional tools, and designing and implementing motivational programs that foster both a competitive and highly ethical spirit may induce agents to embrace the competition rather than possibly viewing their circumstances as being formidable.

Implication

This research introduces the ethical sales climate to the management of Takaful operators that potentially help improve behavioural ethics among agents in the department of marketing and sales in the Takaful industry. In additional finding show that ethical sales climate has a significant impact on the relationship between the ethical behaviour of the agent. This finding also shows the established policies and procedures to support, prevent or encourage agents to act in a state of ethical. This action is to ensure that the boundaries set are complied with by each member in the organization, both the agent and the superior. To ensure the effectiveness of the laws and regulations in the Takaful industry, the management has to enhance the control and monitoring of the behaviour or movement of agents within the organization. Regarding of competitive intensity results show that the level of competitiveness has a significant relationship to the ethical behaviour. The management should encourage and support the attitudes exhibited by the agent towards healthy competition that can improve the quality of sales. Despite the challenging environment, management does not need to be subject to other competitors by using wrong tactic. This is because hard-working, non-desperate, professional, and ethical agents are capable of contributing new ideas in ensuring the continuity of the organization. In addition, the management should show high level of concern for the changes. Various techniques can be applied, such as acquiring new markets and customers that can improve the position in the industry to ensure that action is taken ahead of competitors.

Conclusion

The social scientific study of ethical sales behaviour has grown tremendously. Although researchers have made many discoveries, we suggest that there are many opportunities for future research.

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