

THE RELATIONSHIP BETWEEN CORPORATE CODE OF CONDUCT, MORAL REASONING AND ETHICAL DECISION MAKING AMONG TAKAFUL AGENTS IN MALAYSIA

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Abstract: A common management task in organization is to act and decide ethically and the focus is fall on the ethical reasoning factors that make up the mind of decision maker. In businesses, ethical issues are the major concern as it gives impact on various parties such as customers, employees, shareholders and society. Takaful industry has evolved in preceding years and the dispersion of Takaful products is growing year by year and it is believed that remarkable growth and performance of Takaful industry is due to the superior ethics and values which support the principle of brotherhood and mutual assistance as a mechanism for risk sharing pooling. This research used 150 respondents from Takaful industry and four Takaful companies were selected based on consumers favourites which is Takaful Malaysia, Takaful Ikhlas, Etiqa Takaful and Zurich Takaful. The parameters from two models namely issue-contingent model of ethical decision making by individual by Thomas M Jones (1991) (moral intensity) and the interactionist model of ethical decision making in organization by Linda Klebe Trevino (1986) (individual attributes) were utilized in this research.

Keywords: Ethical Decision Making, Ethical Reasoning, Code of Conduct, Takaful

Introduction

Takaful industry has established evolution in preceding years and the dispersion of Takaful products is growing year by year. Takaful industry contributes towards economy development in Malaysia and this can be proved from the increasing number of registered Takaful companies within the country (EY, 2013; Laldin, 2008; Sherif & Shaairi, 2013) even foreign companies start to introduce their own Takaful products. For the past few years, the introduction of favourable regulatory policies outline by government have also inspire a great number of novel operators penetrated into the existing local and foreign conventional insurance company incoming into the local market (Mohammed, 2015). The remarkable growth and performance

of Takaful industry is due to the practice of ethics and values which enhance the principle of brotherhood and mutual support as an instrument for risk sharing pooling (Mohammed, 2015). However, according to Ombudsman of Financial Services (OFS) by Bank Negara there are cumulative number of complaints pursuant to insurance and Takaful industry relating to the ethical conducts and other matters related to transparency of businesses. In 2018, OFS managed to receive a total of 10,178 complaints and from the number of 4,530 new complaints, 63% were on insurance and takaful related matters, 35% representing banking matters and the balance of 2% were on broking business, financial advisory systems and payment systems.

Adding to that, there were also reported cases in Malaysia's courts and police cases such as in March, 2016 a business manager from an insurance company in Kuantan, Pahang was sentenced to three months of jail after he claimed for death of an unrelated person. As stated by Tan Sri Muhammad Ibrahim governor of Bank Negara, in 2013, RM760 million lost was roughly estimated by takaful and insurers operator was due to fraud occurred in motor insurance. Allianz General Insurance Co (M) Bhd had acknowledged and immobile a bogus insurance claims worth RM5.6mil between 2014 and 2016 and from that amount, head of claims Jayapragesh Amblavanar quantified that in average there were a minimum of six cases of fraudulent cases each month throughout 2014 to 2016 (The Star Online, 2017). Thus, it is essential to study and examine the contributing factors that influence the ethical decision of Takaful personnel.

Literature Review

Business ethics is defined as the studies of business guidelines pertaining to situations, decisions and activities where the issues of right or wrong are being addressed. Business ethics includes a complete spectrum of the interactions between individuals, firms, society and state. Ethics in business is associated to national factors and global perspectives and the morality of particular ethical practice is difference from one county to another and it is influence by several elements such as legal practices, business parameter and individual characteristics (gender, socio cultural, ethnicity, environment and level of education) (Ehtesham, 2016). As revealed by Ahmet Ekici (2013), ethical topics are the main concern for businesses as it gives impact on various groups that involves customers, shareholders, company, employees and society. Rodzalan & Saat (2016) added that increasing number of unethical behaviours involving business professionals has received attention from various sectors such as public sector, private sector and academic sector. There are different perspectives on how ethical choices is made and it may come from virtues, fear of consequences or adherence to principle (Small & Lew, 2019). In insurance or Takaful industry, there are factors that can lead to misbehaviour, for example, as according to Salleh, Kassim, Yazid, & Rashid (2018) fraud in insurance claim could be due to attitude of consumers, economic problems, moral hazard and the transparency in business dealing. As to proceed with the research study, two models that is issue-contingent model of ethical decision making by individual by Thomas M Jones (1991) (moral intensity) and the interactionist model of ethical decision making in organization by Linda Klebe Trevino (1986) (individual attributes).

Moral Intensity

Moral intensity by Jones (1991) evolved from social psychology, moral philosophy and applied ethics (Fleischman et al., 2010). Three dimensions were selected from this model that includes magnitude of consequences, proximity and concentration of effect. Each dimension defines

different intensity; (1) magnitude of consequences is the sum of the harms or benefits done to victims or beneficiaries of the moral act in question, (2) proximity is the feeling of closeness between the moral agents have for the victims or beneficiaries and nearness is defined as cultural, psychological and social, for example, the greater the feeling of nearness, lower possibility of the moral agent to act unethically and (3) concentration of effect means the number of individuals affected by an act of a given magnitude.

Individual Attributes

As specified by Trevino (1986) the ethical decision making in system of organization is clarified by the relationship between the situational and individual mechanisms. She projected this idea into interactionist model of ethical decision making in organizations and cognitive moral development stage are used by individuals to counter with ethical quandaries. The dimensions of individual attributes are ego strength and locus of control. As stipulated by Singh & Anand (2015), ego strength is the practicality of our ego work and its modification to environment. Ego strength is related to the abilities to manage emotional, face difficulties and the effectiveness in managing frustrated situation. Reza, Qarachanaq, Pormouzeh, & Loo (2015) states that ego's strength is the ability of individuals to deal with internal and external stressful situations and the ability to resolve stress and anxiety related to emotional problems and other coping function. From researcher perspectives, ego strength gives positive attributions to emotions and behaviours which leads to individual's self-perception. As stated by Callanan, ego strength has the capability to cope the external demands and to comply with internal demands (Reza et al., 2015). Adding to these parameters, locus of control is the identification of consequences or impact individuals face after having a particular action and this locus of control is divided into two which internal locus (happened due to individual's own effort) and external locus (individuals relied on other factors such as luck, fate and other people (Heywood, Jirjahn, & Struewing, 2017). Earlier literature shows that locus of control can explain motivation, decision, personal goals and actions (Kesavayuth, Ko, & Zikos, 2018) and internal locus represents beneficial traits (Heywood et al., 2017; Pinger, Schäfer, & Schumacher, 2018). Due to that researcher would like to examine the relationship between locus of control and people's behaviour towards ethical decision making in which focusing the studies within Takaful industry.

Code of Conduct

The implementation of managerial practices and tools will enhance the sustainability of organization and code of conduct is one of the example that is capable to improve transparency towards multiple stakeholders (Garegnani, Merlotti, & Russo, 2015). Namazi & Namazi (2016) states that the application of appropriate moderator variables within research framework is to enhance the research design and subsequently produce more accurate and realistic result. Code of conduct also acts as the control mechanism related to corporate sustainability (Garegnani et al., 2015). Talaulicar (2011) states that the corporate code of conduct is a written statement regarding moral norms that is laid out by company and the members of corporate are expected to follow such obligations and, in his study, code of conduct has a significant impact on enhancing the ethicality of corporate decision making. Author believes that code of conduct able to create opportunity for the individuals to behave ethically and McKinney, Emerson, & Neubert (2010) states that most of business leaders nowadays adopt the code of conducts to communicate with stakeholders that the business is committed and dedicated to norms of appropriate behaviour. As to date there is lack of proven studies both empirical and theoretical

support in the literature on the usefulness of code of ethics (Davidson, Stevens, Davidson, & Stevens, 2019).

Underpinning and Supporting Theory

According to Mkhomazi et al., (2017), underpinning theory and supporting are often described as a lens. Theory of planned behaviour is well known theory in psychology that has been used to predict and explain the human behaviour was used as the underpinning theory to analyse and interpret the data obtained from the proposed independent variables (Thoradeniya, Lee, Tan, & Ferreira, 2015). Theory of social contract by Thomas Hobbes (1588-1679) was added into researcher's investigation on the point of proving the relationship of this theory towards the moderating variable and referring to Lorenzo (2000) code of conducts is defined as the set of moral rules governing an organization, firm or association for which it can be implicit or explicit, tacit or recorded, either in the form of written statement or oral due to that code of conducts is not enforced by legally binding sanctions compare to the law. Thus, he resolved that corporate ethical code is both a potential justification and explanation to the social contract theories. Figure 1 below outlines the theoretical framework for this research study.

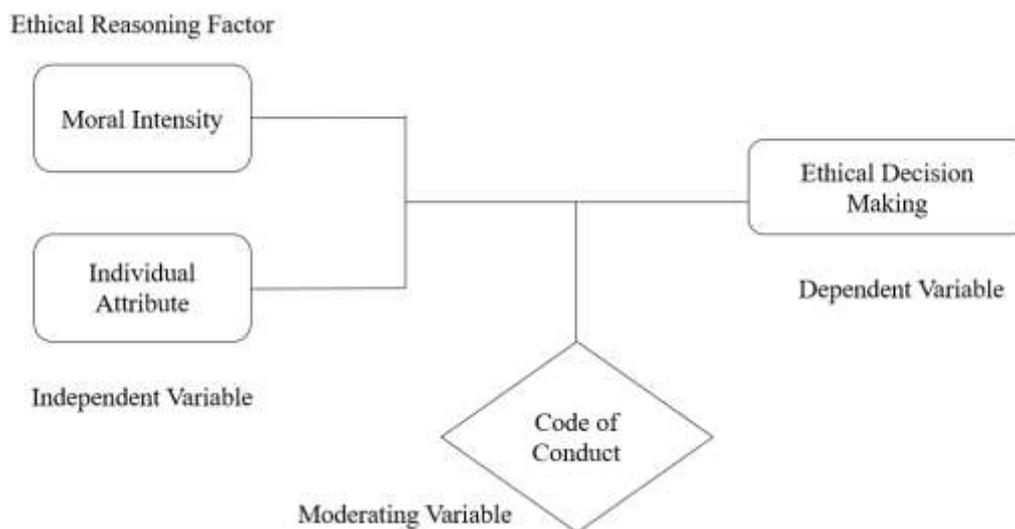


Figure 1: Theoretical Framework

Methodology

The population of this study was from Takaful industry and Takaful agents from Takaful firms were the unit of analysis. 150 samples were obtained for statistical analysis and these samples were collected from most favourable Takaful companies in Malaysia that includes Takaful Malaysia, Takaful Ikhlas, Etiqa Takaful and Zurich Takaful. Set of questionnaires were distributed accordingly and the instruments used were from Shawver et al. (2015) and Singhapakdi, Vitell, & Kraft (1996) for moral intensity, individual attributes questionnaires were adapted from Abramoff et al. (2015), Caliendo, Cobb-clark, Uhlendorff, Caliendo, & Cobb-clark (2010), Hadlington, Popovac, Janicke, Yevseyeva, & Jones (2019), Kesavayuth, Ko, & Zikos (2018), Markstrom, Sabino, Turner, & Berman (1997), Reza, Qarachanaq, Pormouzeh, & Loo (2015) and Rotter, 1966), code of conduct utilized Cleek & Leonard (1998) and McKinney, Emerson, & Neubert (2010). Statistical Package for Social Sciences (SPSS) version 22 was used to analyse the responds received.

Result and Discussion

Statistical analyses were done accordingly using SPSS programs and both Pearson Correlation analysis and multiple regression analysis test were conducted as to test the relation between the proposed variables towards the ethical decision of Takaful firms in Malaysia. Table 1 records the summarization of Pearson Correlation analysis.

Table 1: Summarization of Pearson Correlation Analysis

		SMI	SIA	SCOC	SEDM
Moral Intensity	Pearson Correlation	1	.327**	.374**	.417**
	Sig. (2-tailed)		.000	.000	.000
	N	150	150	150	150
Individual Attributes	Pearson Correlation	.327**	1	.417**	.539**
	Sig. (2-tailed)	.000		.000	.000
	N	150	150	150	150
Code of Conduct	Pearson Correlation	.374**	.417**	1	.524**
	Sig. (2-tailed)	.000	.000		.000
	N	150	150	150	150
Ethical Decision Making	Pearson Correlation	.417**	.539**	.524**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	150	150	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

From table 1 above, the results show that moral intensity is at 0.417 (41.7%) which indicates a medium relationship with the dependent variable and individual attributes 0.539 (53.9%) which reveals a strong relationship with the dependent variable. Code of conduct is at 0.524 (52.4%) and this stipulates the moderating variables has a substantial relationship towards the ethical decision making or the dependent variable. Apart from that, correlation for all variables are also significant at the 0.01 level (2-tailed). Table 2 and Table 3 represents the multiple regression analysis and this test were conducted for assessing the relationship among variables which have reason and result relation (Uyanık & Güler, 2013).

Table 2: Multiple Regression Analysis for Independent Variables

R	R ²	Adjusted R ²	Std. Error of the Estimate	F	Sig.
0.596	0.355	0.347	8.62291	40.514	.000

Dependent Variable: Ethical Decision Making			
Model	Standard Coefficient Beta	T	Sig
(Constant)		6.935	.000
Moral Intensity	0.270	3.853	.000
Individual Attributes	0.450	6.429	.000

Table 3: Multiple Regression Analysis for Moderating Variable

R	R²	Adjusted R²	Std. Error of the Estimate	F	Sig.
0.676	0.457	0.446	7.94209	40.932	.000

Dependent Variable: Ethical Decision Making

Model	Standard Coefficient Beta	T	Sig
(Constant)		9.161	.000
Moral Intensity	0.213	3.249	.000
Individual Attributes	0.238	3.123	.000
Code of Conduct - Moderator	0.397	5.223	.000

In order to choose the strongest unique contribution, the interpretation was based on standard coefficient beta and t-statistics. The multiple regression results show that there is a significant relation between moral intensity and ethical decision making which is Beta=0.270 and p=0.000. The results of the study on moral intensity effects on ethical decision making are parallel to Singhapakdi, Vitell, & Kraft (1996) which this study exposed that moral intensity showed substantial effect on the recognition of ethical dilemma, for which (a) marketer are likely to identify ethical dilemma where the magnitude of the negative consequences is greater, (2) marketer are likely to identify ethical dilemma where there is greater feelings of nearness has for the victims and (3) and marketer are likely to identify ethical dilemma where there is greater concentration of negative effect. Same goes in study conducted by Wang, Keil, & Wang (2015) where both magnitude of consequences and proximity showed significant effect on bad news reporting. For individual attributes, the multiple regression analysis shows that Beta=0.450, p=0.000. According to table, individual attributes shows great contribution since the standard coefficient beta attained is 0.450 which is greater than moral intensity and t-statistics also show that the value is at 6.429. This indicates that individual attributes make the strongest unique contribution in explaining ethical decision making and the outcome was similar to prior study conducted by Schnitzlein & Stephani, (2016) where individual attributes plays a crucial role as the non-cognitive skill in the context of low wages individuals where it does help individuals to avoid low wages jobs and inspire them to change from low-paid jobs to higher-paid jobs. Supporting to this, Ziadni & Jasinski (2017) exposed that greater ego strength contributes to less depression and greater wellbeing.

Code of conduct exhibit moderating effect on moral intensity and individual attributes since the significant level is less than 0.05, where the value is 0.000. Code of conduct present standard coefficient beta 0.397 and t-statistics=5.223. This can be supported by several studies which are from Talaulicar, (2011) that exposed code of ethics brings confident impact as to enhance the ethicality of corporate actions, correspondingly in Ihegaranya (2018) code of conducts have indeed certainly effect the mortgage lending practices on Raleigh, North Carolina and other parts of United States.

Conclusion and Recommendation

Takaful industry is on its developing phase, more studies and investigation should be done as to discover what are the loopholes and enhancement that should be improved or any other tools that should be implemented. For theoretical implication, this study contributes towards the newly found theory while practical implication defines the realistic impact on industrial practice. This study benefits the agents or any respective persons to identify the factors that contribute towards the ethical decision making and ethical behaviour. Besides, it is important to note that what are the elements that can strengthen the relationship between individual's perception and self-believed towards their behaviour. For instance, in this study researcher utilized code of conduct as to strengthen the relationship between ethical reasoning factors towards ethical decision making and this factor aids individual and organization within the industry to analyse what are the main aspects to be improved on.

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