EFFECTS OF ETHICAL SALES BEHAVIOR CONSIDERED THROUGH TRANSACTION COST THEORY: TO WHOM IS THE CUSTOMER LOYAL?

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ABSTRACT

This paper, based on transaction cost theory and from the customer’s perspective, examines the relationships between a salesperson’s ethical sales behavior, the customer-perceived confidence benefits, and customer satisfaction, thereby considering to which party the customer is loyal.

Keywords: ethical sales behavior, confidence benefit, customer satisfaction, customer loyalty.

INTRODUCTION

In the present competitive environment, one of the most important goals that service marketers must achieve is that of acquiring, maintaining and enhancing their existing market shares, and further retaining customer loyalty in order to develop sustainable competitive advantage through marketing efforts. Therefore, in terms of marketing management, it is critical to ensure customer loyalty and obtain the benefits from extending customer life. Particularly in the service context, customer loyalty is becoming recognized as one of the most critical factors in business operations.

In the service industry, transactions are usually conducted through the customer-salesperson interactions, and thus the salesperson is regarded as a major channel to communicate with customers. However, such a relationship may be destroyed by the salesperson’s dishonest and untrustworthy behaviors (Kelly and Schine, 1992). An unethical sales behavior may hurt customer satisfaction and trust. Dissatisfaction and distrust will induce customers to take actions to protect themselves, and customer loyalty will be lost. Previous studies in this field have focused mainly on the sales supervisor’s perceptions with the salesperson’s ethical sales behavior in firm side (e.g., Ramsey et al.; Strout, 2002). On the contrary, from customer’s perspective, customers are concerned about their perceptions of the salesperson’s ethical sales behavior, what their intention to maintain a relationship with the salesperson is, and what kind of purchase behavior will be followed. Service firms have yet to develop and understanding of this issue, and there are few related studies.

In practice, the customer is the final decision maker for maintaining a long-term relationship with a firm, and so it is important to examine the customer-firm relationship from the customer’s perspective. Customers expect to obtain certain benefits from the established relationship with a salesperson, especially in high-contact, and customized personal service contexts (Gwinner et al., 1998). According to the cost-benefit considerations, the reason consumers prefer engaging in certain a transaction is that they
perceive the benefits they acquire will be greater than the price they pay (Jones et al., 2002). Prior research suggested that transaction costs include pre-contracting costs for information searching and contract negotiating, and post-contracting costs for supervision of contract implementation (Coase, 1937). Williamson (1981) also pointed out that transaction costs include the direct cost and the opportunistic cost. Once opportunistic behavior resulting from incomplete information emerges, distrust will raise the cost. Positive ethical sales behavior may diminish transaction cost and raise the confidence benefits, and help to form a sustained customer-firm relationship. Therefore, the role of customer-perceived confidence benefits on customer-firm relationship should be examined. But most previous studies on confidence benefits have focused mainly on the outcome of confidence benefits (Hennig-Thurau et al., 2002, Yen and Gwinner, 2003), and little empirical evidence for the antecedents of confidence benefits has been found.

As for to whom customers are loyal, Iacobucci and Ostrom (1996) proposed that the customer relationship is different, depending on whether it is person to person, person to firm, or firm to firm. Customer loyalty to the salesperson and to the service firm are not identical constructs (Macintosh and Lockshin, 1997; Palmatier et al., 2007). Loyalty to a salesperson does not necessarily indicate loyalty to the firm, and there have been few studies about to whom customers are actually loyal. Wray et al. (1994) pointed out that ethical sales behavior in financial service is much more important than that in selling of tangible commodities. In the life insurance industry, the selling policies and their after-sale service have long been conducted by salespeople (insurance agents). The salesperson, who acts to reduce purchasing risk, to increase purchasing convenience, and to provide consulting service, has the key role in maintaining a close customer-firm relationship.

Therefore, the purpose of this article, on the basis of transaction cost theory, is from the customer’s perspective to examine the role of confidence benefits in the process of how a salesperson’s ethical sales behavior affects customer satisfaction and loyalty, and to further examine roles of the salesperson and the service firm in developing customer loyalty.

**Transaction Cost Theory**

The basic concept of transaction cost theory was posed in Ronald Coase’s classic paper, “Nature of the Firm” (1937). He considered that the governance structure of both firm and open market are opposing alternatives, and that which alternative is chosen depends on the transaction cost. Transaction cost analysis is used to find the optimal governance structure. Williamson (1981) extended Coase’s study and pointed out that the assumption of transaction cost is based on the bounded rationality and opportunism. Bounded rationality implies that any individual in an organization has limited competence to solve complex problems and process information. Hence, the uncertainty exerted from bounded rationality resulting in contract incomplete will increase contract negotiating cost, adapting cost, and enforcing cost. Opportunism implies that the other party will probably lie, steal, cheat, and play tricks for its self-interest; thus the related costs for such opportunistic behavior will be induced from the confirmation of pre-contracting and monitor of post-contracting. A complete contract with all relevant respects is not achieved, but to prevent opportunistic behavior from incomplete contract, the transaction costs related to pre-contracting and post-contracting will increase.
An incomplete contract implies that the two parties have reached an agreement to cope with future unanticipated contingencies on a mutually profitable basis. Ganesan (1994) pointed out that hazards of opportunistic behavior will occur, when a buyer-seller relationship cannot be easily terminated with an incomplete contract. But, if trust exists between the two parties, opportunistic behavior would be eliminated. In other words, trust will reduce opportunistic behaviors and lower the risk due to opportunistic behavior. Thus, the related transaction cost will be reduced in the exchange relationship, and when the confidence benefits are perceived, the possibility of long-term relationship will be raised.

Based on the above statement, trust will diminish the pre-contracting and after-contracting costs arising from bounded rationality and opportunism. From the customer’s perspective of confidence benefits, the costs related to information searching, negotiating, and monitoring will decrease while customer has confidence in the salesperson’s ethical sales behavior. Once customers perceive the confidence benefits from cost reduction, the positive effects on satisfaction and loyalty would occur. Therefore, transaction cost theory could be used to explain the relationship in which a salesperson’s ethical sales behavior is an antecedent of confidence benefits perceived by customers, and where customer satisfaction and loyalty is are its outcome variables.

**Ethical Sales Behavior**

According to Hunt and Vitell (1986), ethical versus unethical behavior can be adjusted by the extent to which stress is given to the values of right versus wrong, good versus evil, fair versus unfair, or just versus unjust. Ethical behavior can also be defined as conformance to social norms, such as fair play, honesty, and full disclosure (Roberson and Anderson, 1993). Moreover, in the aspect of marketing, ethical sales behavior is regarded as a reciprocal relationship based on fair and just exchange, and when customers perceive the favorable relationship, a feedback action will probably be taken.

As previous studies have pointed out, ethical sales behavior indicates that a salesperson conveys only authentic messages in their communications with customers, sells only those goods/services which can benefit their customers, promises only what can be provided, and treats customer information as confidential. Unethical sales behaviors include a salesperson giving misleading to customers (such as lying or exaggerating about product availability), lying about competitors’ information, selling unsuitable products or services to their customers, or using high-pressure selling tactics (Hansen and Riggle, 2009; Lagace et al., 1991; Román and Ruiz, 2005).

In practice, from the salesperson’s perspective, salespeople often behave against the firm’s ethical norms in order to meet sales targets, and such unethical sales behavior could result in arguments and destroy the buyer-seller reciprocal relationship, thus losing customers or even more serious consequences. On the other hand, from the customer’s perspective, customer trust in a salesperson is based on the perception that the salesperson is consistent, dependable, honest, competent, likable, and benevolent (Román and Ruiz, 2005), and that salesperson will do his/her best to provide benefits for customers (Morgan and Hunt, 1994) and further develop a favorable relationship. Thus, through repeated interactions, a positive association between a salesperson’s ethical sales behavior and customer trust can be established.

Therefore, the choice between ethical and unethical sales behavior is a dilemma for salespeople. When customers purchase products or services requiring professional
knowledge and they are not capable of judging the pros and cons but rely on advices from the salesperson, the salesperson’s ethical attitude becomes especially important (Wray et al., 1994). However, when a salesperson is appraised by his/her short-term sales performance, he may behave unethically to increase his/her sales, to the detriment of maintaining a long-term relationship. Some studies have presented evidences that ethical sales behavior has direct (e.g., Hansen and Riggle, 2009) or indirect effects on customer loyalty (e.g., Chen and Mau, 2009), and that ethical sales behavior can earn customer trust, which facilitates the transaction process and further effects on relational outcome.

Customer-perceived confidence benefits

Gwinner et al. (1998) developed three types of relational benefits, including confidence benefits, social benefits, and special treatment benefits. Among these, confidence benefits are the most critical factor in the service encounter. Some researchers have pointed out that confidence benefits, stemming from the trust in the service provider or the confidence in the provider’s reliability and integrity, describe the risk reduction in the process of transactions (Morgan and Hunt 1994). In addition, consumers prefer choice reduction (Sheth and Parvatiyar, 1995); and confidence benefits may be earned by facilitating decision-making and simplifying the choice-making process (Gwinner et al., 1998).

Due to the conceptual closeness of trust and confidence, these two concepts have been combined into confidence benefits in some studies (e.g., Hennig-Thraau et al., 2002; Liu et al., 2010). In contrast, this current study is mainly from the customer perspective, based on the theory of transaction cost, to investigate the confidence benefits which customers perceive from the elimination of opportunistic behavior and reduction of the anxiety caused by uncertainty, and the effects of these benefits on the customer relationship. According to Gwinner et al. (1998), confidence benefits are feasible for high-contact, customized, and personal service sectors. The life insurance industry, considered in this study, is one of these sectors.

Customer Satisfaction

There are various definitions of customer satisfaction according to the particular purpose of each study. Some researchers, based on expectancy-disconfirmation theory, have suggested that satisfaction is an emotional reaction that comes from evaluating the perceived discrepancy between prior expectation and actual experiences (Oliver, 1980). Another researcher categorized customer satisfaction into two types: transaction-specific satisfaction and overall satisfaction (Parasuraman et al., 1994). In contrast to the transaction-specific satisfaction assessment for a specific service; cumulative overall satisfaction depicts customer’s overall impression of the past transaction experiences with the service provider (service firm, or salespeople). Previous researchers have assumed that customer satisfaction is an individual subjective evaluation of affective element (Hunt, 1977). Consumer satisfaction may be evaluated with an interpersonal affection from a set of interaction experiences in the past between two parties (Westbrook, 1981). Hence, this study adopts the concept of affective evaluation based on the customer’s interaction experiences with salespeople.
Customer loyalty

Prior literature on customer loyalty has focused mainly on the loyalty to a given brand (Cunningham, 1956), especially emphasizing on the evaluation of actual repeat purchasing behaviors. Subsequently, psychological meaning is also considered (Jacoby and Chestnut, 1978); and consumer beliefs, affect, and intention are assessed in an attitude-based framework. Therefore, composite measures of behavioral and attitudinal loyalty are encouraged and have become the essence of loyalty (Dick and Basu, 1994). Due to the rapid development of the service industry in recent years, it is evident that the exploration of customer loyalty has evolved from tangible product brands into intangible service sectors, and from actual purchasing behavior into composite measures of behavior and attitude.

In addition, previous studies presented that customer loyalty includes two different constructs: loyalty to the salesperson and loyalty to the firm (Macintosh and Lockshin, 1997; Palmatier et al., 2007; Reynolds and Beatty, 1999). According to Bitner (1990), service employees act on behalf of their firm to play an important role by their personal contact with customers. Customers usually have intense and frequent interactions with their salesperson, and thus they establish a close relationship with the salesperson instead of the service firm. Therefore, it should be clarified whether customers render their loyalty to the service employees (salespeople) or to the service firm. Even though the salesperson is the main contact point between customers and the service firm, customer loyalty to the salesperson is different from loyalty to the service firm.

Effect of Ethical Sales Behavior on Customer-Perceived Confidence Benefit

According to transaction cost theory, opportunistic behaviors enhance the transaction cost; ethical sales behavior will diminish the costs related to the pre-contracting and post-contracting, and thus the reduction of transaction cost deriving from trust is considered as the confidence benefit. There are empirical evidences in B2C to support the idea that a salesperson’s ethical sales behavior affects customer trust (e.g., Chen and Mau, 2009; Román and Ruiz, 2005), and the same results are obtained in B2B fields (e.g., Hansen and Riggle, 2009). As a result of the attributes of life insurance, which are intangible and do not occur at the time of selling, it may be difficult for most customers to fully understand and evaluate the products they want to purchase. Similarly, salespeople often find it difficult to clearly point out what benefits the products they are promoting will offer to their customers in the future. Therefore, it is necessary for a salesperson to provide correct information and proper guidance for customer’s decision-making. Only an honest salesperson can earn customer’s trust. Consequently, confidence benefits will increase.

CONCLUSION:

This study is to better understand the complex inter-relationships between ethical sales behavior, confidence benefits, customer satisfaction, and customer loyalty. The findings contribute to the literature in two ways. First, confidence benefit from customer
A perspective is added into the model and demonstrates the indirect effect between ethical sales behavior and customer satisfaction/loyalty. Second, this study examines both loyalty to the salesperson and loyalty to the firm as separate outcome variables and demonstrates that customer loyalty to the firm is through customer loyalty to the salesperson.

REFERENCES


