



**3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka**

**IMPACTS OF ETHICAL SALES BEHAVIOUR ON CUSTOMER LOYALTY: AN EMPIRICAL
STUDY IN THE LONG-TERM INSURANCE INDUSTRY**

Denushika S. Wijenayaka

Lecturer

Department of Insurance and Risk Management, SANASA Campus

Paragammana, Kegalle, Sri Lanka

denushikasdw@gmail.com

Aminda M. Perera

Senior Lecturer

Department of Accountancy, Wayamba University of Sri Lanka

Kuliyapitiya, Sri Lanka

Abstract

Amidst increasing competition, insurance companies are looking for ways to differentiate their services in the eyes of their customers and to attain high levels of customer satisfaction and loyalty. From the customer's perspective, the determinants of customer satisfaction are thought to include factors such as trust, good relationship, and salesperson's ethics. Therefore, the salespeople of business need to be perceived as ethical, trustworthy, and pleasant by their customers. This study focuses on how a salesperson's ethical sales behavior can build customer trust in the salesperson, which in turn influences customer satisfaction and loyalty in the long-term insurance industry. This research represents an initial step in analyzing the role of ethical sales behavior, as perceived by long-term insurance customers, in developing and maintaining satisfaction and loyalty among the customers. A pretested structured questionnaire was administered with a randomly selected sample of long-term insurance policyholder (n=126). A Linear Regression and Correlation Analysis were carried, using the SPSS Software (*Version 17*). The findings revealed that a salesperson's ethical behavior leads to higher customer trust and satisfaction, which in turn, enhances loyalty to the insurance company that the salesperson represents. The outcome of analysis provide insights to understand how salespersons behavior influence on formation of long-term relationships with customers in insurance industry in Sri Lanka and how it can be used by marketers to plan their promotional decisions on insurance products.

Keywords: Ethical behavior, customer loyalty, insurance industry

Introduction

The need to the customer-focused to the highly changing marketing environment has more important for insurance companies. However, under the present circumstances, where customers are becoming more demanding and increasingly mobile between competing insurance providers, being customer-oriented is not enough. Insurance companies, and more specifically, their contact employees e.g. salespeople need to be perceived as ethical by their customers. This research represents an initial step in analyzing the role of ethical sales behavior, as perceived by customers, in developing and maintaining relationships with customers. The findings revealed that a salesperson's ethical behavior leads to higher customer satisfaction, trust and loyalty to the insurance company that the salesperson represents.

Services are highly abstract services characterized by credence attributes and consequently difficult for consumers to fully understand. Hence, the consumer must rely on the agent for correct information and proper guidance. Therefore, as the insurance industry has become more competitive, salespeople could, if they chose to act unethically, take advantage of the consumer's naivety and improve their own position.

The insurance companies that provide insurance also represent a significant component of the Sri Lankan financial service sector. In 2017, insurance companies had accounted for 3.4% of total assets of

**3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka**

financial sector. With such a large population and untapped market area of this population insurance happen to be a very big opportunity in Sri Lanka.

However, insurance penetration in Sri Lanka is just about 1.24% of the GDP (IRCSL, 2017). This is quite low given that the population of Sri Lanka now stands at over 21.444 million. According to the IBSL the life insurance contribution to the economy is almost negligible when compared to the other sectors. The opinion of the Insurance Ombudsman, Sri Lankan society is yet to learn about the benefits of insurance. Due to lack of awareness the penetration level of insurance is very low. Lower than in India. Insurance industry is different with other service industries because of its code of ethics. Trustworthiness is the base of the existence of the insurance industry.

Problem Statement

Nowadays economical countries are moving toward service industries. In this regard, we could point to the insurance industry, which is operating in various branches throughout the world. On the other hand, the customer ability of selection among various companies has led to more competition in the market of this industry. Customer satisfaction is also not enough for companies, since it is not the sign of repurchasing, and so companies are looking for developing the loyalty among their customers. Loyal customers by their repurchasing, advertising with the word of mouth and consider as a profitable and long-term investments for companies. On the other hand, in services, the effect of ethical sales behavior observe far greater than sales of tangible goods. Ethical sales behavior could name as a non-price factor, however it has a high financial impact.

Investigate the Impact of Ethical Sales Behavior on Customer Satisfaction, Trust and Loyalty to the Company.

Objective

- To determine the influence of ethical sales behavior on customer satisfaction in company.
- To determine the influence of customer satisfaction in company on customer trust in company.
- To investigate the influence of factors.
- To analyze the factors & the relationship broadly.
- To present positive impact on customer loyalty.

Literature Review

Ethical Sales Behavior

According to Roman and Munuera 2005, ethical sales behavior is fair and honest actions that enable the salesperson to foster long-term relationships with customers based on customer satisfaction and trust. Salespersons typically have personal interactions with the customer and their actions are more readily visible, and unethical behavior can have a profound effect on the public opinion of the company (Mantel 2005). Even though unethical selling behavior is a highly elusive construct and is often situation specific (Legace et al. 1991) and unethical sales behavior as perceived by the customer is defined as a short-run salesperson's conduct that enables him/her to gain at the expense of the customer (Alrubaiee 2012).

Satisfaction

Researchers have argued that there is a distinction between customer satisfaction as related to tangible products and as related to service experiences. This distinction is due to the inherent intangibility and perishability of services, as well as the inability to separate production and consumption (Dimitriades 2006).

**3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka**

Satisfaction is an overall evaluation of performance based on all prior experiences with a firm (Anderson and Fomell 1994). There are several distinct, separate "objects" about which a consumer will make satisfaction judgments (Singh 1991).

Many studies confirm the correlation between the customer satisfaction and increase in the sales. Since salespersons work as the critical bridge between the company and customers, the company's benefits depend on them (Hazrati 2012). Hence, customer satisfaction with services and with goods may derive from, and may be influenced by, different factors and therefore should be treated as separate and distinct (Dimitriades 2006).

Trust

Customer trust relates to a belief on the part of the customer that obligations will be fulfilled (Swan and Nolan 1985; Swan et al. 1999).

In other words, the customer believes and feels that the selling company can be relied upon to behave in such a manner that the long-term interest of the customer will be served (Crosby et al. 1990). Trust in the company is defined as "customer confidence in the quality and reliability of the services offered by the organization" (Garbarino and Johnson 1999; p.73). Following several researchers, we see trust as a global construct (Morgan and Hunt 1994; Garbarino and Johnson 1999; Nicholson et al. 2001).

Loyalty

In reality loyalty should be explained as a customer commitment to do dealing with a particular firm, buying their products and services and referring it to colleagues. By tradition, customer loyalty is divided into two components one is based on behavior and the other is based on attitudes (Guillén et al. 2011). Due to the rapid development of the service industry in recent years, it is evident that the exploration of customer loyalty has evolved from tangible product brands into intangible service sectors, and from actual purchasing behavior into composite measures of behavior and attitude (Lin 2012). Loyal customers tend to have a higher level of recommendation intention and repurchase intention. Loyalty increases repurchase behavior because loyal customers demonstrate greater resistance to counter persuasion and negative word-of-mouth. Loyal consumers might be less price-sensitive and decrease the risk of defection due to competitors' promotional activities (Lin 2012).

Relationship between study variables

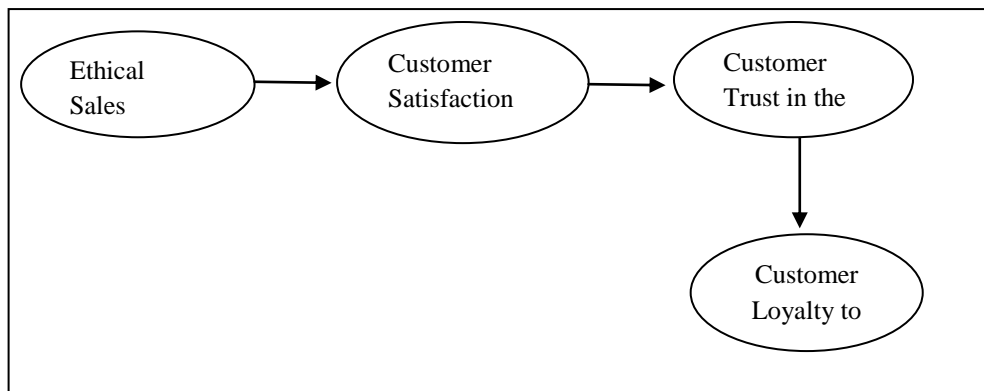
Customer trust in the relational sales context can be defined as a confident belief that the salesperson can be relied upon to behave in such a manner that the long-term interest of the customer will be served (Crosby et al. 1990; Alrubaiee 2012). Early research by Czepiel et al. (1974) proposed that satisfaction with an organization depends on satisfaction with specific components, such as the people and the products/services. In this sense, Westbrook (1981) demonstrated that satisfaction with a retail establishment was influenced by satisfaction evaluations with the products. Empirical research in marketing channels indicates that trust positively affects loyalty (Chow and Holden 1997). Likewise, in a sample of consumers, Garbarino and Johnson (1999) found that trust was a significant determinant of future intentions. Dick and Basu (1994) acknowledged that "confidence with a service supplier is often a key to loyalty" (p.108).

Evidence in services marketing literature suggests that customer trust in a service provider increased commitment to the relationship with the service provider (Moorman et al. 1992; Grayson and Ambler 1999). This influence is supported by social exchange theory as increments in trust serve to increase the social embeddedness of the consumer-provider relationship, thereby enhancing the customer's commitment to the relationship (Singh and Sirdeshmukh 2000).

Conceptual Model and Hypothesis Development

Based on literatures the conceptual model has built as follows.

Figure 1: Conceptual Model



By considering the conceptual model of the research, the research hypothesis as follows,

H1: Ethical sales behaviour has a significant effect on customer satisfaction.

H2: Customer satisfaction has a significant effect on customer trust.

H3: Customer trust has a significant effect on customer loyalty.

Table1: Variables

Hypothesis	Independent Variable	Dependent Variable
H ₁	Ethical Sales Behavior	Customer Satisfaction
H ₂	Customer Satisfaction	Customer Trust
H ₃	Customer Trust	Customer Loyalty

Research Methodology

This research, in terms of objective is an applied research and in terms of data collection method and data analysis is a correlational descriptive-survey research. Because it describes the situation of variables and the relationships among them and, using statistical analysis techniques, tests and explains the relationship between the variables.

A pretested structured questionnaire was administered with a randomly selected sample of long-term insurance policyholder (n=126). Questionnaire was in the format of a five-point Likert type scale ranging from 1 (strongly disagree) to 5 (strongly agree). A Linear Regression and Correlation Analysis were carried, using the SPSS Software (Version 17).

Data Analysis and Discussion

Following tables show the frequency of the demographic variables of the respondents.

Table 1 Demographic Analysis

Gender	Frequency	%
Male	86	68
Female	40	32
Marital Status	Frequency	%
Single	56	44
Married	70	56
Age	Frequency	Percent
20-30	30	24
31-40	64	51
41<	32	25

Experience years with Company	Frequency	%
1 Year	31	24
2 Years	36	28
3 Year	21	17
4 Years	22	18
>4 Year	16	13

Above table shows that more males (68%, n = 86) than females (32%, n = 40) participated in the study. The majority of the respondents were married (56%, n = 70). The balance of the respondents were single (44%, n = 56). The majority of the respondents belonged to 31-40 years age group (51%, n = 64). The smallest percentage of the respondents belonged to more than 41 years age group (25%, n = 32). The most of the respondents (28%, n = 36) work with the insurance company 2 years. The respondents (13%, n=16) have experience with insurance company more than 4 years. This may be an indication that sample employees have experienced with the insurance company. In order to test the research hypotheses, first descriptive analysis is tested. Finally the research hypotheses are tested using correlation and regression.

Table 2 Descriptive analysis

	N	Mean	Std. Deviation
Ethical Sales Behavior	126	4.28	.545
Customer Satisfaction	126	4.18	.523
Trust	126	4.16	.548
Customer Loyalty	126	4.05	.593
Valid N	126		

The means of the different questions have been arranged from most important to least important with reference to Ethical Sales Behavior. Respondents agree that customer satisfaction is existed in the company. Majority of the respondents has agreed that trust is important to the insurance company. This means sales persons are trustworthy for customers. Majority of customers have repurchase intention. And they agree that they recommend this company to others. Most important indicator is repurchasing intention.

Correlation Analysis

The results are reflected in Table 3. This was performed to give effect to research objective;

- To determine the influence of ethical sales behavior on customer satisfaction in company.
- To determine the influence of customer satisfaction in company on customer trust in Company.
- To present positive impact on customer loyalty.

Table 3 Correlation
Correlations

			ESB	SAT	TRS	CUSL
Spearman's rho	ESB	Correlation Coefficient	1.000	.426**	.335*	.166
		Sig. (2-tailed)	.	.002	.018	.248
		N	50	50	50	50
	SAT	Correlation Coefficient	.426**	1.000	.252	.188
		Sig. (2-tailed)	.002	.	.077	.191
		N	50	50	50	50
	TRS	Correlation Coefficient	.335*	.252	1.000	.409**
		Sig. (2-tailed)	.018	.077	.	.003
		N	50	50	50	50
	CUSL	Correlation Coefficient	.166	.188	.409**	1.000
		Sig. (2-tailed)	.248	.191	.003	.
		N	50	50	50	50

Ethical Sales Behavior has positive relationship with Customer Satisfaction.
 Customer Satisfaction has positive relationship with Customer Trust.
 Customer Trust has positive relationship with Customer Loyalty.

Linear Regression Analysis

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
(Constant)		1.322	.829		1.595	.117
Ethical Behaviour	Sales	.667	.193	.447	3.461	.001

Influence of the Ethical Sales Behavior on Customer Satisfaction Ethical Sales Behaviour exerted a statistically significant positive influence on Customer Satisfaction.

The researcher relied on a 95% level of confidence, therefore a p-value of less than or equal to 0.05 implies that it is highly unlikely that the results are due to chance alone according to the Independent Sample T-test. This implied that the null hypothesis is rejected and the alternative hypothesis is accepted.

- Influence of the Customer Satisfaction on Customer Trust

Coefficients ^a				
Unstandardized Coefficients		Standardized Coefficients	t	Sig.
B	Std. Error	Beta		
3.048	.617		4.941	.000
.266	.146	.254	1.817	.075

P value is more than 0.05. So the alternative hypothesis is rejected and null hypothesis is accepted.

• **Influence of the Customer Trust on Customer Loyalty**

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.750	.452		6.089	.000
	TRS	.312	.108	.386		

P value is less than 0.05. So the alternative hypothesis is accepted.

The results of the structural model showed that;

H1: Ethical sales behavior has a significant effect on customer satisfaction.

H2: Customer satisfaction has an insignificant effect on customer trust.

H3: Customer trust has a significant effect on customer loyalty.

Conclusion and Recommendation

More specifically, research findings show that ethical sales behavior has a direct influence on customer satisfaction with the company (H1). Yet, ethical sales behavior and satisfaction with the company were significantly and positively correlated. Moreover, the former affected satisfaction with the company through satisfaction with the core service. This finding highlights the relevance of contact employees' behavior in increasing customer satisfaction. As for the interrelationships among the outcome relational variables (satisfaction, trust and loyalty to the company), satisfaction with the core service influenced satisfaction with the company. Moreover, customer satisfaction both with the core service and the company were shown to be important antecedents to customer loyalty. According to the research findings Customer satisfaction with the company is not led to trust with the company (H2). Finally, customer trust positively influenced loyalty to the company (H3). The significant results obtained when analyzing the interrelationships among the outcome relational variables enhance the role of ethical sales behavior in developing customer relationships with the service firm.

This research has several implications for practitioners. Our results show that perceived ethical behavior has a major impact on the development and maintenance of the buyer-seller relationship. Therefore, insurance companies that value the critical importance of long term relationships with their customers should achieve an environment where the potential for unethical behavior is at a minimum. Managers should understand the importance of their own ethical behaviors, so that they set the appropriate standards to follow, since supervisors serve as role models for ethical behavior within organizations. For example, the sales manager who urges subordinates to behave ethically, yet who regularly overstates products' capabilities when accompanying salespeople, is sending an ambiguous message. In addition, it is recommendable that annual audits are conducted regarding the ethical issue. In addition, given the key importance of customer trust in the insurance sector, and following our

3rd Interdisciplinary Conference of Management Researchers
23rd – 25th October 2018 – Sabaragamuwa University of Sri Lanka

results (where ethics had a significant and direct effect on customer trust in the company), we recommend insurance companies to emphasize frontline employees' ethical behaviors that particularly lead to customer trust, that is, they need to be honest and implement low-pressure selling techniques.

References

- Alexander, E.e. (2002), "Consumer Reactions to Unethical Service Recovery", *Journal of Business Ethic.*
- Dubinsky, A.J., Jolson, M.A., Kotabe, M. and Lim, C.U. (1991), "A Cross National Investigation of Industrial Salespeople's Ethical Perceptions", *Journal of International Business Studies*, (Fourth Quarter).
- Razieh Pezhman, Mohammad Hossein Moshref Javadi, Arash Shahin, (2013), "Analyzing the Influence of Ethical Sales Behavior on Customers Loyalty through Customer Satisfaction and Trust in Insurance Company", *International Journal of Academic Research in Business and Social Sciences.*
- Sergio Román, (2003), "The Impact of Ethical Sales Behaviour on Customer Satisfaction, Trust and Loyalty to the Company: An Empirical Study in the Financial Services Industry", *Journal of Marketing Management.*
- Swan, J.E. and Nolan, J.J. (1985), "Gaining Customer Trust: A Conceptual Guide for the Salesperson", *Journal of Personal Selling and Sales Management*, 5, (November)
- Taylor, S. and Baker, T.L. (1994), "An Assessment of the Relationship between Service Quality and Customer Satisfaction in the Formation of Consumers' Purchase Intentions", *Journal of Retailing*, 70, pp.163-178
- Thornton, J. and White, L. (2001), "Customer Orientations and Usage of Financial Distribution Channels", *Journal of Services Marketing*, 15, pp.168-185
- Trawick, I.F., Swan, J.E., McGee, G.W. and Rink, D.R. (1991), "Influence of Buyer Ethics and Salesperson Behaviour on Intention to Choose a Supplier", *Journal of the Academy of Marketing Science* 19, 1, pp.17-23