CUSTOMER ORIENTATION, SOCIAL VALUES AND REWARD SYSTEM ON PERFORMANCE OF LIFE INSURANCE AGENTS

by

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DEDICATION

Specially dedicated to my late grandfather;

My mother and father;

My wife - New Pek Sian &

Our daughter - Chow Faye

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ABSTRAK

Penyelidikan ini bertujuan untuk meninjau perhubungan di antara kelakuan jualan berorientasikan pelanggan dan nilai sosial terhadap prestasi ejen insuran nyawa. Soal selidik yang dibentuk oleh Saxe dan Weitz (1982), iaitu Skala SOCO digunakan untuk meninjau kelakuan jualan berorientasikan pelanggan, manakala List of Values (LOV) (Kahle, 1983) digunakan untuk meninjau nilai sosial. Analisis Regresi telah menunjukkan nilai sosial tidak memberi kesan ke atas peningkatan prestasi ejen. Tetapi kelakuan jualan beorientasikan pelanggan telah menunjukkan perhubungan positif dengan prestasi ejen.

Penyelidikan ini juga menentukan sama ada (1) tanggapan jenis ganjaran yang diberi oleh syarikat insuran nyawa dan (2) kekerapan penerimaan jenis ganjaran oleh ejen; mempunyai sebarang kesan ke atas perhubungan tersebut. Secara keseluruhan, tanggapan jenis ganjaran yang diberi oleh syarikat insuran nyawa tidak memberi interaksi yang berkesan dengan perhubungan di atas. Tetapi kekerapan penerimaan sebarang jenis ganjaran olen ejen didapati mempunyai kesan tambahan ke atas perhubungan di antara kelakuan jualan berorientasikan pelanggan dengan prestasi.

Keputusan di atas memberi implikasi kepada ejen insuran nyawa tempatan bahawa mereka mesti mempunyai kelakuan jualan berorientasikan pelanggan supaya prestasi mereka dapat ditngkatkan. Manakala, syarikat insuran nyawa di Malaysia mesti sentiasa mengadakan pelbagai jenis pertandingan supaya ejen-ejen mereka berpeluang menerima sebarang ganjaran yang diberi mereka kerana kekerapan menerima sebarang jenis ganjaran dapat meningkatkan prestasi ejen mereka ke tahap yang lebih tinggi.

ABSTRACT

This research seeks to examine the relationship between customer-oriented selling behavior and social values on the performance of life insurance agents. Questionnaires developed by Saxe and Weitz (1982), that is SOCO scale was used to examine customer-oriented selling behavior, while List of Values (LOV) (Kahle, 1983) was used to examine social values. Regression analysis shows that social values has no impact on the enhancement of performance of agents. But customer-oriented selling behavior has shown a positive relationship with the performance of agents.

This research also determines whether (1) perception of type of reward given by the life insurers and (2) frequency of receiving rewards by the agents; have any impact on the relationship mentioned. As a whole, perception of type of reward given by life insurer has no interaction impact with the relationship mentioned above. But frequency of receiving any rewards by the agent has found to have an additional impact on the relationship between customer-oriented selling behavior with performance.

The above results imply that the local life insurance agents must have customer-oriented selling behavior in order to enhance their performance. While, life insurers in Malaysia must continually have various types of contest in order to enable their agents to have a chance to receive any rewards given by them because the frequency of receiving any rewards by the agents will boost the agents to a higher level of performance.

Chapter 1
INTRODUCTION

1.0 Introduction

The life insurance concept was conceived as early as 2,800 BC when it was being applied by merchants to protect themselves against the loss of their property. The first life insurance contract recorded in England in 1583 on the life of William Gibbon.

In fact, the most important development in the life insurance business has been the introduction of the mortality table. The earliest mortality table was compiled in 1963 by Hally. In the early years, the natural premium system was commonly used. Such a system gave rise to a few disadvantages both to the insurance companies and the policyholders. It was then decided to formulate a new method of calculating the premium rates. Hence, the level premium system was conceptualized and it began to be applied to the transaction of life insurance business in 1755 (Lee, 1987).

With the passage of time, reliable mortality tables based on assured lives were obtained and mathematical techniques were developed to deal with life insurance on a scientific basis. This paved the way in 1762 for the Equitable Society to issue life insurance policies based on the following principles:

- Cover was available to any one who satisfy the initial health requirements and continued to pay the contractual premiums;
- Once accepted for insurance, further proof of continuing good health was not needed:

- Level premiums were to be payable throughout the term of the contract, these were determined at entry according to the insured's age and the period for which the assurance was required; and
- Extra premiums were chargeable for special occupational risks and sub-standard health risks.

It is remarkable to note that many of these principles are still in use and a modern life insurance contract may be defined as one *"which secures the payment of an agreed sum of money on the happening of a contingency, or of a variety of contingencies, dependent on a human life"*.

1.1 Research Problem

The performance of the Malaysian economy in 1998, as in the case with other East Asian economies, has been adversely affected by the deflationary impact of the financial crisis that besets the region since mid-1997. The erosion of financial wealth of the nation has been severe, as reflected by the sizeable loss of market capitalisation of the local bourse since the crisis started. All these developments have severe ramifications on the health of the economy and the socio-economic well-being of the population.

The current economic slowdown also has affected the sale of new life business of all of the 18 life insurance companies in Malaysia. All categories of policies registered either negative or slower growth in new business premiums. Despite the unfavorable performance of new life policies sold in 1998, the demand for life insurance is still encouraging due to the continuous improvement of the standard living in the nation. Besides, the nation's government policies also promotes national savings needed for economic development and more importantly the favorable tax breaks for life policyholders.

However, the level of insurance penetration in Malaysia is still low when compared with countries like Japan, Taiwan, South Korea, Singapore and the United States where the ratios are between 65% and 149%. Similarly, the premium income generated by life insurers in Malaysia remained small in proportion to gross national savings. Therefore, there is a lot of untapped potential for insurers to increase their role in promoting savings through the premiums of life insurance coverage (Insurance Annual Report 1997).

Today, a life insurance agent no longer specializes solely in increasing sales volume; rather, the prospect's real needs become the basis of the marketing plan. Companywide acceptance of a customer orientation requires the life insurance agent to become thoroughly professional in his or her dealings with prospects and customers.

A mark of professionalism in sales is the sellers adopt a problem-solving approach to their work. A professional agent does not wonder, "What can I sell to this individual?" but instead asks, "How can I best solve this person's problem?".

Most successful agents in Malaysia are firmly in favour of the traditional insurance compensation consisting of large first year commissions, a stream of renewal commissions and various overrides and cash bonuses based on agency development, productivity and quality (persistency).

Other incentives and non-cash recognition and rewards also play an important role in promoting a life insurance agent business. The incentive travels, comprehensive training and development programs, tangible and intangible awards make a life insurance agent feel he or she has a lot of advantages that his or her friends and peers in other business do not enjoy.

The decline in the new life businesses has directed life insurance companies in Malaysia to formulate strategies, such as offering various types of reward, to enhance their agents performance in 1998. Unfortunately, the results were still not encouraging which might be due to the type of reward offered were not attractive enough to their agents or were not suitable to the current economic situation. As a result, the expenses of the life insurance companies increased but their sales volume remain unchanged.

Preparing for challenges in the next millenium is a process that should be vigorously pushed. It is a strategic shift that should not be linked to the short-term ups and downs of a business cycle. A pro-active approach on the part of insurers by way of strategic visions and directions in needed to achieve greater penetration and an enhanced market position. This would enable the insurers in Malaysia to be better prepared to face the increasingly competitive market environment.

In view of the crucial and competitive market environment in life insurance industry, it is timely to carry out this research to study the relationship between a life insurance agent's customer oriented behavior, social values and type of reward given by a life insurance company in Malaysia on his or her performance.

The primary concern of this research is to examine the factors affecting American International Assurance Company. Limited's (AIA) life insurance agent performance. The two main questions for this research are:

- How far that AIA agent's customer-oriented selling behavior and social values affect his or her performance?
- How far that the type of reward given by AIA play its role in influencing the relationships between agent's customer-oriented selling behavior and social values on his or her performance? (This study will examine the agent's perception towards different type of reward given by AIA and the frequency of an agent received such rewards).

1.2 Research Objectives

Specifically, the objectives of this study are to identify:

1. The relationship between an agent's customer-oriented selling behavior and social values on his or her performance.
2. Whether the relationship in (1) is moderated by the perception of type of reward given by AIA.
3. Whether the relationship in (1) is moderated by the frequency of receiving such rewards given by AIA.

1.3 Significance of Study

This study will offer AIA and other insurers in Malaysia with the knowledge of relationship between an agent's performance with his or her social values, customer-oriented behavior and type of reward given by an insurer. It will also help to identify the appropriate type of reward that to enhance agent performance.

More importantly, the outcome of this study will help the insurers Malaysia to focus only on the type of reward that really can help to improve the agent performance and hence, reduce the company's expenses on the unproductive reward and incentive program.

If this study can show that there is a relationship between a life insurance agent's customer-oriented selling behavior and social values on the performance is moderated either by the perception of the type of reward given by an insurer or the frequency of receiving such rewards, then the insurer will be able to design their reward system to meet the specific needs of the agents, whilst maintaining company's performance.

In addition, this study will also serve as guidelines to the insurers in Malaysia to enhance their agent performance towards professionalism based on the agents' personal values and behaviors. On the whole, this study will help to enhance the life insurance industry performance in Malaysia.

1.4 Research Scope

This study is to be carried out in all the AIA branches and offices in Perak Region. In this study, only agent's customer-oriented selling behavior, social values and the type of reward (perception and frequency) given by AIA are considered to have impact on the agent's performance.

Chapter 2

LIFE INSURANCE INDUSTRY & PROFILE OF AIA

2.0 Historical Background of Insurance Business in Malaysia

The insurance industry is a financial service industry involved in the business of providing individuals and organizations with protection against uncertainty of loss (risk) and return for a monetary consideration (premium). The protection given can be against loss of property, income or life (Poon & Zaman, 1993).

The first rumblings of the insurance industry in Malaysia did not take place until the 18th century. The insurance infancy was mainly based on the British system as it catered mainly to British trade and was managed by trading houses and agencies of British insurance companies. Local participation was negligible due to ignorance and lack of expertise.

The 1950's witnessed a spiraling growth in the insurance industry. A substantial portion of the market was cornered by British and American firms through locally incorporated companies. After independence in 1957, nationalistic sentiments resulted in moves to control the establishment of wholly-owned subsidiaries or branches of foreign companies which had previously been allowed a free rein.

Given much encouragement, the domestic companies were poised to make further inroads in the market. However, the boom was marred by many companies which did not have sound underwriting practices. A number of companies went out of business leaving their policyholders high and dry.

The Government stepped in to remedy the situation by introducing the Insurance Act 1963. The office of the Director-General of Insurance (DGI), a division of the Ministry of Finance, was given the task of regulating and supervising the insurance industry. The Government also encouraged the insurance industry to project a Malaysian identity besides fulfilling its economic and social obligations.

2.1 An Overview of the Insurance Industry

The insurance industry in Malaysia experienced a rapid progress over the past 10 years. Total assets of the industry increased by more than five times to RM36.2 billion at the end of 1997 (1987: RM6.4 billion), while its paid-up capital increased by four times to RM2.7 billion (1987: RM679.3 million). The combined premium income of the life and general sectors increased more than five times to RM11.1 billion (1987: RM2 billion). As a proportion of nominal gross national product (GNP), premium income increased to 4.2%, while total assets increased to 13.8% (1987: 8.6%) (Insurance Annual Report 1997).

However, during the first half of 1998, the insurance industry recorded a combined premium income of RM5.2 billion, a slower increase of 3.4% compared to 19.3% in the corresponding period in 1997. The current economic slowdown has affected the sale of new life business that recorded negative growth in the first half of 1998. New business premiums and new sums insured decreased by 1.8% (January – June 1997: +21.4%) and 18.1% (January – June 1997: +31.1%) respectively to RM0.7 billion and RM44.6 billion. Despite the unfavorable performance of new businesses, annual premiums in force and total sums insured in force increased by 15.1% and 17.45% (January – June 1997: 13.4% and 12.2%) respectively (Economic Report 1998/99).

2.2 Principal-Agent Relationship

Standard agency theory tells us that optimal incentive schemes make use of all available information related to the life insurance agent performance. In agency theory. the firm is viewed as a "nexus of contracts" among self-interested individuals rather as a unified, profit-maximizing entity (Jensen and Meckling, 1976). Principal employ "agents" to perform work on his or her behalf and delegates some decision-making authority to the agent.

In short. an agent is a person authorized to represent and act on behalf of the principal. Contracts entered into by an agent with a third party are enforceable, in the same manner and have similar legal consequences. as if the contracts were entered into by the principal. However. agents need constant supervision and management because they otherwise will tend to pursue their own interest rather than those of the principals.

Hart and Holmstrom (1987) see in this sufficient statistical result "the main predictive content of the basic agency model" and conclude that "agency relationship create a demand for monitoring". Principals have an interest in monitoring, since it creates information about the agent's behavior. Tirole (1986), however, notes that if a third party (the supervisor) performs the monitoring then new problems can arise. The supervisor has his own interest and these may be in conflict with the principal's.
Strausz (1997) has analyzed a principal-agent model with the possibility of monitoring. He has shown that delegation of monitoring is profitable. Delegation is beneficial for two reasons. First. when monitoring is not contractible, the principal

must create incentives to induce both monitoring and effort. So, with delegation, the principal can better regulate incentives (incentive-effect).

A second beneficial effect of delegation is due to an increased possibility of commitment. If the evidence obtained by monitoring is private information and can be concealed, then the principal cannot make rewards to the agent dependent on the monitoring signal. In this case, the principal will not reveal information that forces her to reward the agent. When the principal employs a supervisor then such rewards can be made credible and commitment to rewarding the agent is possible. This creates the commitment-effect of delegation.

Basically, there are two distinct kinds of problems faced by a principal in life insurance business when entering a relationship with an agent. First, precontractual problems arise before the principal decides to offer an agent a contract. The major issues here are whether a particular agent has the characteristics the principal is seeking and what strategy the principal should employ to find out. These are the kinds of problems the life insurers' marketers face when recruiting new agents.

Second, postcontractual problems emerge after the principal and agent engages in a relationship. The major issues here are how the life insurers should evaluate and reward the agent's performance so he or he will be motivated to behave in a manner consistent with the insurers' goals and what information strategy should be employed to make such evaluations. Insurers' marketers commonly face such problems when designing compensation and incentive programs for agents (Bergen, Dutta and Walker, 1992).

2.3 Insurance Legislation

2.3.1 The Insurance Act 1996

The Insurance Act 1963 (1963 Act) and the Life Assurance Companies (Compulsory Liquidation Act 1962) (1962 Act) were repealed on 1 January 1997 and the Insurance Act 1996 (1996 Act) was passed by Parliament during its July 1996 session. It received Royal Assent in September 1996 and was gazetted as Act 553 in the same month. The 1996 Act was brought into force on 1 January 1997.

As the number of insurers venturing abroad had increased and was expected to increase further. and since any adverse results from overseas operations would have an impact on the overall financial health of the insurer, the scope of the 1996 Act has been extended to cover the entire business of the insurer.

In general. the regulatory regime governing the operations of the insurance industry has been tightened. The re-regulation is made with the purpose of putting the insurance industry on a sounder footing and preparing it to compete effectively in the local and international arena, as trade barriers are progressively dismantled. Towards this end, the 1996 Act has shifted some of the supervisory responsibilities from Bank Negara Malaysia (BNM) to the management and the board of directors, the external auditors as well as the appointed actuary. Notwithstanding that, BNM will continue to put into place policy initiatives to develop the insurance sector into a key component of the financial services sector (Insurance Annual Report 1996).

2.3.2 Section 44A and Section 16A

A life insurance agent in Malaysia is governed by the two Sections of the Insurance Act:

(i)Section 44A

(1) A person who has, at any time, been authorized as its agents by an insurer and who solicits or negotiates a contract of insurance in such capacity shall in every such instance be deemed for the purpose of the formation of the contract to be the agent of the insurer and the knowledge of such person relating to any matter relevant to the acceptance of the risk by the insurer shall be deemed to be the knowledge of the insurer.

(2) Any statement made or any act done by any such person in his representative capacity shall be deemed, for the purpose of the formation of the contract, to be a statement made or done by the insurer notwithstanding ant contravention of Section 16A or any other provision of this Act by such person.

(ii)Section 16A

Any person who, by any statement, promise or forecast which he knows to be misleading, false or deceptive, or by any fraudulent concealment of material fact or by the reckless making (fraudulent or otherwise or any statement promise to forecast which is misleading, false or deceptive induces or attempts to induce another person to enter into or offer to enter into any contract of insurance with an insurer shall be guilty of an offence and shall, on conviction, be liable to a fine not exceeding twenty thousand ringgit or imprisonment for a term not exceeding one year or both.

The scope of power may seem wide, however, the agent can act only within the authority granted to him by the principal. A life insurance agent is one who is appointed for the purpose of procuring and transmitting to the insurance company applications for life insurance and performing other duties as may be required by the insurance company and for no other purpose.

An agent has no authority to make, alter or discharge a life policy or other contract; to incur liability on behalf of the company; to deliver any policy until the first premium is paid in full; to deliver any other contract until the required consideration is paid in full except by the express consent of the company.

2.4 Compensation for Life Insurance Agents

There is a close parallel between life insurance selling and athletics, particularly football. In life insurance selling, as in football, the agents are going to get knocked down. It's one of the most rewarding games in the world and, it's also one of the toughest games; they are bound to have setbacks. There are no substitutes in this game; this is the game of life and the agents must play every play the whole game long. Winning is the name of this game, but commission dollars is how the agents keep score.

One of the greatest things in the life insurance business is that nothing worthwhile comes without hard work, and hard work is just like getting into shape – once the agents get used to it, it's easy. Hustle and hard work will make up for a lot of mistakes and shortcomings. Probably the strongest motivating factor that will affect the performance for the insurance agents is the pressure of goals and deadlines. In addition. the compensation given by the principal also has repeatedly inspired the agents.

Life insurance agents also find themselves in a business environment characterized by increasing consumer awareness, keen competition within the industry, substantial competition from other financial institutions for the consumers' dollars, inflation and fluctuating interest rates. All these factors have made the selling job more difficult.

Earnings of agents normally take the form of high first year compensation and low renewal compensation. This pattern of compensation recognizes both the substantial efforts involved in closing a sale and the servicing efforts involved in keeping the policy in force.

Agents' compensation schedules should direct agents' attention to key corporate objectives. That is, the sale of one kind of policy versus another is often influenced by the compensation level on each: either a particular product pays a high commission and therefore be attractive to the agent or it pays a low commission and may therefore be attractive to the consumer because of lower cost (and easier to sell).

The lure of the insurance sales and management career is largely conceptual. Put simply, it is the ability to control one's lot in life. The most successful agents report that the ability to run their own business was most important. To decide when to work, how to work, with whom to work, to determine and control their own compensation and develop a very high self-esteem are the most frequently cited factors. Also very important is the role the agent plays in a family or business and it is widely reckoned that to become agents is like becoming "entrepreneurs" without a cash capital injection.

On the whole, when developing or modifying any compensation system, it is important to measure the correct factors. In a number of cases, there is little correlation between first-year commissions and the expected economic contributions of the new business sold. Compensation, although a powerful tool, is an expensive and unsustainable means of creating competitive advantage in attracting and retaining productive agents. It is important to develop other means to constructively tie agents to a company while enhancing productivity (Berry 1996).

2.5 Profile of AIA

2.5.1 A Brief History of AIA

A.I.A, a multi-line insurance company, is a wholly owned subsidiary of American International group, Inc. (AIG), New York. Founded by the late Cornelius Vander Starr, AIA, then named INTASCO (International Assurance Company, Limited), was incorporated in Hong Kong and began operations in Shanghai on April 14, 1931, followed by rapid expansion throughout the South East Asian region. Thus, it has served the Asian region for over 65 years.

When the Japanese occupied Shanghai at the beginning of World War II, the company's business operations were disrupted and its offices in South East Asia were shut down until after the war. When fighting ended in 1945, INTASCO was ready to go back into business in Shanghai, less than two weeks after the Japanese surrender.

In 1947, the regional headquarters was transferred to Hong Kong. A year later, INTASCO changed its name to American International Assurance Company, Limited. Today, AIA has branch offices and affiliated companies in Hong Kong, Shanghai, Macau, Taiwan, The Philippines, Korea, Malaysia, Singapore, Thailand, Brunei, Indonesia, Australia, Japan, New Zealand and Guam.

At present, AIA is an industry leader in Asia, marketing life and general insurance products and financial services through an extensive agency force of nearly 10,000 agents. Recently, AIA received the highest possible claims paying ability rating – AAA – by Standard & Poor's, one of the world leading rating agencies. The top-flight ratings reflected AIA's superior management operating control, a strong financial profile, excellent liquidity and earnings. AIA has become the only Asian-based life insurance company to be accorded AAA credit status.

2.5.2 Background of AIA Malaysia

AIA began operations in Malaysia (then Malaya) in 1948, in Kuala Lumpur, Penang, Ipoh, Sandakan and Kuching. Business continued to grow in the 1950s and AIA opened new branch offices in Melaka in 1951, Kota Bharu in 1953 and Bukit Mertajam in 1956.

Business expansion in the 1960s led to the establishment of branches in Alor Star, Seremban, Kota Kinabalu, Kulim, Kuantan, Johor Bahru and Taiping. In the 1970s, continued success in the region prompted AIA to expand to Batu Pahat, Tawau, Sibu, Sungai Petani, Miri and Kluang.

Today, AIA has a network of 22 branches throughout the nation, with 19 housed in its own buildings. After four decades of operations in Malaysia, AIA has evolved into an advanced organization, keeping pace with the changes of time. Through a comprehensive automation program and a decentralized program implemented during the late 80s, AIA has blended the sophistication of modern computer technology with the traditional human touch, which has always been so much a part of its policyholders service.

True to its leader's role, AIA is the first life insurance company in Malaysia to have fully computerized policyholders service and policy administrative systems. 1998 will mark a new chapter in its history, with the construction of twin towers to even better serve agents and policyholders.

2.5.3 AIA Agency Management

AIA is an agency company, recruiting and training its own agents and going out and soliciting its own business. The sales organization is organized into three levels with the district manger at the top, then the unit manager and finally but most importantly, the agents.

In AIA, an agency is only a professional as the people who make up the agency. A professional agency is made up of people who are proud to be professionals. Such people know that professional development – continuous training and advance education through courses and seminars – is the price an AIA agent pays to become and remain a professional. Agencies with strong, professional cultures are made up of such agents. The involvement of AIA district and unit managers (agency leaders) in continuing education serves as a notice of what is expected among their agents.

AIA's life insurance agents came under the direct supervision of agency leaders who typically were promoted among the better agents. The leaders, like the ordinary agents, were non-salaried and they were paid commissions on policies they personally sold as well as a percentage of the commissions credited to the agents under their charge. In addition to selling, the leaders were also responsible for helping to recruit and train new agents.

Sales force turnover at AIA is quite high, especially among the new agents. In fact, turnover among life insurance agents was a common problem faced by all the life insurance companies in Malaysia. But, the turnover rate for the more experienced agents was lower primarily because of the residual compensation structure built into the industry. AIA also faced difficulty in recruiting agents. In the opinion of the public, most of the people prefer jobs offering a more stable form of income.

2.5.4 *The Role of an AIA Life Insurance Agent*

The role of an AIA life insurance agent is to:

(1) bring financial relief to aggrieved dependents of insured people who may meet with an untimely death;

(2) inculcate the discipline of savings amongst the working population, and

(3) provide other forms of insurance related services to the public.

In short, to be an effective life insurance agent, one should be able to recognize the insurance needs of the customers. The customers should be sold the right type of products so that it meets their insuring needs and the policy is not lapsed. The agents are expected to provide, in a sense the best possible advice to the customers.

2.5.5 *Type of Reward in AIA*

Besides the basic first year and renewal commissions given to the life insurance agents. AIA usually will throw various types of contests to enhance its agents performance. The period of the contests ranges from a minimum of one month up to a maximum of two years. From the past records, it seems some of the contests were very attractive and hence boost the agent performance, and some were not.

Basically, there are three types of reward: recognition, symbols or tokens and tangible benefits (Cook, 1998). The tangible or intangible incentives in AIA that can be put under each type of reward as follows:

(1) Recognition

- Special individual recognition at AIA annual dinner *(e.g., Perak & National Annual Dinner & Award Presentation Nite).*
- Personal name in print stationery *(e.g., Free personal letterhead & envelope with name in print).*
- Top producer of the month/year *(e.g., Display top producer's photographs in AIA bulletin, poster and office).*

(2) Symbols or Tokens

- AIA various Clubs Memberships *(e.g., Producer Club, MDC (Asst. Business Development Manager) & SSC (Senior Business Development manager)).*
- Free insurance *package (e.g., Free group term life, hospitalization and surgical coverage).*
- Free training & development program *(e.g., Free MII-LUTC Courses & LOMA program).*

(3) Tangible Benefits

- Incentive trip cum AIA convention *(e.g., Bangkok Pacesetter Convention & 1999 London & Portugal Summit Convention).*
- AIA special bonus and cash incentive *(e.g., 1999 New Year Bonus contest).*

- AIA special gift *(e.g., Watch, notebook, TV & camera)*.

Chapter 3
LITERATURE REVIEW

3.0 Introduction

Past reviews of the salesperson performance literature have not provided an adequate explanation for the observed inconsistencies. Part of the problem is that some of the reviews have been narrative. Though a narrative review affords the opportunity for special insight about the classification of phenomena and limitations of the studies, it is not the most effective way of generating a consistent summary result.

In reviewing the literature, this chapter will concentrate on the definitions and dimensions of individual job performance. In addition, the factors influence job performance will also be reviewed.

3.1 Individual Job Performance

3.1.1 Definition of Individual Job Performance

Job performance is the most widely studied criterion variable in the organizational behavior and human resource management literatures. The construct is perhaps even more important in a sales context, given that salesperson performance often directly results in revenue for the firm.

Performance is defined by the outcomes of behavior. Behavior is individual activity, whereas the outcomes of the behavior are the ways in which the behaving individual's environment is somehow different as a result of his or her behavior (Nickols, 1977). The concept of outcomes is similar to the concept of "accomplishment" described by

Thomas F.G. in *Levels and Structure of Performance Analysis* (1974) and to the concept of "achievements" described by Gilbert R. in *The Concept of Mind* (1949).

Performance, then, is the achievement of some condition that reflects one or more outcomes of the behavior of one or more individuals. To illustrate these points, let's analyze the following behavioral objective, taken from Robert F. Mager's *Preparing Instructional Objectives* (1962, p.59):

> *"Given the properly functioning audiometer of any model, the student must be able to make the adjustments and control settings necessary prior to the conduct of a standard test."*

The behavior described in this objective may be conveniently termed as "adjusting" behavior, whereas the outcomes of this adjusting behavior are reflected in the state of the audiometer, namely, controls that are set and adjusted. The performance implied in this objective is also reflected by the audiometer, that is, when the student completes his or her activity, the audiometer is to be in a condition suitable for conducting a standard hearing test.

The measure of performance for this objective is the extent to which the audiometer is or is not in that condition upon completion of student activity. From the presumably verifiable condition of the audiometer, it is reasonable to infer that the proper "adjusting" behavior did or did not occur.

The preceding analysis of a behavioral objective illustrates Nickols (1977) central point: Performance is (or ought to be) defined more by the outcomes of behavior than by the behavior itself. It follows, therefore, that the development of performance standards should be based on an examination of the outcomes of behavior instead of the behavior that is thought to lead to those outcomes. As Gilbert (1974, p.13) wrote, "If you think about it, then, it is only the accomplishments of performance that we value – never the behavior that produce them."

3.1.2 Dimensions of Individual Job Performance

The "appropriate" way to measure performance is a dispute that lingers in the literature. Some authors argue that much evidence about individual job performance is flawed because it relies on self-report measures which may have an upward bias. Others believe that self-report measures are fine because even if they are biased there is no reason to suspect the amount of bias varies systematically across salespeople.

In a study to assess the determinants of salesperson performance, Churchill et al. (1985) used four types of performance dimensions to investigate whether the results depend on the types of performance dimensions used. They are (1) self-report performance, (2) manager and peer ratings, (3) objective company data, and (4) objective company data with control for externalities. The distinction between the two types of objective data used is consistent with the conceptual separation of "performance" and "effectiveness", as discussed by Walker et al. (1979).

The objective company data that control for externalities include such items as sales as a percentage of quota or market potential, sales corrected for economic conditions, or the salesperson's route difficulty. Objective company data that are not corrected for externalities include such items as total sales volume, expenses, number of total calls or new account calls, or the number of demonstrations. Some of these measures reflect salesperson inputs (e.g., number of calls) and some reflect outputs (e.g., sales). The general conclusion that emerges from this study is that there is no basis for generalizations that higher correlation can be expected when particular types of performance dimensions are used as criteria.

Production is the ratio or relationship between input and outputs. Its measures also has been used to monitor the job performance of an organization or individuals. If used as targets which are linked to rewards, the form of measures used will influence performance. The objective of productivity measurement must be to help an organization or individual become more successful at whatever it is doing. (Hope & Muhlemann. 1997)

Productivity measures, when used to monitor performance, can signal both positive and negative changes in agent performance. When performance deteriorates, further analysis is required to understand why. The factor identified as being responsible for the deterioration, appropriate action should be taken to remedy the situations. Gummesson (1993) points out that cultural factors will influence productivity. He suggests that when the customer is involved in the process, the same behavior may be transferable to the reading of signs and instructions within the service operation.

Morris and Davis (1992) analyzed the performance of a number of firms and found that those with a customer service focus such as life insurance business has higher sales growth rates and increased profits. Thus, a critical success factor (CSF) could be customer focus. It is only CSFs have been identified can performance measures be designed.