

**INFLUENCES OF MOTIVATION ON SALES
PERFORMANCE: A STUDY OF LIFE
INSURANCE AGENT IN
KOTA KINBALU**



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UNIVERSITI MALAYSIA SABAH
2006**

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PERFORMANCE: A STUDY OF LIFE
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MILIN LIAW



UMS

**Dissertation submitted in partial fulfillment
of the requirement for the degree of Master
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**SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITI MALAYSIA SABAH
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DECLARATION

The materials in this thesis are original except for quotation, excerpts, summaries and references, which have been duly acknowledged.

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ABSTRACT

Based on Vroom's Theory, this research discusses the application of a motivational model that provides a practical tool for life insurance agent. The motivational models are Expectancy, Instrumentality and Valence. A sample of Life insurance agent from Kota kinabalu has been taken as samples for the research and they are required to identify which variables were significant influences their motivation to perform well. All level of employees from agent to agency manager involved in this research. The finding of this research determined that all the motivation model (expectancy, instrumentality and valence) were significant influenced of motivation on performance by simple linear regression, but when the model were correlated together into multiple regression for the purpose of identifying the best-fitting model, researcher found out that valence model was the most contributed influences of motivation on performance followed by instrumentality. Expectancy model also gave significant but opposite significant if tested through multiple regressions. Then, when the three models are moderated with age, gender and education, author found that only gender shown significant influenced to expectancy and instrumentality. Levels of education (graduated and non graduated) gave significant to the instrumentality model. Others moderating variables were not shown any significant influenced of motivation on performance. As conclusion, author has recommended that the best influenced of motivation on performance was valence. This valence should be offered continuously to the life insurance agent for high performance. But, the valence model could be applied similarly with expectancy and instrumentality models since both of this can be moderated with gender and education. This research only based on individual research. Further studies are advised to develop other motivation model in order to determine others significant influences motivation on performance especially for sales force.

ABSTRAK

FAKTOR-FAKTOR YANG MEMPENGARUHI MOTIVASI TERHADAP PRESTASI JUALAN: KAJIAN TERHADAP AGEN INSURAN NYAWA DI KOTA KINABALU

Kajian ini berdasarkan kepada Teori Vroom yang membincangkan tentang pelaksanaan model motivasi sebagai alat penentu motivasi kepada agen insuran nyawa. Model motivasi dalam teori ini ialah model 'expectancy', 'instrumentality' dan 'valence'. Agen insurance nyawa di sekitar Kota Kinabalu telah diambil untuk menentukan factor penentu kepada motivasi untuk meningkatkan prestasi jualan. Agen-agen insurance yang berpangkat daripada agen ke pengurus agensi telah terlibat dalam kajian ini. Keputusan yang diperolehi membuktikan kesemua model motivasi yang digunakan memberi kesan yang signifikan kepada prestasi jualan jika dikaji melalui kaedah regresi sederhana. Walau bagaimanapun, jika dikaji melalui kaedah regresi berganda, kesemua model memberikan kesan signifikan kepada prestasi jualan dan penulis mendapati pengaruh model 'valence' lebih banyak menyumbang kepada motivasi terhadap prestasi jualan. Dalam hal ini, model 'expectancy' juga memberikan signifikan tetapi signifikan yang negatif. Apabila ketiga-tiga model utama ini dikaitkan dengan 'moderator' iaitu umur, jantina dan tahap pelajaran, penulis mendapati hanya jantina akan memberikan signifikan kepada model 'expectancy' dan 'instrumentality' manakala tahap pelajaran agen hanya memberikan signifikan kepada model 'instrumentality'. Moderator lain tidak memberikan sebarang signifikan. Sebagai kesimpulan, penulis mencadangkan model 'valence' diberikan berterusan kerana model ini memberi banyak pengaruh motivasi terhadap prestasi jualan terhadap agen insuran nyawa. Namun, model 'valence' harus dilaksanakan bersama-sama dengan model 'expectancy' dan 'instrumentality' untuk memberi signifikan yang lebih mantap. Oleh kerana kajian ini hanya terhadap individu, dicadangkan agar kajian model motivasi lain harus diketengahkan untuk menentukan factor-faktor yang melibatkan peningkatan prestasi jualan terutama sekali kepada jurujual.

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CHAPTER 1

INTRODUCTION

1.1 Overview

The selection of high performing salespeople has been a constant challenge for most companies whose revenue is the direct result of the efforts of a sales force. A common frustration for recruiters has been the experience of having hired seemingly perfect candidates who, in practice, have failed spectacularly, in contrast to borderline candidates who turned out to be exemplary performers. Endeavoring to predict sales performance through some selection process is clearly of importance to employers. One survey (Kotler, 1994) showed that the top 27 percent of the sales force brought in over 52 percent of the sales. Greenberg and Greenberg (1980) suggest that the ratio could be more pronounced, with 20 percent of the sales force producing 80 percent of sales (Kangis and Lago, 1997).

Increasingly, attempts to improve the relative status of salespeople are being undertaken by both practitioners and academicians. These attempts have included changes in the ways in which sales personnel are described and changes in the salesperson's job description and training. Frequently, salespersons (sales representatives) are referred to as sales consultants, sales advisors and sales counselors (Pettijohn and Taylor, 1995).

The ability to identify promising salespeople early in the selection process is an issue that is of considerable interest to managers. The cost of conducting the hiring and training of a new salesperson are substantial. Estimates of the cost of the first year training alone average over \$6,000 per salesperson across a variety of industries (Heide, 1994). Thus, identifying traits and/or characteristics associated

with a firm's successful salespeople may be one way of increasing selection success in the hiring process and minimizing training and turnover costs associated with poor hiring practices (Boles et al., 2000). In this case, it related to motivating the sales force in the mind that the sales performing could cover the cost spending for the recruiting and motivating.

In Malaysia, there are 16 life insurance companies. Almost all the anchor life insurance company operating in Kota Kinabalu such as Allianz Life Insurance Malaysia Bhd., AmAssurance Bhd., American International assurance Co Ltd, Asia Life (M) Bhd., Commerce Life Assurance Bhd., Great Eastern Life Assurance (M) Bhd., Hong Leong Assurance Bhd., ING Insurance Bhd., Malaysia National Insurance Bhd., Malaysian Assurance Alliance Bhd., Manulife Insurance (M) Bhd., Mayban Life Assurance Bhd., MCIS ZURICH Insurance Berhad. Prudential Assurance Malaysia Bhd., Tahan Insurance Malaysia Bhd. and Uni. Asia Life Assurance Bhd.

Key Indicator performance in table 1.1 showing that the registered agents for life insurance decreasing from 2002 to 2004 but the business in force keep on increasing indicate that the role of sales force is very important for the organization.

Table 1.1: Life Insurance key Indicator

Life Insurance Key Indicators	2002	2003	2004
No of registered agents	87,205	86,230	82,551
Premium Income for Life (% of GNP)	3.2	3.3	3.6
Per capita insurance premium expenditure	442	495	592
Benefit Payment	4,307.3	4,593.9	5,410.7
Business in Force- sum insured (RMm)	482,993.0	538,779.3	595,768.3
Annual Premium (RMm)	9,137.0	10,240.2	11,280.4
No of policies	8,506,398	9,228,966	9,712,272

Source: Insurance Annual Reports, Bank Negara Malaysia

1.2 Rationale Of This Study

In general, life insurance agents, like most “intangibles” product/services salespeople, understand how difficult it is to sell potential clients on what essentially would be considered a concept rather than a tangible product. In other word, insurance is a product that many clients may have provided, effective selling, therefore, requires the agent to develop client confidence as well as personal trust in the salesperson. Second, virtually every salesperson has, at one point or another, been indoctrinated to the essential nature of keeping existing customers satisfied (Joseph, Stone and Anderson, 2003).

Life insurance is a suitable product for an expert system for several reasons. First, life insurance is an important industry with annual sales exceeding \$1.5 trillion (Life insurance Fact Book, 1992). Moreover, life insurance premiums for the cooperating firm represent approximately 54 percent receipts (Best’s insurance Reports, 1993). Second, the sales performance of life insurance agents has been linked positively to differences in categorical and procedural knowledge.

Life insurance selling requires processing customer information quickly and using questions intelligently to probe customer characteristics and needs. However, life insurance products have “dozens of basic policies and a number of riders that may be added. the possible combinations therefore, approach infinity”. As a result, fitting product possibilities to customer requirements favors salespeople who possess considerable depth of knowledge (Ainscough, DeCarlo and Leigh, 1996).

1.3 Problem Statement

To be a life insurance agent is not easy job. The agent should be trained carefully for achieved their minimum requirement stated. Beside that, the insurance market needs strong self-motivation in order to reach the target stated annually. Apart from that, premiums have shot up in almost all classes, as a result of substantial increases in rates, and coverage has been written out or restricted. This hardening had started in mid-2000 and gradually began to worsen over the early part of 2001, accelerating to warp speed in the aftermath of the tragedies of the 11 September 2001. These will affect the motivation of the agent because the increased of the life insurance rate and power to buy life insurance decreased.

The selections of the salespeople (life insurance agent) are critical needs for the motivation on performance not only for the individual itself but also for the company objectives. Merging insurance company after the recession, need the higher performance of the sales force.

Beside that, government have introduced Continuing Professional Development (CPD) hours for the agent to upgrade their knowledge and experience through attending courses in the field of insurance at least 20 hours for independent agents and 30 hours for bank staff yearly effective from 1 January

2005 subjected to the Code of Ethics and Conduct. The main purpose of CPD hours is to see the professional of the agent and performance in term of production annually. If the requirement not fulfilled, the insurance agent license for that company could be terminated accordingly.

This research tries to find out, how to motivate the agent by using the Vroom theory.

1.4 Scope and Objectives

This research will be conducted to the insurance agent in Kota Kinabalu. Kota Kinabalu is capital of Sabah, which almost the life insurance companies and agents situated here.

The questionnaires will be distributed to the officer in charge for the life insurance company selected and/or through administrative survey. Therefore, the objectives of this research on conducting among the life insurance are:

- a. To examine which perception of expectancy (expectancy, instrumentality and valence) is contributed to the motivation on performance among the life insurance agents.
- b. To identify the best perception of Expectancy (motivation model; Expectancy, Instrumentality and Valence) that can be motivate more on performance among the life insurance agents.
- c. To explore the extent to which personnel characteristics/behaviors (age, gender, Education) can influence the relationship between perception of Expectancy and Motivation on Performance.

1.5 Significance of The Research

The result of this research can be a reference for further investigation of the factors those related to the sales force in the field of sales management to the customer. This research also could be a reference to the company how to select the sales force for the objective of the company especially to growth their sales.

Apart from that, this research also will help to identify the best approach, which can contribute to motivate the salespeople especially in the line of Life Insurance Company.

1.6 Definition of Key Variables Used in This Research

The Latin root of the word "motivation" means 'to move'; hence, in this basic sense the study of motivation is the study of action. Modern theories of motivation focus more specifically on the relation of beliefs, values and goals with action. Although motivation theories have emerged from different intellectual traditions (Weiner 1992), this research focus on those are most closely linked to expectancy value models of behavior. Expectancies refer to beliefs about how one will do on different tasks or activities, and values have to do with incentives or reasons for doing the activity (Eccles J. S. and Wigfield, A., 2003).

Performance is most commonly measured by dollar volume of sales, self-ratings and managerial evaluations. Dollar sales volume, however, does not capture the multidimensionality of performance, and self-ratings may sometimes only approximate managerial evaluations (Behrman an Perrault, 1982). Self-ratings and managerial ratings do reflect evaluations of the salesperson's discharge of activities that define his or her role in the attainment of sales objectives, prospecting for new accounts, servicing customers and maintaining satisfactory

business relations with supervisors, colleagues and clients (Money and Graham, 2002).

This research used the most popular theory of work motivation in recent years, which is referred to Expectancy Theory (Vroom, 1964). Vroom's theory assumes that "... the choices made by a person among alternative courses of action are lawfully related to psychological events occurring contemporaneously with the behavior". In other word, people's behavior results from conscious choices among alternatives and these choices (behaviors) are systematically related to psychological processes particularly perception and the formation of beliefs and attitudes. The purpose of the choices, generally is to maximize pleasure and minimize pain (Steers and Porter, 1991). According to Vroom (1964), employees rationally evaluate various work behaviors (e.g., working overtime versus leaving work early) and then choose those that they believe will lead to the work-related rewards that they value most (e.g., promotions). Employee will decide to apply effort to those tasks that they find attractive and that they believe they can perform. (Porter, Bigley and Steers, 2003).

1.6.1 Expectancy Theory : A Model of Motivation

V. H. Vroom (1964) suggested that people consciously choose particular courses of action, based upon perceptions, attitudes, and beliefs, as a consequence of their desires to enhance pleasure and avoid pain. This model is generally known as expectancy theory but is sometimes referred to as VIE theory, where the letters stand for valence, instrumentality, and expectancy, respectively (Mitchell and Mickel, 1999).

Expectancy theory is classified as a process theory of motivation (Fudge and Schlacter, 1999) because it emphasizes individual perceptions of the

environment and subsequent interactions arising as a consequence of personal expectations. By contrast, content theories constitute the other major classification of motivation theories and they focus upon internal attributes of the person.

Expectancy theory mainly relies upon extrinsic motivators to explain causes for behaviors exhibited in the workplace (Leonard et al., 1999). External rewards are viewed as inducing motivational states that fuel behaviors, as opposed to intrinsic motivators, where behaviors are derived as a consequence of internal forces such as enjoyment of the work itself. The distinction between intrinsic and extrinsic motivational sources was originally suggested by deCharms (1968). Shamir (1990) states that motivational theories based upon the concept of extrinsic motivation assume that followers make conscious choices to maximize self-interests.

In essence, the model suggests that the individual feels motivated when three conditions are perceived.

1. The personal expenditure of effort will result in an acceptable level of performance.
2. The performance level achieved will result in a specific outcome for the person.
3. The outcome attained is personally valued.

We label the first point above "expectancy," which suggests that people will expend effort when they believe that certain levels of performance are attainable (Karathanos, et al., 1994). This relationship between effort and performance is known as the E-P linkage. The second relationship described above, known as "instrumentality," constitutes a perception that performance

levels are related to rewards bestowed (Fudge and Schlacter, 1999) and is symbolized as the P-O linkage.

Finally, "valence" (V) relates to the third statement above and refers to the extent to which the person values the reward he or she receives (Fudge and Schlacter, 1999). It should be noted that, due to individual differences, people often assign different valences to rewards, such as pay (Gerhart, et al., 1995).

Therefore, the motivational state of an individual performing a particular task is illustrated by using the following formula:

$$M = E \times I \times V$$

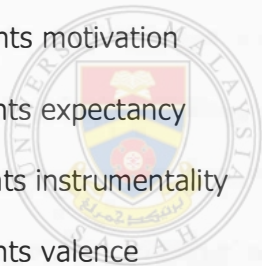
Where:

M represents motivation

E represents expectancy

I represents instrumentality

V represents valence



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Any weakness in the E-P or P-O linkages or in the level of value attached to the outcome significantly impacts the person's motivational state, due to multiplication of factors in the formula expressed above.

1.6.2 Level of Motivation

According to the theory, E – P expectancies, P – O expectancies and the valences of various outcomes (considered by the employee) influence the person's level of motivation. Further, these variables are assumed to operate in a multiplicative fashion. Using the example above, if a pay raise appears very attractive to a salesperson (e.g., valence = 1.0), if the person is fairly confident that an increase in effort will lead to an increase in performance (E – P = 0.8) and if he or she

strongly believes that an increase in performance will result in a desired outcome (e.g., a pay raise) $(P - O) = 0.9$, then the individual appears to have a relatively high motivational force $(1.0 \times .8 \times .9 = .72)$. However, if the salesperson does not believe that an increase in performance will lead a pay rise (e.g., $P - O = 0.1$), then the motivational force will not be nearly so high $(1.0 \times .8 \times .1 = .08)$. With this multiplicative model, all three factors must be high for the motivational level of an individual to be high.

1.6.3 Life Insurance and Life Insurance Agent

Today, life insurance market are very important because the unpredicted events after the 11 September 2001 tragedy. In order to continue growth to the insurance company, the selection of the sales force is very critical issue.

Life insurance is designed to protect against two distinct risks: premature death and superannuating. While death is not an uncertainty, the time of death is "Premature death" can occur at any age. For most people, death at any age may be considered premature when one dies before adequate preparation has been made for future financial requirements of dependants. Life insurance thus becomes the mechanism for one to ensure a continuous stream of income to the beneficiaries. We can superannuate as a person can outlive his income earning ability. Again, life insurance may serve as a mechanism to ensure a continuous stream of income (Clare Chow-Chua and Geraldine Lim, 2000).

Life insurance is intangibles product and usually done by life insurance agent who usually have pronounced need for money. The commission element in every sale is attractive but the ratio of orders to calls is very low. In some instances such as selling insurance and financial incentive schemes thirty calls have to be made to obtain one or two sales. This high level of rejection is insupportable

to the normal person so sales forces who can tolerate it and succeed in this environment are often somewhat neurotic. Whilst resenting it, they need the motivational security of firm, structured almost autocratic management and discipline (Lidstone, 1995).

In marketing insurance, the salesperson's ability to affect the customer's long-term commitment may be determined largely by the interpersonal relationship he/she establishes with the customer (Crosby et al., 1990).

1.7 Organization of Study

This Research consists of five chapters. Chapter 1 discussed about the important of sales force (life insurance agents) in the line of selling intangibles product. The theory using here is Expectancy theory by Vroom (1964) to determine the important criteria those will motivation on sales performance of the sales force. Besides that, the definition of the variables related has been discussed for easy understanding.

Chapter two discussed the theory for clear understanding. The previous study related to performance and the expectancy theory also included for comparison.

Chapter three discussed the research methodology and elaborated how the framework designed related to the motivation on sales performance of the sales force. The definition of the theory mentions clearly and how the research will be conduct stated. The hypothesis and research methodology including sampling, data collection, measures and statistical analysis are also covered in this chapter.

Chapter four discussed the finding using the SPSS, simple linear regression, multiple regression and hierarchical multiple regression method (HMRM) on moderation variables regression for evaluated and interpreted the output.