Sales Agents and Clients: Ethics, Incentives, and a Modified Theory of Planned Behavior

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Commission is popularly believed to engender unethical intentions, although little research has directly examined this relationship. This paper directly examines the influence commission, along with experience, income, professional accreditation, and a modified theory of planned behavior, has on agents’ ethical intentions toward clients. The study sample was systematically drawn from a national group of financial service industry professionals. Only a modified theory of planned behavior significantly predicted agents’ ethical intentions. Implications and limitations are discussed.

KEY WORDS: incentives; straight-commission; ethics; insurance agents; theory of planned behavior.

INTRODUCTION

It remains a common perception in contemporary American society that commission, a rational choice compensation system, encourages agents to act unethically. Indeed, the perception is so widespread that the Securities and Exchange Commission is pressuring “securities firms to change broker’s compensation, saying that the current system of commissions encourages brokers to cheat customers” (Harlan, 1993, p. C1). Selective brokerage houses have even begun to redesign their compensation plans so novice agents earn more in salary. This allows them to concentrate on building long-term relationships with clients and decreases the pressure they would otherwise face to meet short-term sales goals (e.g., Siconolfi, 1992a). And that commission may encourage unethical behavior continues

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to receive attention in many industries including insurance and brokerage (e.g., Shapiro, 1984; Poser, 1988; Oakes, 1990; Derry, 1990; Kurland, 1991; Cooper & Frank, 1991a, b), automotive service (Buell, 1992; Patterson, 1992), healthcare (e.g., Rapoport et al., 1992; Walldolz, 1992), and retail textile (e.g., Patterson, 1993).

Researchers have often speculated that individual pay-for-performance compensation plans can lead to dysfunctional outcomes (e.g., Lawler, 1987; Gomez-Mejia & Balkin, 1992; cf. Tsalikis & Fritsche, 1989). For example, Lawler explored theoretically the dysfunctional effects an incentive system may have on the firm which adopts it. He noted that piece rate systems can lead to employees trying to "beat the system" by slowing their rates to decrease the quotas. Kerr (1975, p. 779) referred to this phenomenon as the "folly of rewarding A while hoping for B" and attributed it to the prevalence of " fouled up reward systems." And Kurland (1991) concluded that a straight-commission system is inherently unethical because it fails to align sales agents’ interests with their clients’.

Yet, despite this fascination, little empirical research has directly linked commission to sales agents’ ethical behavior. Consider, for example, Walker, Churchill, and Ford (1977, 1979), Dubinsky, Berkowitz, and Rudelius (1980), and Harris (1990). Walker et al. argued that ethically troubled salespersons will perform at lower levels and experience lower job satisfaction, and that behaving unethically to perform the job may lead to customer dissatisfaction. Dubinsky et al. noted that salespeople often face ethical dilemmas between short-term pressures from management to meet sales quotas and long-term goals of achieving customer confidence. Such dilemmas created job stress, poor sales performance, and dissatisfied customers. Unfortunately, however, the potential link between the reward system and the consequent unethical behavior was not studied. Similarly, Harris found that sales and service personnel felt more pressure to compromise their personal values than did other employees surveyed. However, he stopped short of analyzing, as had the others, why sales personnel, in particular, might experience this unique pressure. By comparison, the present study attempts to understand how straight-commission impacts sales agents’ ethical intentions.

However, before presenting the study, two points are necessary. To begin with, this paper attempts to predict agents’ ethical intentions toward their clients. This focus differs from past research in two ways. First, most research exploring the impact of compensation on sales agents’ or employees’ behavior has (a) attempted to predict performance, and/or (b) has concentrated on the agent-firm relationship (e.g., Lawler, 1987). By contrast, the focus here is on agents’ ethical intentions and the agent-client relationship. Ethical intentions are important because they may reflect the
internalization of a moral code and may be a good predictor of behavior especially when one faces stress. Indeed, researchers have shown that intentions predict behavior when the intention is both strong and under volitional control (Ajzen, 1991). In addition, this study examines the agent-client relationship because (1) agents' relationships with stakeholders other than the employing firm have been neglected, and (2) examining the impact of commission naturally raises questions about agents' relationships with their clients.

Second, before embarking on a full-scale study of the effects of commission on sales agents' intentions toward their clients, the researcher conducted an exploratory study to understand how commissioned agents perceived its influence. Having been affiliated with the financial services industry, the researcher focused there. From these conversations, industry professionals asserted that, while the commission system certainly did create ethical tensions, agents who were experienced and who considered the long term were able to surmount these. It seemed that to focus only on commission as a behavioral influence was too limiting.

Next, the researcher conducted an extensive review of the academic literature and found five common groups of variables researchers modeled as potentially predicting ethical postures: (1) rational choice incentives (e.g., Nalbantian, 1987), (2) sociological facts (e.g., Dubinsky & Ingram, 1984; Kelley, Ferrell, & Skinner, 1990), (3) social psychological variables (Hegarty & Sims, 1978, 1979; Trevino & Youngblood, 1990; Randall & Gibson, 1991), (4) organization specific and/or internal organizational variables (e.g., Baumhart, 1961; Clinard et al., 1979; Victor & Cullen, 1988, 1990), and (5) external organizational and/or environmental variables (e.g., Staw & Szwarzkowksi, 1975; Baucus & Near, 1991). This review reflected in part the researcher's own experience and the sentiment of the industry professionals, with one exception. Industry professionals did not speak about variables at the organizational or environmental level. Because they focused on the individual level, the study was framed at this level as well.

THEORY AND HYPOTHESES

Rational Choice Incentive: Agency Theory and Commission

Agency theory strives to model the contract which most efficiently addresses the two basic problems of agency, namely moral hazard and adverse

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3"Ethical postures" includes research focusing on ethical behavior, ethical perceptions, ethical values, and ethical intentions.

4This review of the literature is available on request from the author.

5I will later report how interviews with members of the sample changed my perspective here.
selection. The problem of moral hazard arises when one party to a transaction (e.g., a sales agent) can take certain actions which will affect both parties to the transaction but which the other party (e.g., a firm) cannot monitor or enforce perfectly (Kreps, 1990, 576). A classic example involves fire insurance in which case, knowing that he or she is insured against loss from a fire, the insured may or may not take the proper precautions when storing flammable materials. Incentives are used to solve the problem of moral hazard. That is, the transaction is structured so that when one party acts in his or her own best interest, he or she is also acting in the other party's best interest. For example, insurance companies may provide only partial insurance for loss due to fire so that those insured have a financial interest in preventing a fire (Kreps, 1990, p. 576).

In contrast, the problem of adverse selection arises when one party to a transaction knows things which are relevant to the transaction but which are unknown to the other party (Kreps, 1990, p. 576; Eisenhardt, 1988, 1989; Mitnick, 1987, p. 8). For example, adverse selection occurs when an agent may mislead a principal regarding his or her job-related knowledge (or when an insured misleads a life insurance agent with respect to his or her health). As a result, a principal who relies on the agent for the agent's expertise may be able to physically observe the agent's behavior but not know whether that particular behavior is the best behavior to get the job done. In this case, the principal may have adversely selected the agent.

Agency theory predicts that the type of contract, behavior-based or outcome-based, between an agent (A) and a principal (P) will determine the degree of alignment between the agent's interests and the principal's interests; the bias is toward an efficient relationship (e.g., Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Fama & Jensen, 1983; Moe, 1984; Mitnick, 1987; Eisenhardt, 1989, 1988). The straight-commission compensation system (SCCS) is an example of an outcome-based contract because it directly rewards the agent for performance, i.e., it rewards a measurable outcome of the agent's effort, such as the total amount of dollars clients invest in tax sheltered annuities in 1 year.

The SCCS produces an efficient contract within a one principal and one agent situation because it efficiently solves the two basic agency problems. It addresses potential problems of moral hazard because it aligns the agent's interests with the firm's interests: when the agent sells a product, the agent and the firm are rewarded simultaneously. Problems of adverse selection (e.g., agents who misrepresent their sales expertise) become irrelevant because agents who do not produce well will either leave the firm voluntarily or be fired.

However, when a second principal is introduced (P1 and P2: P1 indicates the firm; P2 indicates the client), the SCCS becomes an inefficient
contract from this second principal’s point of view. Because of temporal differences regarding when the agent is rewarded (shorter term: when the client buys the product) and when the client is rewarded [longer term: when the product that the client buys increases (or decreases) in value], the agent’s interests are not aligned with the client’s interests. Moreover, if the agent misrepresents his or her ability to the client, the client may lose money because the agent’s advice may have been poor or inappropriate. Consequently, the nature of the SCCS rewards the P1-Agent relationship but not necessarily the P2-Agent relationship. Therefore, agents are likely to engage in behavior which satisfies the firm (P1) and the agent but which may prove detrimental to the client (P2).

In sum, the theoretical rationale derived from agency theory strongly suggests that the SCCS aligns agents’ self-interest with the firm’s interest to the potential neglect of the client’s self-interest. Based on this rationale, the “type of compensation system,” and, specifically, SCCS or “commission,” defined as the initial sales commission the agent earns only once and immediately after selling the product, comprises the rational choice determinant of agents’ ethical intentions towards their clients. Thus:

*Hypothesis 1.* The percentage of income agents earn from commissions will negatively predict their ethical intentions toward clients.

**Agent Characteristics: Experience, Income, and Professional Accreditation**

In choosing the relevant agent characteristics, the researcher relied in part on past research and in part on formal and informal conversations with industry professionals in the years preceding and during the initial phases of this project. Accordingly, this study focuses on characteristics agents *acquire* (e.g., experience) rather than those they are given *naturally* (e.g., age, sex).

*Experience Level.* During the exploratory phase of this project, industry professionals repeatedly articulated the variable “experience” as the distinguishing mark between agents who will act ethically and those who will not. Along these lines, Kelley, Ferrell, and Skinner (1990) surveyed marketing researchers and found that those holding their present job for 10 years or more generally rated their behavior as more ethical. Similarly, Kidwell, Stevens, and Bethke (1987) found that the longer managers were in the work force, the more ethical were their responses to the ethical dilemmas presented. In contrast, Hoffman, Howe, and Hardigree (1991) found that perceptions of unethical behavior among salespersons were unrelated to job tenure. The difference between these last two studies lies in whose ethical behavior is being judged. In the Kidwell et al. study, the researchers
examined the respondents' own ethical perceptions. In the Hoffman et al. study, the researchers examined the respondents' perceptions of their co-workers' ethical behavior. While respondents may not view more experienced employees as more ethical (Hoffman et al. study), more experienced employees themselves may be able to distinguish between those actions deemed ethical from those that are not (Kidwell et al. study). This study adopts this latter focus and requires that agents respond about their own ethical intentions, not the ethical intentions of their co-workers.

More specifically, it is hypothesized here that the more experience agents have, the less they will be affected by short-term demands and the less they will be inclined to act unethically. Having been "around" the business for a longer time, the agent should be more aware of the longer-term impact an investment decision may have for any one client than might an agent brand new to the industry and therefore be more aware of the need to establish long-lasting trusting relationships with clients. Thus:

**Hypothesis 2a.** Agents' level of experience (i.e., years in sales in the financial services industry) will positively predict their ethical intentions toward clients.

**Income Level.** The impact of income on ethical behavior is mixed. Finn, Chonko, and Hunt (1988) found that public accounting employees with higher incomes perceived few ethical problems. In contrast, Kidwell, Stevens, and Bethke (1987) found that the income level of managers was not significantly related to perceptions regarding ethical problems. While these studies arrive at contradictory conclusions they both focus on discerning the respondent's perceptions of ethical problems. Somewhat differently, this study focuses on the effect that income has on a respondent's intention to act rather than only on a perceived evaluation of the behavior.

Related to the effect of income on ethical intentions is Harder's (1992) research. He found that underrewarded individuals behaved more selfishly than overrewarded individuals. This is relevant to income as an independent variable for two reasons. First, select investment houses have chosen to decrease the commission payout rates for poorer performing agents while, at the same time, to increase incentives for higher performing agents (Siconolfi, 1992b). These poorer performing agents must sell more to achieve the same income as they did the year prior and as compared to their higher producing peers. Second, these poorer performing agents must also continue to perform activities which do not directly compensate them such as client service, administrative paperwork, and prospecting activities. As a result, these agents may begin to feel they are underrewarded and act more in their own self-interest to the detriment of their clients.

Also relevant is Becker and Huselid's (1992) finding that the greater the magnitude of the prize, the more an individual displays self-interested
behavior to the neglect of the organization. Combined with Harder’s finding above, it would seem that underrewarded agents who can potentially make a sale of large magnitude would choose to sacrifice the client’s interest to pursue their own interests, if these two interests conflict.

Last, while it is recognized that income is likely to be highly confounded with experience, this study should shed some additional light on the effect that income has on ethical intentions. As income is a major indicator of success in the financial services industry, notwithstanding the agent’s experience level, an agent who has achieved little (monetary) success should face more pressure for short-term results than will the agent who has achieved high success. Thus:

*Hypothesis 2b.* Agents’ level of income will positively predict their ethical intentions toward clients.

*Professional Accreditation.* Scholars hypothesize that professional accreditation tends to supply the individual with a basis for ethical behavior (Gorlin, 1990). Earning accreditation requires individuals, in part, to become familiar with, and abide by, certain professional standards. Researchers have shown that when individuals are held accountable, they tend to reflect the value system of those to whom they are accountable. For example, Tetlock (1983) established that subjects tend to evince the views of others to whom they are accountable when those views are known to them. And Brief, Dukerich, and Doran (1991) demonstrated that individuals who explicitly knew how a person to whom they were accountable would respond tended to make decisions more consistent with the value system of that person.

Accordingly, then, one might expect that the better the individual understands the value system in the profession, the more likely it is that individuals will adopt this value system as their own. Values of the profession should transcend the boundaries, and thereby the incentives, of any particular firm. However, in two separate studies, Finn, Chonko, and Hunt (1988) and Chonko and Hunt (1985) found no relationship between ethical behavior and professional codes of conduct in the accounting and marketing professions, respectively. They suggested that the codes may be ineffective because the codes failed to specifically address many of the major ethical conflicts respondents had identified. In related studies, Hoffman, Howe, and Hardigree (1991) found that ethics training did not influence insurance agents’ ethical behavior and Davis and Welton (1991) concluded that formal ethics training did not predict business students’ ethical perceptions. Ethics training is related to professional accreditation because both require that the agent become familiar with ethical guidelines when faced with ethical conflicts.
In spite of the evidence that codes of ethics and professional conduct, ethics programs, ethics training, and the like are not significantly related to ethical behavior, such vehicles continue to be adopted and promoted as seeming panaceas for engendering ethical behavior (e.g., Williams, 1992; Bellizzi & Nurdock, 1992; Kurland, 1993). Because of this continued reliance on codes and programs, professional accreditation is examined here to test how, if at all, it influences agents' ethical intentions. Yet, in view of past research which has found little evidence to suggest that professional accreditation significantly influences ethical decision making, an effect is not hypothesized. Rather, the effect of professional accreditation on agents' ethical intentions is included here for exploratory purposes only.6

Social Psychological Variables: The Theories of Reasoned Action and of Planned Behavior

A different approach to understanding why an agent may or may not engage in unethical conduct can be found in the theory of reasoned action (TRA) (Fishbein & Ajzen, 1975; Ajzen & Fishbein, 1980; Randall, 1989) and the theory of planned behavior (TPB) (Ajzen, 1985, 1988). The TRA is concerned with consciously-intended behaviors and has been used to explain a variety of behaviors from condom use (Boyd & Wandorsman, 1991) to coupon use (Bagozzi, Baumgarten, & Yi, 1992). (For an extensive review see Sheppard, Hartwick, & Warshaw, 1988.) The TRA and TPB models have been the focus of extensive study of different behaviors in social psychological research but have been applied less frequently to ethical and/or moral decision making, in general, or to business ethics, in particular (for exceptions, see DeVries & Ajzen, 1971; Enker, 1987; Randall & Gibson, 1991; Vallerand et al., 1992). The theory of reasoned action links behavioral intention to the person's actual behavior. The person's attitude toward the behavior, coupled with the subjective norm concerning the behavior, determines the behavioral intention.

This theory incorporates social psychological variables past research has found to be significant predictors of ethical postures (with respect to attitudes: cf. e.g., Murphy, Smith, & Daley, 1992; and, with respect to the subjective norm: cf. e.g., Brenner & Molander, 1977; Vitell, Festervand, & Strutton, 1988). Accordingly, by relying on the theory of reasoned action, this study remains consistent with past research in the type of variable considered and, at the same time, uses a well-tested model.

6That professional accreditation may impact agents' ethical intentions may also be addressed by institutional theories. That is, agents may look for ethical guidance to an industry's norms and traditions as reflected in the codes of professional conduct.
However, the TRA is limited because it assumes that actions are totally under volitional control. This assumption fails to acknowledge that individuals' behaviors may be directed, for example, by systemic constraints. By adding the variable, perceived behavioral control, to create the theory of planned behavior (TPB), Ajzen (1988) attempts to address this latter concern. Specifically, this theory predicts that the stronger the agent's perceived behavioral control, the more likely the agent will intend to perform the behavior.

Researchers testing the construct perceived behavioral control have realized mixed results. In support of perceived behavioral control, Ajzen's (1988, pp. 136-139) review reveals that perceived behavioral control contributes significantly to predicting intention over and above that which attitude and the subjective norm contribute. By contrast, in their study of condom use, Boyd and Wandersman (1991) found behavioral control was not significant. Similarly, Randall and Gibson (1991) found that behavioral control contributed little to the predictive ability of the TPB model after attitude and the subjective norm had been taken into account. In light of these competing claims, the results of the present study should further fuel this debate.

Finally, the theory of planned behavior is modified to include a measure of moral obligation to further predict ethical intentions. For the purposes of this study, moral obligation is defined as that duty or obligation to the client (i.e., an identified other) that is sanctioned by one's conscience as right.7 Values which engender that which one's conscience sanctions can emerge from law, professional codes, fiduciary norms, conceptions of trust, and so forth.

Researchers have found that a measure of moral obligation significantly predicted respondents' intent. For example, Randall and Gibson (1991) included a measure of moral obligation and confirmed Gorsuch's and Ortberg's (1983) findings that moral obligation directly predicted intent. Along similar lines, Boyd and Wandersman (1991) found that the additional variable of personal normative beliefs significantly contributed to predicting behavioral intentions to use condoms.

In sum, the modified TPB model employed here predicts that agents' intentions to perform a specified action depend on (1) how favorable agents' attitudes are toward the identified behavior, (2) how agents perceive that people important to them think they should act and whether or not they comply with those significant others, (3) how much control agents per-

7The term "conscience" is left as a primary term and remains unidentified given the problems of actually defining the sources of "conscience."
ceive they have over the decision, and (4) how much agents perceive that performing the behavior is a moral obligation. Thus:

Hypothesis 3. Agents’ attitudes, subjective norm, perceived behavioral control, and moral obligations will positively predict their ethical intentions toward their clients.

METHODS

The Setting

This study relies on one industry—financial services—and on one segment of the financial services industry—the insurance industry. The insurance industry has long been recognized as an avenue for highly motivated individuals to earn high incomes (e.g., Black & Skipper, 1987; Kinder & Kinder, 1988) and generally compensates its sales force with straight-commission.

Life insurance companies can be distinguished by the proprietary nature of the products they allow their salespeople to sell. For example, John Hancock Mutual Life Insurance agents are considered “captured” because they can only sell John Hancock products. In contrast, Northwestern Mutual agents can sell products other than those Northwestern Mutual creates and underwrites. This freedom to sell other products enables Northwestern Mutual agents to offer their clients a wider range of products from which to choose. However, generally an insurance broker (sometimes referred to as an “independent agent”) cannot sell the products of a company which captures its agents. So a Northwestern Mutual agent could not sell John Hancock products.

As a broker of many lines of products, the Northwestern Mutual agent can attempt to contract with other insurance companies to sell that company’s products. Generally these other insurance companies are ones which do not support their own sales staff and thus need agents, such as Northwestern Mutual agents, to agree to sell their products. These other insurance companies can license agents directly or go through a marketing organization to find these agents. The company sample used in this study is one such marketing organization.

The Subjects

The population studied consists of United States-based financial services agents. These agents are licensed to sell products such as life and health insurance, property and casualty insurance, tax sheltered annuities, stocks, bonds, mutual funds, etc. The agents comprising the sample are
located throughout the United States, except New York City, with heaviest concentrations in California, Texas, and Florida. These agents have contracted to sell the marketing organization’s products.

This marketing organization was founded in the mid-1980s by its current president and several partners. These partners are no longer affiliated with the organization and the current president is both chief executive officer and owner. The company is organized as follows:

1. It supports a small staff headquartered in Texas.

2. It markets products for two separate insurance companies as well as designs products which these insurance companies implement.

3. It designates selected individuals around the country to be regional vice presidents (RVPs).

4. These RVPs recruit agents to sell the company’s products.

5. The RVPs and the agents they recruit do not exclusively sell the company’s products but can and do sell the products of competitors as well and therefore are considered either “insurance brokers” or “independent agents.”

The study sample consisted of 245 names. The home office staff in Texas chose every third name until they had selected 245 names. The process for mailing the questionnaires was a modified version of that which Dillman (1978) recommends. The surveys were mailed twice, along with a postage-paid return envelope and a cover letter. In the first mailing, the president of the marketing organization wrote a cover letter which explained the study and introduced the researcher. Although confidentiality was assured, each questionnaire had an identification number displayed prominently on the upper right-hand corner of the first page. This method is commonly used in survey research to avoid sending surveys in follow-up mailings to individuals who had already responded. In this study, two agents refused to participate because the identification number indicated to them that the survey was potentially not anonymous. More than these two agents may have refused to participate for similar reasons, but this was not made known to the researcher. Approximately 10 days after the first mailing, those individuals who had not yet responded received the same questionnaire, a postage-paid return envelope, and a modified cover letter from the researcher a second time.

Ninety-eight agents returned completed, usable surveys after the first mailing for a 40% response rate and 47 after the second mailing to total a 59% overall response rate. One hundred and sixteen (80%) men and 28 (19%) women responded, ranging in age from 23 years to 76 years, with a mean age of 48. Eighty-three respondents identified themselves as sales agents (57%), 26 (18%) as either managers or managers and sales agents, and 35 (24%) as “other.” This usually indicated they owned and operated
an agency but did not preclude their earning commission from selling. Respondents' years in sales in the financial services industry range from zero (some have only held office or management positions) to 40 years. Fifty-seven (39%) had some form of professional accreditation, 86 (60%) did not.

The respondents' incomes fell in six categories. Forty (28.7%) earned incomes less than $40,000, 23 (16.7%) earned incomes between $40,001 and $60,000, 41 (28.9%) earned incomes between $60,001 and $115,000, 16 (11.3%) earned incomes between $115,001 and $150,000, 13 (9.2%) earned incomes between $150,001 and $200,000, and nine (6.3%) earned incomes in excess of $200,000. The percentage of this annual income that agents earned in commissions ranged from 0% to 100%. The majority of agents (96 or 67.6%) earned more than 50% of their annual income from commission.

**Measures**

This study explores the factors which may influence one ethical decision that financial services agents face—whether to disclose information provided about a product before recommending it to the client. This information includes the agent's commission and the quality of the product. That this issue poses an ethical decision was recognized in a survey of life insurance industry professionals (Cooper & Frank, 1991a, b), as well as in reflections on the sales profession (Ebejer & Morden, 1988), and in recent articles published in the popular business press (e.g., Smith, 1992; Steinmetz, 1993). In Cooper's and Frank's survey, life insurance professionals ranked 32 issues according to the degree to which they represented a major problem in the insurance industry. The respondents ranked "false or misleading representation of products or services in marketing, advertising, or sales efforts" as the number one problem in the life insurance industry. In other words, life insurance professionals suggest that an ethical problem can arise if the information provided to them about various products and in turn presented to clients, and/or if the information the agent provides to clients, is misleading, false, or incomplete. Thus, the ethical decision posed in this study was the following: Does the salesperson disclose all of the available, ethically relevant product information to the client regardless of whether it is favorable or unfavorable to the client’s interest?

Table I presents sample items from the scales used to measure the agents' ethical intentions for disclosure and the four independent variables presented in the modified theory of planned behavior.

**Ethical Intentions (INTENT) (Dependent Variable).** Respondents were asked to respond to eight statements to measure INTENT which included
<table>
<thead>
<tr>
<th>Scale name</th>
<th>Number of items</th>
<th>Sample items</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical intentions</td>
<td>seven</td>
<td>“It is not very likely that I will explain this information to my clients” (reverse-scored); “I intend to disclose this information to my clients”</td>
<td>.9026</td>
</tr>
<tr>
<td>Attitude</td>
<td>six</td>
<td>“You feel that telling your clients about all the features is: good . . . not good; ethical . . . not ethical; appropriate . . . not appropriate”</td>
<td>.9347</td>
</tr>
<tr>
<td>Subjective norm</td>
<td>two (items multiplied)</td>
<td>“Most people who are important to me probably think I should disclose this information”; “Generally speaking, I want to do what most people who are important to me think I should do”</td>
<td>not applicable</td>
</tr>
<tr>
<td>Perceived behavioral control</td>
<td>four</td>
<td>“My clients would not understand this information if I told them”; “It makes me feel uneasy to think about disclosing this information to my client” (reverse-scored); “I won’t be able to sell the product if I disclose the information”</td>
<td>.5909</td>
</tr>
<tr>
<td>Personal moral obligation</td>
<td>six</td>
<td>“I believe I have a moral obligation to my clients to disclose this information”; “It is my responsibility as a professional to describe this information to my clients”; “I am required by law to disclose this information”</td>
<td>.7148</td>
</tr>
</tbody>
</table>

items based on insights from Warshaw and Davis (1985) and Fishbein and Stasson (1990) and those the researcher created.

Compensation System. Respondents were asked to indicate the proportion and form their compensation took in 1992.

Experience Level, Income Level, and Presence of Professional Accreditation. Respondents were asked to indicate their years in sales in the financial services industry, annual income before taxes in 1992, and their professional accreditation(s).

Attitude. Respondents indicated their attitude toward the focal action. The design of this scale conformed with past research testing the theory
of reasoned action and the theory of planned behavior (e.g., Ajzen & Fishbein, 1980; Gorsuch & Ortberg, 1983; Dubinsky & Loken, 1989; Randall & Gibson, 1991; Fishbein et al., 1993).

**Subjective Norm.** Respondents indicated their perceptions of significant others’ behavior and the degree to which they were influenced by that. These items have been commonly used in past research to assess the subjective norm (e.g., Schifer & Ajzen, 1985; Boyd & Wandersman, 1991; Randall & Gibson, 1991; Bagozzi, Baumgarten, & Yi, 1992).

**Perceived Behavioral Control.** Respondents indicated the degree to which they perceived they had control over making the decision to disclose the information. This scale included items the researcher created.\(^8\)

**Moral Obligation.** Respondents indicated the degree to which they perceived they had a moral obligation to disclose the information to their client(s). The items in this scale were based in part on past research (e.g., Gorsuch & Ortberg, 1986; Randall & Gibson, 1991) and in part on those the researcher created.

**RESULTS**

Means, standard deviations, correlations, and Cronbach alphas were computed for the dependent variable and each of the independent variables (Tables I, II, and III). Ethical intention was regressed onto the respective independent variables. In assessing the effect of agents’ characteristics and the effect of the theory of planned behavior on agents’ ethical intentions, a series of hierarchical regressions were computed. In the latter case, according to the theories of reasoned action and planned behavior, attitude was entered first, followed by the subjective norm, perceived behavioral control, and moral obligation.\(^9\) Incremental \(F\)-tests were computed to ex-

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\(^8\)In order to achieve an alpha of .5909, the highest possible, items based on previous studies were deleted (e.g., Ajzen & Madden, 1986; Beck & Ajzen, 1991; Netemeyer, Burton, & Johnston, 1991; Randall & Gibson, 1991; Madden, Ellen, & Ajzen, 1992).

\(^9\)A possible limitation to this study is the potential presence of multicollinearity as evidenced by the high intercorrelations among the independent variables (Table III). When predictor variables are highly correlated it is difficult to dissect the variance in the dependent variable to determine each predictor variable’s individual contribution. The correlated predictor variables account for overlapping pieces of variance in the dependent variable so that the equation which includes all the predictor variables together may actually explain less of the variance than if the dependent variable was regressed on each variable individually in a linear regression. In other words, because the predictor variables are so highly correlated with one another, they act as surrogates of each other, so that any of them will be useful but adding the others will not be. As such, if the predictor variables are highly correlated, it is difficult to predict which of the independent variables are actually predicting the dependent variable. To account for the potential presence of multicollinearity, variables were entered into the regression analyses sequentially and according to theory.
Table II. Descriptives

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intent</td>
<td>3.73</td>
<td>1.13</td>
</tr>
<tr>
<td>SCCS</td>
<td>64.95</td>
<td>32.53</td>
</tr>
<tr>
<td>Experience</td>
<td>13.22</td>
<td>9.16</td>
</tr>
<tr>
<td>Income</td>
<td>2.76</td>
<td>1.52</td>
</tr>
<tr>
<td>Prof. accred.</td>
<td>1.60</td>
<td>0.49</td>
</tr>
<tr>
<td>Attitude</td>
<td>4.11</td>
<td>1.16</td>
</tr>
<tr>
<td>S.N.</td>
<td>14.04</td>
<td>8.21</td>
</tr>
<tr>
<td>P.B.C.</td>
<td>3.82</td>
<td>0.93</td>
</tr>
<tr>
<td>M.O.</td>
<td>3.96</td>
<td>0.86</td>
</tr>
</tbody>
</table>

Table III

<table>
<thead>
<tr>
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<th>1</th>
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<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agent characteristics—correlations</td>
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<td></td>
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</tr>
<tr>
<td>Intent</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experience</td>
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<td>1.000</td>
<td></td>
<td></td>
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<tr>
<td>Income</td>
<td>.0693</td>
<td>.4856**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Prof. Accred.</td>
<td>-.1436</td>
<td>-.1669*</td>
<td>-.1909*</td>
<td></td>
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</table>

A modified theory of planned behavior—correlations

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
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<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intent</td>
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<td></td>
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<tr>
<td>Attitude</td>
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<td>1.000</td>
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<tr>
<td>S.N.</td>
<td>.4688**</td>
<td>.4075**</td>
<td>1.000</td>
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<tr>
<td>P.B.C.</td>
<td>.3963**</td>
<td>.3584**</td>
<td>.1660*</td>
<td>1.000</td>
</tr>
<tr>
<td>M.O.</td>
<td>.6872**</td>
<td>.6023**</td>
<td>.5093**</td>
<td>.1760*</td>
</tr>
</tbody>
</table>

*p < .05.

**p < .01.

amine the explanation of the variance each additional variable contributed.\textsuperscript{10}

\textsuperscript{10}The author tested extensively for the potential presence of social desirability response biases. Social desirability response biases did not appear to significantly affect the data. A copy of these analyses is available upon request from the author.
Table IV.

<table>
<thead>
<tr>
<th>Regression Analyses for Commission, Agent Characteristics, and Agent Characteristics Entered Separately</th>
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<tbody>
<tr>
<td><strong>Beta</strong></td>
</tr>
<tr>
<td>Commission SCCS:</td>
</tr>
<tr>
<td>-.0473</td>
</tr>
<tr>
<td><strong>F(df)</strong></td>
</tr>
<tr>
<td>.3094 (1,138)</td>
</tr>
<tr>
<td><strong>R²</strong></td>
</tr>
<tr>
<td>.0022</td>
</tr>
<tr>
<td>Agent character.</td>
</tr>
<tr>
<td>Experience:</td>
</tr>
<tr>
<td>-.1593</td>
</tr>
<tr>
<td>Income:</td>
</tr>
<tr>
<td>.1115</td>
</tr>
<tr>
<td>Prof. accr.:</td>
</tr>
<tr>
<td>-.1513</td>
</tr>
<tr>
<td>Agent character. entered separately</td>
</tr>
<tr>
<td>Experience:</td>
</tr>
<tr>
<td>-.0735</td>
</tr>
<tr>
<td>Income:</td>
</tr>
<tr>
<td>.0692</td>
</tr>
<tr>
<td>Prof. accr.:</td>
</tr>
<tr>
<td>-.1434</td>
</tr>
</tbody>
</table>

Results of hierarchical regression analysis to assess agents’ ethical intentions with a modified theory of planned behavior:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Beta</th>
<th>Overall F(df)</th>
<th>Overall R²</th>
<th>F of Δ in R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attitude</td>
<td>.4910***</td>
<td>47.23*** (2,130)</td>
<td>.4209</td>
<td></td>
</tr>
<tr>
<td>S.N.</td>
<td>.2687***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attitude</td>
<td>.4207***</td>
<td>36.09*** (3,129)</td>
<td>.4563</td>
<td>88.41</td>
</tr>
<tr>
<td>S.N.</td>
<td>.2639***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P.B.C.</td>
<td>.2017**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attitude</td>
<td>.1853*</td>
<td>32.49*** (4,128)</td>
<td>.5826</td>
<td>38.73</td>
</tr>
<tr>
<td>S.N.</td>
<td>.1119</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P.B.C.</td>
<td>.2271***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.O.</td>
<td>.4786***</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p < .05.

**p < .01.

Rational Choice Incentive

INTENT did not regress significantly on commission (Table IV). Thus, no evidence was found to support the first hypothesis that commission influences agents’ ethical intentions toward their clients.

Agent Characteristics

The results do not support the hypotheses that agents’ experience and income will influence their ethical intentions and do not offer any evidence
to suggest that agents' ethical intentions differ if they are professionally accredited (Table IV). Because experience and income were found to be significantly correlated \( r = .4535, p < .01 \), and income correlated significantly with professional accreditation \( r = -.2154, p < .05 \), such multicollinearity may confound the results of the regression analyses. To account for these possible biases, INTENT was regressed on each of these three independent variables separately (Table IV). Still, however, none significantly predicted INTENT.

**A Modified Theory of Planned Behavior**

The results support Hypothesis 3 and suggest that a modified theory of planned behavior explains approximately 58% of the variance in INTENT. However, only attitude, perceived behavioral control, and moral obligation contributed significantly (Table IV).

**DISCUSSION AND LIMITATIONS**

The purpose of this study was to examine whether commission encouraged agents to intend to act unethically toward their clients. Based on past research and on insights from industry professionals, this study also assessed whether characteristics agents acquire and/or a well-tested social psychology model, a modified theory of planned behavior, would predict agents' ethical intentions. The results show that a modified theory of planned behavior provides the strongest explanation. That is, commission did not significantly predict agents' intentions to disclose as had been earlier predicted using agency theory, nor did agents' characteristics significantly predict their intentions to disclose as research in business ethics had demonstrated and industry professionals had asserted. Rather, the results suggest that agents are driven primarily by their moral obligations, perceived behavioral control, and attitudes and, thus supported a modified theory of planned behavior.\(^{11}\) That commission did not appear to predict ethical intentions may be explained in part by the study's use of the survey method and the unique nature of the study's sample.

This study relied most heavily on one data collection method and on one inquiring system—the inductive-consensual system (Mitroff & Linstone, 1993). The inductive-consensual system relies on consensus from the experts to advance knowledge and because of this may disregard informa-

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\(^{11}\)The theory of planned behavior may have been more closely associated with the dependent variable than commission or agents' characteristics because the scales measuring this model were more directly related to the dependent variable. I thank the reviewer who made this comment.
tion that the experts do not agree on, while the main reason these experts agree is because their thought processes are embedded in the same assumptions. Simply put, the survey method tells the researcher what respondents believe they believe but not why they believe it. As an example, in this study's survey, agents were asked what percent chance there was that they would disclose certain information. Because this is a closed-ended question, their answers are bounded by the researcher's thinking (i.e., how the researcher phrased and thought about the statements) and how other researchers have thought and phrased similar statements in the past. By contrast, in interviews, agents might have been asked why they indicated that there was only, for example, an 80% or a 20% chance that they would disclose the information. Interviews, as such, allow one to gain access to the assumptions underlying the responses rather than exclusively relying on the face value of the responses as one does in survey research. Fortunately, in addition to the surveys, eight of the marketing company's regional vice presidents were interviewed. Because of their responses in these interviews, one can question the generalizability of this study's results.

Collectively, the RVPs postulated that the agents who are affiliated with the marketing organization, and thus those in this sample, are not "commission-driven" because (1) the products that the marketing organization markets are not designed to attract that type of agent, (2) the RVPs themselves shy away from agents who appear to be commission-driven, and (3) the organization's president and owner emphasizes ethics, especially in his monthly newsletters, and this ethics emphasis influences the agents. Two of the RVPs' comments are worth repeating here:

Agents who are really heavily commission-driven probably would not be interested in representing our products because they're kind of middle of the road in terms of commissions, they're not the lowest, they're also not the highest. And what we've tried to do with [the company] is structure products that will kind of attract people from both sides so it's pretty consumer-friendly but it's also agent-friendly enough so that the agent doesn't get into a whole lot of trouble, doesn't lock the client into some real punitive kind of investment.

I...recruit other producers that sell in this particular field and...in the TSA [tax sheltered annuity] marketplace. And I am very selective. There are some people who even though they might produce one million or two million dollars a year and I can get a half a percent or a full percent off that money that they move through this agency, I don't want them, I don't want them involved, because, they are...how should I say this...well I'll be very blunt about it...they are commission whores. They will go out and they will...do anything for a commission.

In short, the sample used in this study may be unique since the company's management tends to frown on so-called commission-driven agents, will not recruit these types of agents, and strongly emphasizes ethics.
Moreover, especially relevant to the life insurance industry might be the industry’s reputation. Notoriously, the life insurance industry has had a sallow reputation, with agents often stereotyped as high pressure salespersons who would say anything to make a sale. Agents may experience strong pressures from inside the industry to change this image and to perpetuate an image of professionalism. Because of these intra-industry pressures, agents may feel more reluctant to respond openly to a survey which questions these agents’ ethical intentions. Indeed, in the exploratory phase of this project, the researcher encountered strong resistance to this study. In particular, the life insurance agents in one professional association appeared very uncomfortable with the nature of this project and refused time and again to participate in an ethics-related study.

Certainly, reputational concerns hold agents accountable for their actions. Indeed, Dobson (1991) argues that reputation bridges the conflict between wealth maximizing (e.g., technical competence) and social responsibility (e.g., fiduciary obligation to client). Willing (1991) lends support to Dobson’s insight when, in developing a theory of voluntary recall, she argues that a firm which cares about its reputation is likely to choose to recall a defective product rather than exhibit efficient behavior. The RVPs interviewed lend further evidence to Dobson’s insight. One comment is especially worth quoting (p. 143):

> Well, I think that to the person that [sic] really spends his whole time in this market...you want to sell a product that you don’t have to come back to in a couple of years and say I am sorry, I made a mistake because then your reputation is hurt, your credibility is hurt, and because of the environment that we work in, it can be very detrimental to your overall business. So when you’re selling a quality product, even though it’s not a great commission product, it’s going to be real consistent over the years. The persistency rate is going to be real high to the agent. So by giving them a product that they can live with, that’s in the client’s best-interest, the client will be happy and it will be hard for competitors to come in and take your business away from you because you sold the product the right way the first time. You’re going to have a better persistency [record] with the client and you’re not going to have to come back to the client in two or three years and say...this was inappropriate.

Simply put, on the one hand, if organizations and their environments emphasize ethical behavior, these variables may influence agents to act ethically toward their clients. On the other, if organizations and their environments are extremely competitive (e.g., Staw & Szajkowski, 1975; Baucus & Near, 1991), and very clearly and singularly focus on short-term

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12Willing’s assumption here is that recalling a product will not maximize profits and thus is not an efficient action. Alternatively, strategies emerging from an “enlightened self-interest” encourage companies to recognize that recalling a defective product may be the “efficient” action in the long run because it boosts the company’s reputation which can translate into higher profits.
profits, these variables may encourage agents to act unethically. Last, these phenomena may also act to temper or magnify commission’s effect on agents’ ethical intentions: the organization that emphasizes ethics will temper commission’s potentially, negative impact and the organization that shows little concern for ethics will magnify commission’s potential influence. Certainly, future research which examines those phenomena as directly influencing, as well as either tempering or magnifying, the reward systems’ impact on agents’ ethical intentions toward their clients, will prove enlightening.

Furthermore, that commission did not drive agents’ ethical intentions but that agents’ attitudes, perceived behavioral control, and moral obligation did, suggests that self-interest alone does not always drive behavior. This observation lends support to Etzioni’s (1988), among others’, insights. In The Moral Dimension, Etzioni demonstrates that the sources of human valuation and goals emerge from both duty and pleasure. He joins the economist’s single utility of self-interest and pleasure with a Kantian notion of rights and duty to create a “bi-utility.” Active between the two forces of self-interest and duty is a “creative tension and perceptual search” (p. 8) for balance between the individual’s self-interest and duty to the community of which the individual is a member. In moderate deontology, consequences are important, albeit only secondarily; in other words, it is important to win, but it is more important how you play the game.

Indeed, it is because straight-commissioned agents recognize that they hold a moral duty to their clients that they face ethical conflicts, causing them to experience stress perhaps unnecessarily. Because commission may create unnecessary moral conflicts (e.g., Cooper & Frank, 1991a, b), future research should examine the extent to which agents expend energy on dealing with these ethical conflicts at the expense of their productivity. If such results are borne out, it seems imperative that firms redesign the SCCS so agents’ self-interest and moral duty to the firm no longer potentially conflict with their self-interest and moral duty to their clients.

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**BIOGRAPHICAL NOTE**

NANCY KURLAND is an Assistant Professor of Management and Organization in the School of Business Administration at the University of Southern California in Los Angeles. She received her PhD from the Katz Graduate School of Business, University of Pittsburgh. Her research interests in business ethics examine the implications of incentives, trust and accountability, telecommuting, and the net.