

## **Impact of Organizational Factors on Sales Force Unethical Behavior in the Sri Lankan Life Insurance Industry**

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### **Abstract**

*As a service providing company the image and the success of the insurance industry vastly depend on the ethical behavior patterns of their salesperson as they are the persons who have direct relationships with customers which in turn build up the customer's satisfaction and trust towards the organization. Therefore, the managers must have the knowledge of the key determinant of the unethical behavior of their salespersons if they want to ensure the ethical behavior among the salespersons. Different factors contribute to these behavior patterns and organizational factors are more important among them. The main purpose of this research was to identify the organizational factors affecting the unethical behavior patterns of salespersons in the Sri Lankan life insurance industry. An extensive literature review was conducted, and five organizational factors were identified as impacting on unethical behaviour of salespersons in the Sri Lankan life insurance industry. Namely, they were supervisory role, sales targets, organizational culture, code of ethics and a rewarding system. Data were collected from 200 individual salespersons from 10 life insurance companies through structured questionnaires. The stratified random sampling method was used for the selection of the respondents to the sample and data were analyzed using multiple regression. The findings of the research indicated that the supervisory role, sales targets and rewarding system significantly*

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*predict the unethical behavior of salespersons. Further, it revealed that sales targets predicted unethical behavior strongly, compared to the rewarding system and the supervisory role. Findings of this research also gave some implications on the code of ethics. It was found that there is no code of ethics in the companies or if exists they are not practiced or enforced. Accordingly, the research provides recommendations that can be used to minimize the unethical behavior patterns of the salespersons. To improve the generalization of the findings, future research should broaden the sample by including general insurance companies and finance companies. Continuing research is needed to analyze the other factors in addition to organizational factors and future research could also look at the customer perspective rather than the salesperson perspective.*

**Keywords**

*Business Ethics; Life Insurance Industry; Organizational Factors; Salesperson; Unethical Behavior Pattern*

## Introduction

Sales profession is not being considered as a profession by many people due to the bad experience while performing certain transactions with an unethical salesperson. It indicates that the issue of ethics is also related to the sales profession (Adnan *et al.*, 2013).

According to Talwar and Ali (2016), the biggest problem for any life insurance company is mis-selling of policies to the customers resulting in high lapsation of policies and high agent turnover. Looking at the Sri Lankan life insurance industry, having high policy lapse rate due to the over-selling and it indicates the industry's sales pitch is over enthusiastic because salespersons are not acting honestly when they sell life insurance product to the client. 'Insurance salespersons should explain clearly to a client what the policy is, its benefits and what the policy holder's obligations are', an international expert Rudy Verrilli said in the National Forum for Life Insurance Advisors in Colombo 2007. Further, he said that some salespersons did not do so and instead focused on merely selling the insurance policy to make gain through the sales commission. Confirming the same Insurance Ombudsman, Mr. Wickrama Weerasooria said that some salespersons did not explain the policy before getting a client signature to it. Further, he said that he himself had brought the practice to the notice of the insurance companies but they responded that they were unable to do anything about it as once the policy had been signed by the client there was no proof of how the signature was obtained (Lanka Business Online, 2007).

These unethical and misleading sales practices of some of the salespersons have earned insurance professionals and industry a bad name among the people (Sandi Kruiise Insurance, 2005-2015). Due to that, more effort was required to increase the insurance penetration rate. So, it was important to protect the individual salesperson's reputation as well as the industry reputation. In addition, the unethical behaviors by salespeople cause problems within sales organizations and with other business functions, damage customer relationships, decrease customer retention, and reduce sales. In contrast, the ethical behavior is a key ingredient to the success of every insurance producer and to the insurance industry. Therefore, increasing the ethical behavior of salespeople is especially important in today's sales environment (Jones *et al.*, 2005).

Despite the importance of understanding salespeople's unethical behavior, only a few studies have empirically tested the determinants of unethical behavior of the insurance salespersons. According to our knowledge, none of them has analyzed the unethical behavior of the insurance salespersons in Sri Lanka. Therefore, the main focus of this research study relates to the unethical behavior of salespersons in the Sri Lankan life insurance companies. According to Askew *et al.* (2015), the organizational factors are the most important category in understanding unethical behavior because organizational factors can be changed in order to influence the behavior of employees. Accordingly, this research does not intend to examine all the factors that affect to unethical behavior of salespersons and only look at the impact of the organizational factors on unethical behavior of the salespersons.

Accordingly, the objectives of this paper are (1) to examine the influence of organizational factors to the unethical behavior of salespersons in the Sri Lankan life insurance industry, and (2) to identify the most influential organizational factor relating to the unethical behavior of salespersons in the Sri Lankan life insurance industry.

The following sections develop the hypotheses, test them empirically and delineate the discussion, conclusion, and suggest directions for future research.

## **Literature Review and Hypothesis Development**

### ***Unethical Sales Behavior***

Among the unethical behavior of the employees, the unethical selling behavior is considered as the important unethical behavior (Bellizzi & Hasty, 2003; Roman & Munuera, 2005). The salesperson may behave unethically when interacting with different stakeholders such as customers, competitors, and employers. In the hierarchy of stakeholder importance, it appears that salespeople regard ethical transgressions against customers as being less ethical than any controversial actions against competitors or their employer (Chonko & Burnett, 1983; Chonko & Hunt, 1985). Mostly the salespeople mislead the customers or show the inappropriate conduct in order to make greater sales revenue.

According to Roman and Munuera (2005), the ethical sales behavior is fair and honest actions that enable the salesperson to foster long-term relationships with customers based on the customer satisfaction and trust. If the salesperson's

actions fall outside of fairness and honesty, it indicates the unethical sales behavior. Examples of such activities include: lying on a sales call, selling products that the customer does not need, losing focus on customer needs, lying about product availability and the competition, providing false answers, applying an inordinate amount of sales pressure, and portraying products as better than they actually are, making false promises and withholding information and so on.

Life insurance business is based on trust and honesty (Haron et al., 2011). Therefore, it requires a high degree of responsibility and professionalism from the insurance salespersons. But mostly the salespersons show unethical behavior (Adnan *et al.*, 2013) and it leads to image problem of the insurance industry. Hence, it is important for life insurers to understand the fact that ethics in marketing of insurance products are not only a moral obligation but also important for long-term business sense. Being ethical might lead to a loss for the insurers in the short run, but ultimately helps them to win over customers, resulting in new business because ethical behavior is the number one characteristic that a customer wants in their insurance producer. Accordingly, the strong ethical behavior is an invaluable characteristic to an insurance producer's success.

### ***Determinants of Unethical Sales Behavior***

#### ***Supervisory Role***

Leadership is considered as the most important factor to have an impact on effectiveness and efficiency of the organization. Effective leadership helps to develop the morale of the employees, builds the effective work environment, motivates and guides the employees towards goal achievement, and helps to create the confidence in employees (Adnan *et al.*, 2013).

Northouse (2010) defines leadership as a process whereby an individual influence a group of individuals for achieving a common goal. Accordingly, leaders influence the employees working under him (Ingram *et al.*, 2005). According to Abratt *et al.* (1999), the manager's practices are followed by the employees. It means that the way the manager will act, will be followed by the employees. If managers want to incorporate ethical standards in the employee, they will need to act accordingly. Manna and Smith (2004) highlight in their research that many winning managerial skills like self-awareness, self-

regulation, self-motivation, and effective communication, help out the employees to work effectively and to achieve the targeted goals of the organization.

Ideological leadership, pragmatic leadership, authentic leadership, ethical leadership, spiritual leadership, distributed leadership, integrative public leadership and servant leadership are several new leadership styles that have been proposed since the year 2000 to capture important missing aspects beyond the dominant charismatic, transformational and transactional framework (Anderson & Sun, 2017).

In this research paper, the role of ethical leader is discussed with reference to salespersons' unethical behavior. Ethical leadership is the 'demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making (Brown *et al.*, 2005). According to them the ethical leadership is based on personal characteristics and qualities of the leader, which are perceived by their employees as normatively appropriate like honesty and fairness. Furthermore, ethical leaders' discipline and the way that they reward the ethical behavior will encourage the followers' ethical behavior.

### ***The Relationship between Supervisory Role and Ethical Behavior***

Adnan et al. (2013) conducted a research entitled "What shapes ethical behavior of sales team?". They found that there was highly significant relationship between leader's characteristics and sales ethical behavior. However, according to them, authentic leadership style negatively related with ethical behavior development.

Zhang and Zhang (2016) conducted a research on the relationship between ethical leadership, ethical climate and business ethical sensitivity of chinese insurance agents. The findings indicated a significant positive relationship between the ethical leadership and the ethical sensitivity. Furthermore, ethical leadership positively related to the ethical climate and ethical climate mediated the relationship between ethical leadership and ethical sensitivity.

The study titled "Salesperson Ethical Decision Making: The Impact of Sales Leadership and Sales Management Control Strategy", Ingram et al. (2007)

concludes that sales leadership has a significant relationship with the ethical behavior of salespeople.

As for the factors influencing employees to behave unethically, Zabid and Alsagoff (1993) found that the behavior of one's immediate superior was more important in contributing towards such a conduct.

In a study titled "Ethical leadership and moral behavior of employees" Hendriks (2011), it has been concluded that the ethical leadership has a significantly negative relationship with moral behavior. Further, she mentions that when the leader is perceived as ethical, the employee will show less moral behavior.

The result of study by Haron et al. (2011) on "Factors influencing unethical behavior of insurance agents" show that there is a significant relationship between the supervisory influence and intention to commit the unethical behavior. According to them, even with good supervision insurance agents desire to commit an unethical behavior. On the basis of the above discussion about supervisory role, the following hypothesis is set.

H<sub>1</sub>: Supervisory Role significantly effect on the unethical behavior of the salespersons in the Sri Lankan Insurance Industry

### ***Sales Target***

A sales target is the portion of the sales forecast that has been allocated to a particular sales person or a sales group during a specified time period (Okwandu, 2002) and it is one of the most used managerial tools in the sales management in order to motivate and direct the effort of sales persons (Good & Stone, 1991). It is also frequently used as performance evaluation to assess the productivity of salespeople and captured in the broader concept of control system (Ouchi, 1979; Anderson & Oliver, 1987; Schwepker Jr & Good, 1999). When marketing executives achieve their quota, they often receive some sort of reward for their performance. Sales quotas and performance targets are different names used for sales targets (Schwepker Jr & Good, 1999; Ojikutu *et al.*, 2013; Nebo & Chinwuba, 2017; Franco-Santos & Bourne, 2008).

There are different types of sales quota. They are; sales volume quota, profit quota, expense quota and activity quota (Welch & Lapp, 1983; Akenbor & Imade, 2011)

Sales volume quota: the quota based on a certain unit of output and may be established for a geographical area, a product line, a customer, a time-period, or a combination of these bases.

Profit quota: the quota based on gross margin or net profit. A unit profit margin is calculated for each product and then directs salesperson's activity towards those products that has high profit margin.

Expense quota: the quota based on the salesperson's travel and other expenses. These quotas are usually stated as the percentage of sales volume and purpose is to control excessive spending.

Activity quota: establish a quota based on activities such as daily calls, development of new accounts, number of demonstrations, sales penetration of existing accounts etc.

However most widely used type of sales quota in insurance industry is the sales volume quota.

### ***The Relationship between Sales Targets and Ethical Behavior***

Dubinsky and Yammarino (1985) conducted a research to explore the relationships between a set of factors controllable by managers and agents' attitudinal and behavioral reactions to their positions. According to them, the sales target relates to an amount of rewards they received and subsequently impact on motivation and behavior.

Haron *et al.* (2011) investigated the relationship between the sales target and the intention to perform unethical behavior. By analyzing 246 individual insurance agents, they have indicated that the sales target significantly influence on the insurance agents' intention to the unethical behavior. Further, they mention that the attitudes partially mediate the relationship between sales target and intention to perform unethical behavior. But not by the subjective norms and moral obligations.



Nebo and Chinwuba (2017) conducted a research entitled “ Sales force – customer relationship and ethical behaviors in the Nigerian banking industry. They state that sales quotas have a significant effect on the salespeople’s ethical behaviors.

Ojikutu *et al.* (2013) assessed the relationship between the sales quotas and moral judgment of the insurance salespersons: the Moderating Effects of Personal Moral Values, Quota Failure Consequences, and Corporate Ethical Climate, using survey research design method. The findings revealed that the perceived difficulty in sales quota attainment has significant effect on salespeople’s ethical behaviours. Moreover, social ties and personal moral judgment also have a significant effect on the salespeople’s ethical behaviours.

In their study titled “Issues and problems in ethical practices amongst takaful agents”, Aziz *et al.* (2016) mention that the agents act out of control, either consciously or unconsciously to achieve the sales target set by the company. According to them, it leads towards unethical behavior.

Salespeople behave against the firm’s ethical norms in order to achieve sales quotas when they appraised by their short term sales performance. This unethical behavior destroy the long term buyer and seller relationships and thus losing customers or even more serious consequences (Lin, 2012).

Akenbor and Imade (2011) examined “Sales Targets and Ethical Behaviour of Marketing Executives in the Nigerian Banking Industry” and their findings revealed that the sales targets for marketing executives in the Nigerian banks were usually established by executive opinion and such targets were realistically unattainable. Moreover to achieve this high sales target, marketing executives’ exhibit one form of unethical behaviour or the other such as indecent dress mode and industrial espionage. It was therefore recommended that sales targets should not be established through executive opinion but territorial sales potentials and certain legislations should be enacted and enforced to prevent marketing executives from unethical practices.

Schwepker Jr and Good (1999) conducted a research on the impact of sales quotas on moral judgement in the financial services industry. The result indicates a significant relationship between quota difficulty and moral judgment when salespeople foresee negative consequences for failing to achieve quota.

Further, self-efficacy and market attractiveness affected perceived quota difficulty.

On the basis of the above discussion about sales targets, the following hypothesis is derived.

H<sub>2</sub>: Sales Targets significantly effect on the unethical behavior of the salespersons in the Sri Lankan Insurance Industry

### ***Organizational Culture***

Adler (1986) defines the culture as the same set of attitude, values, beliefs and behavior which are shared by the employees. Similarly, Odom et al. (1990) define organizational culture as a set of shared values, beliefs, assumptions, patterns of relationships and behavior. And also, it is a pattern of beliefs, symbols, rituals, myths, and practices that have evolved over time in an organization (Pheysey, 1993). In other way, Scholz (1987) defines organizational culture as the implicit, invisible, intrinsic and informal awareness of the organization which guides the behavior of the individuals and which results from their behavior.

Although organizational culture is defined in many ways, all the major definitions highlights the culture of the organization as the shared set of assumptions, values, norms, beliefs and behavior patterns that are practiced in the certain organization to cope with the external and internal environment.

According to Hunt *et al.* (1989), organizations may have different cultures such as cultures that guide service and product quality, selection of distribution channels, advertising content, treatment of customers and etc. However, the foundation for all these cultures is the ethical culture (Chadegani & Jari, 2016) which establishes and maintains the standards that explain the right behavior and the right conducts which worth doing. According to Chadegani and Jari (2016), Trevino, Butterfield and McCabe define ethical culture as “a subset of organizational culture, representing a multidimensional interplay among various formal and informal systems of behavior control that are capable of promoting ethical or unethical behavior”. Therefore, it can be a good predictor of employee behavior (Key, 1999).

When researchers use the term “organizational ethical culture”, they highlight the difference between ethical culture and ethical climate (Scholz,

1987; Riivari *et al.*, 2012). They argue that the ethical climates are those aspects that determine what constitutes ethical conducts, whereas ethical cultures are those aspects that stimulate ethical conducts. Further, they mention that as organizational culture includes shared assumptions, it is deeper and broader construct than organizational climate that consists of shared perceptions.

Other than that, the organizational rituals, organizational language, symbols, color, traditions are the aspects of organizational culture that helps in shaping orientation and behavior in workplace from an organizational behavior point of view (Kuye *et al.*, 2013).

### ***The Relationship between Organizational Culture and Ethical Behavior***

Every organization has its own set of values, beliefs and norms that are followed by the employees. The culture affects the employee behavior positively or negatively depending on how the culture is being implemented in the organization. It is important for the leaders to develop and maintain the ethical culture within the organization so to make the employee work accordingly (Baker *et al.*, 2006).

Shafer and Wang (2010) study the impact of organizational ethical context and Machiavellianism on organizational-professional conflict and affective organizational commitment among Chinese accountants. They highlight that the employees perceive that the ethical culture of the organization has deep impact on the organizational commitment and ethical decisions done by the employees.

By investigating the US and Chinese business executives Baglione and Zimmener (2007), contend that the culture has a deep impact on the ethical practices. Further, they have said that the people from different cultures show different ethical behaviors.

Appelbaum *et al.*, (2007) argue that when the employee work behavior is not aligned with the organizational norms, it will affect the working of the organization like decision making processes, and financial well-being of the organization by conducting a literature review on current positive and negative deviant workplace behavior.

Douglas, Davidson and Schwartz (2001) examined the relationship between the organizational ethical culture in two large international CPA firms, auditors'

personal values and the ethical orientation that those values dictate, and judgments in ethical dilemmas typical of those that accountants face. The findings highlight the impact of organizational culture on the ethical behavior of the employees.

The organization will face the downfall of the organizational culture, when the employees feel unhappy with the current organizational culture and due to this, they deviance in the behavior of employees. This behavior can be unethical and in return will affect the organizational performance. If the upper management wanted to reduce unethical behavior among employees, it should be made clear that their behavior will affect the front-line sales managers, performance evaluations and reward structures (Bass *et al.*, 1998).

Apriliani *et al.* (2014) examine the determinants of ethical decision making of auditor such as organizational ethical culture and ethical climate with self-efficacy as moderating variable. Analyzing data of 63 auditors in Central of Jakarta, they found that organizational ethical culture and ethical climate influence ethical decision making of auditor.

Cooper and Frank (1991) in a survey of 1,170 Chartered Life Underwriters (CLUs) and Chartered Financial Consultants (ChFCs) with a response rate of 31 percent or 361 CLUs and ChFCs identified that organizational culture does not encourage agents to compromise their ethical values.

Kuye *et al.* (2013) conducted an empirical study on organizational culture and ethical behavior from a strategic standpoint. The result of the findings indicated that organizational culture had a significant relationship with the ethical behavior and good employees' values. Thus, they conclude that the behavior of employees in an organization is largely determined by the acceptable organizational norms, values, attitudes, rules and rituals. On the basis of the above discussion about an organizational culture, we set the following hypothesis.

H<sub>3</sub>: The organizational ethical culture significantly effects on the unethical behavior of the salespersons in the Sri Lankan Insurance Industry

### ***Code of Ethics***

The Code of Ethics states the rights, duties and responsibilities of the company towards all its stakeholders. Likewise, it contains behavior principles and rules of conduct needed to use in decision making processes and therefore, it is a source of behavioral rules for the company's employees (Sacconi *et al.*, 2002). Codes of ethics are formally written and explicit policies intended to guide employee and corporate behavior by establishing the boundaries of ethical behavior (Nebo & Chinwuba, 2017). According to Withanage (2010) a code of ethics or conduct is a statement of central company values supporting best practices, behaviors, and standards. Therefore, code of ethics can be defined as a document or agreement that specifies morally acceptable behavior inside an organization.

Sometimes other names are used to refer to a code of ethics such as codes of conduct, codes of practice, ethical codes, corporate ethical codes, ethical guidelines, business conduct, codes of professional behavior, operating principles and so on (Fisher, 2001; Marnburg, 2000).

However, professions develop codes of ethics (or codes of conduct) to regulate members' behavior (to inform them of expected behavior; to remind them that ethical behavior overrides many other considerations; to remind them of personal responsibility), to hold members accountable (to provide bases for judging in cases of breach; to help address situations where conflicting views of what is right are possible) and to present profession to society (to state its ethical bases, reassure stakeholders, and give them a basis for evaluating professionals) (Barrett, 2012).

### ***The Relationship between Code of Ethics and Ethical Behavior***

Nebo and Chinwuba (2017) conducted a research entitled "sales force – customer relationship and ethical behaviors in the Nigerian banking industry". They found that there was a negative impact between the banks' code of ethics and salespeople's ethical behaviors.

Cleek and Leonard (1998) did the survey to find the effectiveness of the codes of ethics in promoting ethical decision-making behavior and the results of

the survey have indicated that codes of ethics are not influential in determining a person's ethical decision-making behavior.

According to Trevino (1986) organizations attempt to guide member's behavior by developing formal codes of ethical conduct. Further he mentions that codes must be consistent with the organizational culture and must be enforced. Thus, codes of ethics have the potential of impacting on ethical behavior in organizations.

By using a sample of 613 management accountants drawn from the United States, Somers (2001) found out that the employees were less involved in unethical activities of the organization where there was a proper implementation of code of conduct, as compared to the employees of the organizations that did not have a proper code of ethics implemented in the organizations.

Adams et al. (2001) investigated the effects of codes of ethics on perceptions of ethical behavior by selecting respondents from 465 companies with codes of ethics and 301 companies without codes of ethics. Their results of the study provided evidence that the individuals in companies that have a code of ethics felt less pressure to behave unethically than those in an organization with no codes of ethics.

Schwartz (2001) conducted study in order to examine the relationship between corporate codes of ethics and behavior. After conducting fifty-seven interviews of employees, managers, and ethics officers at four large Canadian companies, the study found out that the codes of ethics are a potential factor influencing the behavior of corporate agents.

Wotruba *et al.* (2001) investigated the role of code familiarity as a factor which impacted the manager's behavior. Their research findings suggest that the perceived usefulness of codes of ethics is positively related to the degree of familiarity with the code. Further, they have seen Code familiarity as a factor that influences the extent to which the code is used and, in turn, has an impact on the employee's behavior.

Weeks and Nantel (1992) also did a research to investigate the relationship between a code of ethics and sales force behavior under the title Corporate Codes of Ethics and Sales Force Behavior. The findings revealed that a well

communicated code of ethics can be related to ethical sales force behavior. Furthermore, it appears that a sales force that is employed in such an environment can be profiled as being relatively high in job performance and receiving equally high satisfaction from their positions. On the basis of the above discussion about the code of ethics, the following hypothesis is assumed.

H<sub>4</sub>: The code of ethics significantly effects on the unethical behavior of the salespersons in the Sri Lankan Insurance Industry

### ***Rewarding System***

The organizational rewarding system refers to the monetary and non-monetary mechanisms by which workers are rewarded with in the firm. Monetary rewards include wages and salaries, cash bonuses and prizes, fringe benefits, stock options and employee profit-sharing plans. However, among these lot of monetary rewards, salary and bonus are the mostly used monetary rewards. Non-monetary rewards are benefits that the employees receive, and they do not include money. It can be consisted of promotions, trips, public recognition such as 'Employee of the month', non-monetary prizes such as theater tickets or tickets to the sporting events, opportunities to develop in the organization and health benefit (Harvey, 2000; Caballero, 1988). Employees can be rewarded for the time they work, skills and knowledge, the output they produce and competencies or a combination of these competencies (John *et al.*, 2013).

Organizations can use a monetary or non-monetary reward or a combination of the two. And also, rewards can either be based on the individual performance or the performance of a group or sometimes mix of them. Several scholars use the word compensation system instead of rewarding system because compensation is a reward individual receive in exchange for performance (John *et al.*, 2013).

Business organizations can shape behaviors of the employees by using their rewarding systems. For that company needs to ensure that their compensation practices do not reward, but rather punished unethical behavior of employees (Harvey, 2000). Other than that, salespersons behavior can change according to the salary portion and commission portion of the salesperson compensation. When larger portion of compensation based on sales commissions it motivates to behave unethically and such motivation is likely to be absent when the salary potion is high. In other words, when a company uses commission-based

compensation methods, it might motivate the salesperson to act in an unethical manner while salary-based methods might motivate the salesperson to act in an ethical manner (Honeycutt *et al.*, 2001; Roman & Munuera, 2005). However, by using commission-based methods the company may get immediate and maximum sales. But for the long-term orientation and to realize future sales they need to use salary-based methods (Robertson & Anderson, 1993).

### ***The Relationship between Rewarding System and Ethical Behavior***

Kurland (1996) examined the influence of commission, along with experience, income, professional accreditation, and a modified theory of planned behavior on sales agents' ethical intentions toward clients by using 116 male and 28 female insurance agents. He indicates that the compensation system did not significantly influence on the sales agents' ethical intentions toward clients. Rather, the findings suggest that the agents are driven primarily by their moral obligations, perceived behavioral control, and attitudes.

Honeycutt *et al.* (2001) proposes a model that explains the ethical behavior of automobile salespeople in terms of their ethical perception, legal perception, method of compensation (commission-based or salary-based), age, and education. The findings suggest that the ethical perception is the most important determinant of the ethical behavior. Also, the method of compensation is a major determinant of ethical behavior. However, according to them, the age and education are not significantly related to ethical behavior.

In their study titled “A Typology of Situational Factors: Impact on Salesperson Decision-Making about Ethical Issues”, Ross and Robertson (2003) found that both demographic factors (age and gender) and personality factors (Machiavellianism and self-monitoring) had main effect on ethical decision making. Furthermore, they mentioned that the larger commission effects on unethical decision making.

Robertson and Anderson (1993) conducted a research on Control System and Task Environment Effects on Ethical Judgment by using 446 Industrial Salespeople. Findings indicate that the proportion of the salary versus commission in the salesperson's compensation system does not have an effect on ethical judgment.



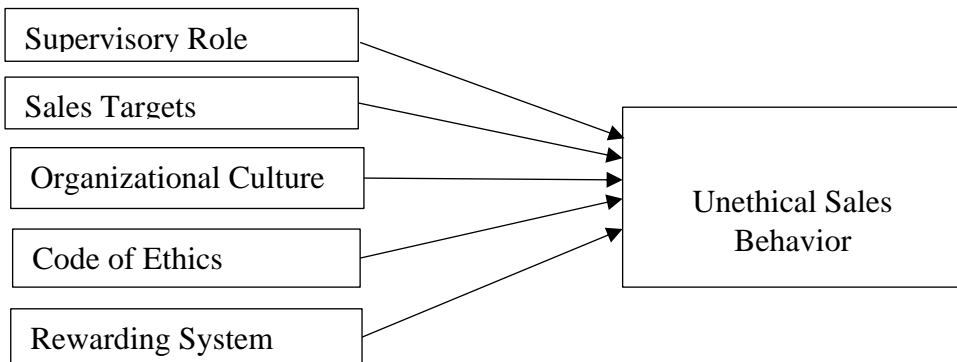
The results of the study by Roman and Munuera (2005) titled “Determinants and consequences of ethical behavior: an empirical study of salespeople” indicate that method of compensation and control system are important determinants of ethical behavior. Moreover, the ethical behavior leads to lower levels of role conflict and higher levels of job satisfaction.

Hegarty and Sims (1978) did an experimental study by using 120 graduate business students. Students were asked to make a series of decision regarding whether to pay a kickback, where the payment of kickback was considered ‘unethical behavior’. Findings indicate that the frequency of unethical behavior increases when it is rewarded and decreases when it is not. On the basis of the above discussion about the rewarding system, the following hypothesis is set.

H<sub>5</sub>: Rewarding system significantly effect on the unethical behavior of the salespersons in the Sri Lankan Insurance Industry

According the above discussion the conceptual model is derived and is shown in Figure 1.

**Figure 1: Conceptual Model**



## **Methodology**

**Sampling and Data Collection:** This research involved a sample of 200 insurance salespersons from 10 Sri Lankan life insurance companies. These 200 salespersons were selected based on the percentages of individual insurance salespersons registered with insurers. The questionnaire was distributed to the salespersons both by hand and online. Among 221 questionnaires, 200 usable questionnaires were selected.

**Method of analysis:** This study used the descriptive statistics as well as inferential statistical techniques to analyze information gathered. First of all, we present the demographic analysis about respondents. Rest in this research Cronbach's Alpha coefficient was used for ascertaining the reliability, normality of the distribution of variables, multicollinearity and descriptive statistics were used to describe characteristics of single variables and multiple regression analysis was used to measure the impact of the independent variables on the dependent variable.

**Measures:** Cheng et al. (2014) explained five types of unethical behavior among life insurance salesperson such as providing incorrect or false information, or intentionally hide information of the product or service, inability to identify customer needs, poor understanding towards concept, knowledge, or skills to implement responsibility, failure to fulfill responsibilities due to conflict of interest, and other misconduct that affects the insurance company's reputation. These five items were used to measure the unethical behavior of the insurance salespersons. Supervisory role has been measured by using three items from the Ethical Leadership Questionnaire developed by Yukl et al. (2013). They are, not regards honesty and integrity as important personal values, not communicates clear ethical standards for members, and not the role model for ethical behavior. According to Locke and Latham (1990), the behavioral effects of the use of sales targets in the sales environment is normally attributed to three factors. They are; target difficulty, target specificity, and the target participation. Using these three factors sales targets were measured. The organizational ethical culture was measured using three items from CEV (Corporate Ethical Virtues) questionnaire developed by Kaptein (2008). They are, it is not clear the way of responsible behavior, existing norms and values not taken seriously, and reports of unethical conduct were not taken seriously. According to Somers (2001), the existence of the code of ethics was not enough for the ethical behavior, it must be communicated to all employees and needed

to be adjusted according to the current ethical situation. Therefore, these three factors were used to measure the code of ethics. Reward system was measured by three items getting from the questionnaire developed by Nel (2008), namely, base pay does not dependent upon selling behavior, bonus does not depend upon selling behavior and selling behavior not affect to job promotion.

### **Data Analysis and Results**

The demographic factors of the respondents showed that the highest number of respondents came from male salespersons; ages from 18 to 25 years; married; job experience from 1 to 5 years; education was G.C.E. (A/L) and monthly income was below 50,000.

In this study, coefficient alpha was 0.865 for unethical behavior, 0.708 for supervisory role, 0.749 for sales targets, 0.730 for organizational culture, 0.865 for the code of ethics and 0.945 for the rewarding system. These results reveal that the reliability for each variable exceeds the suggested cut-off point of 0.7 and indicating scale reliability (Table 1).

**Table 1: Cronbach's Alpha coefficient**

<b>Variables</b>	<b>Cronbach's Alpha</b>	<b>No of items</b>
Unethical behavior	0.865	5
Supervisory role	0.708	3
Sales targets	0.749	3
Organizational culture	0.730	3
Code of ethics	0.865	3
Rewarding system	0.945	3
All overall Alpha for instrument	0.833	20

Before any formal statistical analysis, it is essential to test the data for multivariate assumptions such as normality, multicollinearity, homoscedasticity and linearity. Test the normality of the distribution of all variables using Skewness and Kurtosis value. In this study, data are normally distributed (Table 2) since Skewness values and Kurtosis values of the data are within the accepted range of +2 to -2 (Garson, 2012). Multicollinearity of independent variables was tested using statistics of tolerance and Variable Inflation Factor (VIF). The

results reflected that tolerance levels of each independent variable was greater than 0.2 and the Variation Inflation Factor (VIF) values for each independent variable was less than 4 (Table 3) (Garson, 2012). Therefore, the results did not indicate multicollinearity between independent variables. The homoscedasticity and linearity of variables were tested by examining Normal P-P plots and scatter plots and it indicated that there was no heteroscedasticity or nonlinearity. Accordingly multivariate assumptions are satisfied.

**Table 2: Skewness and Kurtosis value for normality of data**

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Unethical behavior	200	.438	.172	-1.222	.342
Supervisory role	200	-1.403	.172	1.329	.342
Sales targets	200	.402	.172	-.970	.342
Organizational culture	200	1.142	.172	.590	.342
Code of ethics	200	.226	.172	-1.236	.342
Rewarding system	200	1.171	.172	.428	.342

**Table 3: Test of Multicollinearity**

	Tolerance	VIF
Supervisory role	0.949	1.053
Sales targets	0.887	1.128
Organizational culture	0.840	1.190
Code of ethics	0.959	1.042
Rewarding system	0.777	1.288

In order to identify the variables, Supervisory role, Sales targets, Organizational culture, Code of ethics and Rewarding system descriptive statistics are used. The mean value (2.43) of the unethical behavior indicates that there is an unethical behavior among salespersons in Sri Lankan life insurance industry. Reviewing the mean values of independent variables, overall supervisory role is ethical; sales targets set by the managers are not fair; organizational cultures of the respondents fairly ethical; code of ethics are not

implemented and communicated in the organizations and finally, ethical behavior is not considered when rewarding salespersons.

Multiple regression analysis was used to predict the dependent variable unethical behavior based on Supervisory role, Sales targets, Organizational culture, Code of ethics and Rewarding system.

R-value of 0.675 indicates that the linear combination of the five independent variables moderately predicts the dependent variable.  $R^2$  is 0.455 and it indicates 45.5% of the variance in the dependent variable is explained by the independent variables in the model.

**Table 4: Multiple Regression Analysis Result**

Model	Unstandardized		Standardized		t	Sig.
	Coefficients		Coefficients			
	B	Std. Error	Beta			
(Constant)	2.053	.393			5.229	.000
Supervisory role	-.279	.064	-0.237		-4.365	.000
Sales targets	.399	.050	0.447		7.975	.000
Organizational culture	-.002	.075	-0.002		-.030	.976
Code of ethics	-.081	.076	-0.061		-1.058	.292
Rewarding system	.311	.056	0.349		5.536	.000
R = 0.675						
$R^2 = 0.455$						
F = 32.432						

### ***Testing Hypotheses***

The results of hypothesis 1 shows that supervisory role significantly effects on the unethical behavior of salespersons ( $\beta = -0.237$ ,  $p < 0.05$ ). The results of hypothesis 2 shows that sales targets significantly effect on unethical behavior of salespersons ( $\beta = 0.447$ ,  $p < 0.05$ ) and results of hypothesis 5 shows that rewarding system significantly effect on unethical behavior of salespersons ( $\beta = 0.349$ ,  $p < 0.05$ ). p-value of organizational ethical culture (0.976) and code of ethics (0.292) is not at an acceptable level. Accordingly, alternative hypothesis  $H_3$  and  $H_4$  are rejected.

## Discussion

This study investigates the organizational factors that effect on salespersons unethical behavior. In our study,  $H_1$  accepted showing that supervisory role as significant determinants of salespersons behavior. Accordingly, results support the notation of supervisory role has significant negative relationship with the unethical behavior of salespersons. It indicates that when managers having ethical behavior or leadership, it helps to reduce the unethical behavior of salespersons.

As it was expected, results show that sales targets have a significant positive effect on unethical behavior. Accordingly, second finding (hypothesis 2) provides additional support for previous theoretical arguments and empirical evidence favoring the positive effect of sales targets on unethical behavior (Ojikutu et al., 2013; Nebo & Chinwuba, 2017; Haron *et al.*, 2011; Aziz *et al.*, 2016; Lin, 2012)

Contrary to our expectation, the result shows that an innovative culture does not have a significant effect on the sales people's unethical behavior. The result is somehow consistent with the findings by Cooper and Frank (1991) that organizational culture does not encourage agents to compromise their ethical values. Therefore encourage to do further research.

Previous research analyzing the relationship between ethical behavior and code of ethics has led to mixed findings. Cleek and Leonard, 1998; Nebo and Chinwuba, 2017 did not find significant relationship whereas findings from Trevino, 1986; Adams et al., 2001; Schwartz, 2001 indicate that the code of ethics significantly influences the ethical behavior. The use of a disaggregated conceptualization of code of ethics has yielded clearer results, as our test results of hypothesis indicate that the code of ethics does not have a significant impact on salespersons unethical behavior.

Geeta et al. (2016) highlighted the importance of studying the rewarding system as an organizational factor affects to behavior. We have responded to their challenge by analyzing how the rewarding system affects the sales people's unethical behavior. Our results provide evidence that rewarding system has a significant impact on unethical behavior. Accordingly our finding contributes to the literature by providing further empirical evidence for the

significant result obtained by Honeycutt *et al.*, 2001; Ross & Robertson, 2003; Roman & Munuera, 2005.

## **Conclusion**

The study aims for investigating the impact of organizational factors on unethical behavior of the salespeople in the Sri Lankan Insurance Industry. According to the result of the study, it can be concluded that three factors namely, supervisory role, sales targets and rewarding system significantly predict the unethical behavior of salespersons. Further, the analysis reveals that the sales targets predict unethical behavior strongly, compared to the rewarding system and the supervisory role.

Accordingly, following recommendations are made to address the significant factors identified by the study. To address a supervisory role, it is needed to incorporate stricter recruitment practices where potential employees are assessed in terms of their integrity and ethics. In terms of addressing the behavior of existing managers, the organization could provide ethics training to all its managers and supervisors to make aware them towards behaving more ethically. As well as the organization could include a reward or incentive into managers' annual increases and performance bonuses for displaying ethical behavior.

To address the sales targets as a factor impacting on unethical behavior managers should assign a reasonable quota to the salespersons, make salespeople comfortable with their assigned quotas, established proper monitoring system to guide salespersons and do not put too much pressure on salespersons to meet challenging, short-term financial goals.

It is must to design a rewarding system that rewards the salespersons for behaving ethically, to address the rewarding system as a factor impacting on unethical behavior.

Other than those findings, this study also gave some implication on code of ethics. According to the findings of the study, the majority (44.5%) of the respondents did not give favorable answers on code of ethics and it indicates that there is no code of ethics in the companies or if exists, not practiced or enforced. But the organizations must have a code of conduct as well as

implement, communicate and reinforce it to raise the level of the ethical behavior of employees.

### **Suggestions for Future Research**

Organizational factors were not able to account for more than 46% of the variance in unethical behavior of salespersons. It means that some important variables may left out of the model, behavior models in future researches can be extended to include other factors in addition to organizational factors. Future research can also be done in considering general insurance companies, banks and finance companies. Future research could also look at customer perspective rather than the salesperson perspective.

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