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Centre for Applied Ethics
Linköping University

# Bluffing in Insurance Sales:

## A Pakistani Perspective

**-Hina Butt-**
Master's Thesis in Applied Ethics
Centre for Applied Ethics
Linköpings Universitet
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Supervisor: Marcus Agnafors, Linköpings Universitet

## Abstract

This thesis is a study of aspects of corporate culture that are generally ignored by the researchers. It considers issues like the effect of culture in ethical decision making, ethics in the marketing of insurance products and salespersons' attitudes and assessment of ethical dilemmas like bluffing.

This thesis explores the morality of bluffing in insurance sales while considering Pakistani culture. The word "bluffing" represents a wide range of practices from lying and deception to exaggeration of product features. Philosophers disagree on the morality of bluffing by considering different meanings. This thesis tries to evaluate all the meanings and comes to the idea that bluffing is different from deceptive practices. However, the morality of bluffing is dependent on the industry's situation, cultural norms and expectations of the customers regarding the salesperson's role. The practice of bluffing in insurance sales is discussed in this thesis because the insurance industry is perceived as less ethical by customers due to its major fraud cases. Moreover, this thesis tries to show the impact of cultural values in shaping the expectations of a particular behavior from an industry. By taking the example of the Pakistani insurance industry, this thesis tries to evaluate the act of bluffing in that particular culture. It studies the situation and expectations of customers in insurance sales negotiations. The aim of this thesis is to show that it is inappropriate to define bluffing as either moral or immoral, separating it from the situation. While considering the example of Pakistan, this thesis concludes that bluffing is immoral in this particular context.

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# 1. Introduction

This thesis focuses on an important ethical issue; what is the moral status of bluffing in insurance sales? The thesis plans to discuss various arguments in favor of and against the act of bluffing. To evaluate the moral status of bluffing, the insurance market in Pakistani culture is selected to be discussed in detail. For this purpose, the first chapter discusses the need of ethics in the marketing of a product. Moreover, the chapter highlights the situation the insurance industry is facing worldwide. The second chapter tries to evaluate whether or not bluffing to a customer is ethical. This thesis also discusses, in the third chapter, the impact of culture in shaping expectations of the role of the salesperson. Finally, in the fourth chapter, the thesis considers the situation of the Pakistani insurance industry as an example to evaluate the morality of bluffing.

Before moving to the main discussion, some background information about the importance of the issue in the real world is needed. This chapter provides some insight into the growing importance of ethics in business and marketing management. The chapter also discusses the problem of the bad reputation faced by the insurance industry due to major frauds and unethical practices of its salesforce. Finally, the chapter addresses the role of culture in ethical evaluations of behaviors.

## 1.1 Ethics and Business

Cases of fraud, bankruptcy and the collapse of giant businesses in the last decades have focused the world's attention on the conduct of business practices. These cases highlight the importance of business ethics. Bush *et al.* (1997, pp. 265-80) are of the view that business has a negative image among the general public because its main objective is considered to be "to make money only". Moreover, as Nantel and Weeks (1996, pp. 543-55) assert, a common belief about business is that it is independent of ethical concerns.

Business ethics is an attempt to assess business activity through reason, analysis, synthesis and reflection of ethical principles. Almost every business manager faces ethical dilemmas during his career. As Barrese (2007, p. 55) mentions, the huge variations in the theories that explain ethics in business show that assessing and controlling the behavior of a firm is not an easy task. We lack a particular standard of ethics to compare business behavior with. While making business decisions, managers have to face ethical dilemmas. Various decisions made in order to benefit the company may not be beneficial to stakeholders' interests. Hence, a manager has to balance different interests. In this context, we cannot ignore the importance of ethics in business.

### 1.2 Marketing Ethics

One of the important areas of business, where ethics plays a vital role is marketing. There are many ethical challenges that marketing managers face, such as: bribery, fairness, honesty to consumers, pricing, advertisements, customer privacy and information provisions to customers etc. As Farmer (1977, pp. 15-18) notices, unethical conduct in marketing is a result of the specific nature of marketing. Marketing deals with greed, selfishness and human desires. Marketing managers, marketing personnel and especially the promotional component of marketing (e.g. salesperson) are in direct contact with customers and face more ethical dilemmas than any other business people (Eastman *et al.*, 1996, p. 953).

"Product Sales" is an area in marketing that is under criticism due to the inability in managing ethical conflicts faced by salespersons. According to Dubinsky and Ingram (1984, p. 334) the climate of an industry, the pressure to perform, an absence of corporate ethical policy and a lack of direct supervision can influence a salesperson to engage in unethical behaviors. The relationship between salesperson and customers involves a greater risk of creating ethical conflicts. As salespersons work longer periods of time outside the office without direct supervision of managers, they are more prone to unethical behavior toward customers (Lagace *et al.*, 1991, pp.40-47).

Marketing of services is always a special concern because it creates a large potential for ethical conflicts. Since services are intangible, marketing staff often bluff i.e. misrepresent or exaggerate the qualities of the product in order to make it seem reliable and superior to the competitor's product. Holley (1998, p. 631) contends that one of the areas of marketing ethics that is inadequately explored, is the duty of a salesperson towards the customer regarding disclosure of information. Dubinsky and Ingram (1984, p. 343) observe that there is no research that examines factors which cause ethical conflicts in salespersons. There is no code of ethics which specifically addresses the issue of temptations, opportunities or pressure towards unethical behavior for salespersons. This is the reason why businessmen and ethics experts seldom agree on the ethical behavior for salespersons (DeConnick, 1992, pp. 789-98).

Salespersons are not expected to have professional responsibility toward customers as compared to other professions like medical doctors or lawyers. However, they have a moral obligation to provide adequate information in order to help the customer reach a decision. The question of “how much to disclose”, or bluffing to the customer creates an ethical dilemma. According to Marchetti (1997, pp. 28-36), various industrial reports show that in general, about half of the salespersons tell lies during their calls, one third of the salespersons make false promises and one in every five admits selling products that customers do not need. This is the reason why salespersons are perceived by the general public as having low ethical standards.

As Dabholker and Kellaris (1992, pp. 313-29) notice, the criticism against salespersons can be attributed to the fact that they have to balance between short term profit and long term perspective. They have to choose whether to make immediate profit by using any means to meet sales targets or to speak the full truth to win the customer’s trust and build a long term relationship with him, which may generate more revenue in the future due to a good reputation and repeat business. Therefore, marketing personnel are more vulnerable to ethical dilemmas. Their behavior, when facing such dilemmas, is crucial for a company’s public image.

### 1.3 Ethics in the Insurance Industry

Misconduct when marketing a product is more likely when the product is complex to understand and when it is difficult to make comparison with another competitive product (Posner, 1973, pp. 8-9). This is also the case in the insurance industry. Insurance is all about managing risk. Its products are intangible and the only thing a customer receives, after paying the premium, is peace of mind and a legal document which is often difficult to understand. The result of such complexity is that the customer relies heavily on the salesperson for a suitable insurance policy. Consequently, the customers often do not understand that they are being victimized. Therefore, it is easy to deceive customers in insurance industry. According to Cooper (2007, p. 10), insurance professionals face ethical dilemmas on daily basis.

As Barrese (2007, p. 55) argues, the largest frauds in the insurance industry are made by its participants rather than its claimants. The recent lawsuits, that highlight major insurance frauds, show the sheer need of ethics in this business (Ibid, p. 56). An organization's culture can also encourage its members to behave unethically. According to Sims (1992, p. 510), some firms are known to selectively recruit and promote employees who have personal values consistent with illegal behavior. Firms may also encourage employees to engage in illegal acts as a part of their normal job duties.

The insurance industry has an image problem (Eastman *et al.*, 1996, p. 951). The general conception holds that the industry has a tendency to behave unethically towards customers. Many customers do not trust the industry, as Feldblum (1990, pp. 72-75) observes. This problem has been boosted by the large scale insurance fraud cases which were highlighted by the media. This situation demands that the insurance industry focuses on ethical behavior.

However, some studies found that in insurance industry, there are no efficient measures to identify an agent's potential towards unethical behavior. The rising competition in this industry and the custom of basing salesperson's earnings on commissions provide incentives to use aggressive sales techniques. This leads to the use of unethical means to acquire a client's business (Eastman *et al.*, 1996, pp. 953-54). Greater competition within companies can increase the chances that a salesperson will act unethically (Bellizzi, 1995, pp. 1-15). Moreover, it is difficult to establish deceptive behavior of insurance sales personnel due to blurred boundaries between what count as criminal acts and what count as violations of acceptable marketing practices (Ericson and Doyle, 2006, p. 995). Therefore, salespersons are seldom charged or convicted of fraud.

Cooper (2007, pp. 10-15) mentions that U.S Attorney General Spitzer investigated the insurance industry and found various fraudulent behaviors in insurance personnel's practices:

- In order to sell a particular policy for earning commission from certain companies, they neglect the needs of customers.
- The insurance professionals misrepresent the services provided by the policy. Moreover, they provide the wrong picture of commissions to clients. They collude with other insurance companies who present the customer with false and inflated bids in order to secure business with a particular insurer.
- They deceive the client by ensuring that they are protecting the client's interest during the claims procedure but in fact they try to prove the client's claim as fraudulent.

Unfortunately, the importance of ethical aspects in insurance business has not been discussed enough in marketing literature. Strange (1996, p. 122) is of the view that the insurance industry has received little attention from social scientists. Also, deceptive life insurance marketing has rarely been studied by researchers.

Moreover, an industry's image as a whole has a significant impact on customer's perception of its ethical conduct. The customer expects the same ethical behavior from a single firm in the industry as he expects from the whole industry. Roman and Ruiz (2005, p. 441) argue that consumers have low ethical expectations of a salesperson belonging to an industry which is considered unethical. Hence, a firm has to make an effort to improve its reputation when belonging to such an industry. There is another side effect of the bad reputation of the insurance industry. The negative perception towards the insurance industry encourages customers to engage in fraudulent claims (Tennyson, 1997, p. 250). Customers rationalize their questionable conduct as a response to the insurance firm's unfairness and unethical conduct. Consequently, they perceive their misconduct as acceptable and place liability on insurance firm.

### 1.4 Cultural Impact on Ethical Behavior

Company really finds itself in trouble when it moves to a new country. In a new country, there can be demands from the local culture for an act which seems unethical in the company's host country. For example, bribing a government official is unlawful but if a company moves to a third world country where this act is a common practice to enter a market, the company has to be careful in making any decision.

Culture has been identified as one of the important determinants of ethical decision making in business (Christie *et al.*, 2003, p. 267). As Hunt and Vitell (1986, pp. 5-16; 1992) argue, the culture has significant effect on ethical decision making. It affects an individual's perception of and selection of alternatives in an ethical dilemma. When the ethical scenario is not clear and positive, ethical dilemmas often result in unethical behavior. The national culture has a strong influence on a manager's ethical attitudes (Christie *et al.*, 2003, pp. 263-87). A manager's attitude towards questionable ethical behaviors depends on the external environment, gender and personal integrity.

As Cohen *et al.* (1993, pp. 1-2) believe, professionals in different countries have different ethical perceptions and standards. For example French people tend to be of the opinion that ethical behavior is governed by formal codes of ethics. Germans, on the other hand, believe that business persons need not consult the rules of morality before making decisions in business. U.S salespersons tend to behave more unethically as compared to Koreans and Japanese. U.S salespersons also feel comfortable when they have written policies to rely on. Cohen *et al.* also claim that a person's perception of immorality depends on the culture of that person.

Therefore, in order to ensure the highest possible ethical behavior and quality in work performance, multinationals have to manage diverse standards and policies carefully. The significant differences in moral decision making can lead to conflicts with local managers, governmental bodies, customers and suppliers. On the other hand, multinational organizational culture can exert a powerful influence on its members. Their beliefs are influenced by the global corporate culture which can be different from their personal beliefs (Abratt and Penman, 2002, p. 279).

In international marketing, the factors that shape ethical decision making should also be considered. Every culture has a major impact on the techniques used for marketing purposes. Lu *et al.* (1999, p. 91) observed that the effect of culture in ethical decision making in marketing is seldom discussed. In the case of cross culture sales practices, there are very few studies on the subject.

## 1.5 Conclusion

Business has a significant impact on society and hence we have to consider ethical issues before making any business decisions. The lack of research on sensitive issues like the factors affecting a salesperson's attitude towards evaluation of ethical dilemmas shows that this issue is not taken seriously by researchers and industries.

The insurance industry is one example of a business needing to pay attention to ethical behavior. Generally, in this industry salespersons use means like bluffing, deception, lying, misstatements or concealments of facts to persuade customers to purchase their product. Unfortunately, there are very few studies conducted on the behavior of insurance sales personnel or on ethical aspects of the insurance industry. There is a need to discuss this issue openly as the insurance industry is one of the major industries that has significant impact on society.

Understanding the effect of culture on ethical decision making helps companies to develop management and marketing behaviors accordingly. The same situation can be perceived differently in different cultures. The insurance industry which is facing a reputational problem throughout the world has to be careful when entering a market in a foreign country. Again, there is very limited research on the impact of culture on a salesperson's behavior.

Therefore, the overall aim of this thesis is to highlight various ethical aspects which are seldom discussed. In particular, this thesis investigates the ethical status of bluffing by an insurance salesperson while taking a cultural context into consideration.

## 2. Is Bluffing Ethical?

By discussing various theories and arguments, this chapter evaluates the moral standing of bluffing which is the main part of the research question of this thesis. Some philosophers consider it as an ethical act while others consider it unethical. The scenario becomes clear when we look into the meaning of the word “bluffing”. Bluffing ranges from exaggeration to deception and therefore, its ethical status changes with its meaning. Moreover, this chapter focuses on the role of the insurance salesperson. It also discusses the duty of a salesperson concerning the information disclosure relating to an insurance product. Finally, it concludes that bluffing is ethical or unethical depending upon the particular context.

### 2.1 Background

Bluffing is a topic of interest to ethicists. On one hand, it is considered equal to lying and therefore, impermissible. On the other hand, it is considered as an appropriate tool for negotiations and thus permissible (Allhoff, 2003, p. 283).

An article by Albert Carr “Is Business Bluffing ethical?” started a new discussion in business ethics. Carr (1968, pp. 143-53) believes that we should treat business according to game strategy. As long as we are playing within the rules of the game, we are allowed to do what ever we can. He compared the business to the game of Poker where bluffing is the norm of the game and fully ethical. The player who can bluff successfully is a good player. Similarly a manager keeps his personal morality aside and avails the opportunity by legal means even if he has to bluff. In any case, he should prefer to be truthful but this does not mean that he should always speak the complete truth. It is not necessary that business and personal ethics always conflict. But whenever we get a chance to deviate from everyday moral rules to make profit, we should not miss the opportunity.

Barrese (2007, p. 58) argues that society has provided some privileges to business in addition to the resources for production and these are ‘potential immorality’ and ‘limited liability’. In a return, the business fulfills the needs of the society by producing goods and services. Similarly, Friedman (1993, pp. 249-50) claims that the manager should conduct business in a way to make as much money as possible while obeying the rules of society, law and ethics at the same time. The manager’s primary obligation is towards the business and its owners.

Hence, it seems that bluffing in business cannot be considered as a taboo. Rather, its nature must be discussed in order to clarify its moral status.

## 2.2 Discussion

### 2.2.1 Business and game are dissimilar

Carr makes the claim that games like poker and business are similar. Therefore they have different moral laws compared to their personal lives. But in fact, there are several differences between games and business. In order to refute Carr's claim, one should make clear that business and games are dissimilar in a relevant way (Koehn, 1997, pp. 1447-8).

In games, the success of one party is the loss of the other. In business, to make a client "a loser" is the wrong strategy (Ibid, p. 1447-8). In business negotiations, where a business executive looks for a win-lose strategy, he always suffers a loss because of spreading of bad word of mouth by the customers. Business negotiation is an additive sum game while the game of poker is a zero-sum game. In a zero-sum game, only one person can win, while if business negotiations are successful, all the stakeholders gain (Strutton *et al.*, 1997, p. 553).

In a game, the action of the player is limited to the group of players, while the company's deception affects the whole society (Koehn, 1997, pp. 1448-51). A game is played for fun between friends. They usually do not mind being betrayed in a game like poker where they already know the rules. The relationship between customers and business is not of friendship but that of trust. In case of any betrayal, the relationship will fracture permanently (Ibid, pp. 1447-8). Deceptive practices lack the full consent of the customer. In games, the rules are defined before playing the game and the players engaged in the game know all the rules and fully consent to them. In the case of business, there are no such defined rules about bluffing. Moreover, businesses try new practices everyday in order to increase wealth. Even in industries where bluffing is a common norm and consumers have the choice to go to any seller and get information from many sources, it is really hard to find out which company is bluffing and which is not. Hence, the customer reluctantly enters the negotiations because he has to fulfill his needs. This does not count as consent to bluffing (Piker, 2002, pp. 338-39; Koehn, 1997, p. 1449).

Since the managers are agents of business, they are acting on behalf of the business. In case of any misconduct, it is not easy to establish the responsibility of a business. Also, we cannot punish businesses for various crimes as we do individuals. When a manager behaves unethically, the business will suffer and the owners have to pay the liability. In case of a game, we can easily place responsibility on a player and punish him directly. Thus, it is unfair to treat business as a game and define its rules as similar to games (Koehn, 1997, p. 1452).

From these arguments, it seems that business and games like poker are not similar in a relevant way; therefore it is unreasonable to infer that we can use the moral standards of games to judge the conduct of business. But, only showing the difference between game and business is not enough to prove that bluffing is unethical. We need to discuss the act of bluffing in itself to establish its moral standing. To simplify our discussion, only bluffing in business dealings especially between salesperson and customer will be considered below.

### 2.2.2 Formula for Universal Law

To understand the moral status of bluffing, it is helpful to focus on well known ethical theories. Carr's critiques use Kant's first formulation of the categorical imperative i.e. "Formula for universal law". According to Kant, an action is unethical if its result is unacceptable to us in case everyone follows the maxim of that act. Managers must place themselves in the position of the customers to understand how they feel victimized by misinformation.

Kant's argument for the prohibition of lying based on the first formulation of the categorical imperative can be rejected in certain circumstances. In some situations, there are values which are more important than telling the truth (Strutton *et al.*, 1997, p. 547), e.g. to save the lives of many people, lying to a terrorist that we have killed all the members of a terrorist group in order to get information about the bomb he planted, is ethically justifiable.

### 2.2.3 Bluffing is equivalent to Coercion

In case of business dealings between a salesperson and a customer, bluffing takes the form of coercion and as a result, it is unethical. When dealing with customers, we should never forget the basic principles of ethics (Boleyn-Fitzgerald, 2003, pp. 412-18):

- Respect for persons: we should treat customers as autonomous persons and those with diminished autonomy are entitled to protection. They have a right to know important information in order to be able to give informed consent. Informed consent includes establishing one's competence, right to disclosure, voluntariness and consent. No use of manipulative or coercive forces.
- Beneficence: Maximize possible benefits and minimize possible harms.
- Justice: Give them their due (according to what they expect and what satisfies their needs) and treat them fairly.

Cases of bluffing usually violate the aforementioned principles of ethics. If the salesperson tries to get information from a client through bluffing, which the client might not want to share if he knows the salesperson’s motive, in reality the salesperson is infringing the customer’s rights to privacy (Kirkpatrick, 2002, p. 12). Moreover, a customer is getting information from a salesperson in order to make a decision, and the false information will lead to a different decision. Hence the deceiver is controlling the customer’s decision and actions without his permission. In such a situation, the act of misrepresentation cannot be considered as ethical because it is interfering with a person’s autonomy (Piker, 2002, p. 343).

The act of bluffing is also against the dignity of a person because the salesperson is benefiting by misleading a customer and distorting his autonomy and privacy. Moreover, by ignoring the customer’s expectations in negotiations and just focusing on his self interest, the salesperson is using the customer as a means. This is a violation of Kant’s second formulation. Giving the information in response to customer’s expectation forces a salesperson to treat customer as an end (Strutton *et al.*, 1997, pp. 550-54). Therefore, according to ethical theories, if bluffing is violating the customer’s basic rights, it is unethical.

### 2.2.4 Ethics and common practice

One can argue that moral rules should not be always followed. Sometimes, moral rules set ideal standards which are difficult to live up to in practical life. They might require sacrifice of self interest, e.g. full disclosure in every situation. Sometimes, behaviors are common practices which are not moral ideals. People make expectations out of these behaviors and assess blame or punishment accordingly. Such a behavior is not judged against ideal norms but according to common practices (Holley, 1997a, p. 166). The way people actually behave in some social context provides some idea how to act if the rule is publicly accepted. There is a “Madison Avenue mentality”, a perspective which says that if you can convince the public that your actions are right, they are considered right acts (Sims, 1992, pp. 505-13; Holley, 1998, p.634; Dabholker and Kellaris, 1992, pp. 313-29).

Holley (1998, p. 635) states that if a practice is widespread enough, it becomes an acceptable behavior and a person is expected to act accordingly every time he or she is in the same situation, we can then advocate the rule as moral norm. When a moral rule is not practiced publicly and people have no expectations of others following such rule, we can say the rule ceases to exist or no longer remains a functioning part of the moral system (Ibid, 1997b, p. 378). Hence, failure to disclose the full truth, when it is a norm within the industry, can be seen as morally acceptable.

However this view of ceasing the practice of a moral rule seems problematic. One cannot accept bluffing as ethical by taking it as a common practice. Some individuals, institutions, industries or even cultures accept practices which are immoral. The "Argumentum ad Nazium" says that even if nobody challenges immoral practices, they remain unethical (Benn, 1998, p. 17). For example, the old custom of burning the widows alive in India was acceptable in that culture, but it remains a wicked act. Similarly, slavery was once acceptable in the U.S but this does not make it ethical act.

### 2.2.5 Bluffing in self defense

Carr (1968, pp. 143-53) is of the view that if we do not play according to the rules of the business, then in the long run we will fail as others will avail the opportunity by bluffing. As long as we are within the boundaries of the law, we should shape our strategy around our motive, i.e. to earn profit. The excuse of violating moral law in self defense is actually based on Hobbesian morality. According to Hobbes, I am bound by moral law only if others are also abiding by it. If others violate the law, then it is unethical to bind myself to the moral law and make myself "prey to others" (Holley, 1997a, p. 160).

Our moral rules ceases to apply in some situations where the prudential costs are too high to obey the rules, e.g. killing in self defense. However, situations like loss in business or loss of the employment or failure to compete in the industry without the deceptive practices are rather excuses which can be overcome if we aim for long term relationship with customers, as Piker (2002, p. 341) notices. Moreover, we can respond to this objection by saying that if misstatements are the industry norm, and we are misstating in self defense, then we are actually exploiting customers. In the case of self defense, we take action against the one who is harming us, which in this case are our competitors. By misstating, we are preying upon the innocent customer's position. This makes our action morally wrong (Kavka, 1983, pp. 61-64). Therefore, Carr's suggestion to use bluffing in self defense does not seem plausible.

### 2.2.6 Role based morality

Carr (1968, p. 143) gives the example of the duty of a defendant's lawyer. His duty is to save the client instead of revealing the truth. Therefore, no one expects that he will tell the truth and let his client be proven guilty of the offence. His act to save the client is considered ethical. Kirkpatrick (2002, pp. 6-8) claims that Carr's theory encourages a person to have different personal characteristics depending on the situation. A salesperson, who is heavily relying on just one client and is afraid of losing him, is not a good employee even for the business because a rational person would not like to do this.

We can answer this objection by suggesting a role differentiated morality i.e. certain roles make some acts permissible which are otherwise considered immoral. Similarly, some roles allow bluffing while some restrict it (Allhoff, 2003, pp. 283-87). In business negotiations, both parties presuppose that bluffing is accepted and hence defend their positions accordingly. They not only approve but endorse bluffing, which becomes a license that bluffing is morally legitimate in that particular context.

Moreover, Pruden (1971, pp. 98-104) mentions that a marketer contains three sets of ethics. These are individual, organizational and professional. The individual morality of a person is different from workplace ethics and thus it is not a must that a person who behaves unethically in business is also immoral in personal life. This phenomenon is proved by Eastman *et al.* (1996, pp. 951-62) in a study which showed that the insurance personnel are more prone towards unethical behavior professionally as compared to their personal lives.

From this argument, it seems that bluffing depends upon the situation and role of the person for its moral status. Hence, there is a need to explore the nature of bluffing in detail.

#### 2.2.7 Conclusion

The above discussion reveals that business is different from games and therefore it does not necessarily require different moral standards. Also, according to ethical theories, if bluffing is equivalent to coercion, against a person's dignity or violates any basic ethical principle, it is immoral. The excuses that proponents of bluffing generally provide i.e. bluffing as common practice or self defense are also not convincing enough to make bluffing ethical. Then what is the reason that many philosophers like Carr, Carson, Beach, Allhoff or Holley believe that bluffing is ethical? Some role sets demand some deviation from ideal moral principles in order to perform the duties. This means that there is some scope to evaluate bluffing morally. A common thing that can be noticed in above arguments is that critiques consider bluffing equivalent to lying or deception. But as Varelius (2006, pp. 163-66) mentions, business bluffing "can be" considered similar to lying or deception. This shows that bluffing is not only lying or deception. Bluffing can also include mild practices like exaggerating product features. To understand the true nature of bluffing and making a final evaluation about its moral nature, we need to consider all of its meanings.

## 2.3 What does Bluffing mean?

In order to assess the morality of bluffing, it is important to understand the true nature of bluffing. According to Lewicki and Robinson (1998, p. 666), when two parties start a negotiation, they evaluate their tactics on a continuum of ethics ranging from "ethically appropriate" to "ethically inappropriate". Between them is a "grey area" in which tactics may be marginally unethical but justifiable as "ethical" in particular circumstances.

Unethical behavior in sales interactions can take many forms; misrepresentation of product features, false promises on delivery times, hidden costs, or silence in response to customer inquiries. In reality, it involves the failure to tell the truth (Strutton *et al.* 1997, p. 545). Bluffing, concealment, distortion of facts, deception, conscious misstatement, hiding information and lies are not same. Communication strategies often involve withholding of information but not deception or conscious misstatement (Provis, 2000, p. 155).

### 2.3.1 What is lying and deception?

Carson (2005, p. 399) says that a lie is a false statement which one affirms as true. If a person deliberately makes a false statement and guarantees its truthfulness, it is a lie. When one makes a lie, he invites others trust him while simultaneously breaking his promise (Carson *et al.*, 1982). Lying involves giving misinformation to the opponent, eliminating the opponent's alternatives by misstatements or manipulates the perceived costs or benefits in order to convince the opponent to purchase the seller's product.

Deception is a message made to mislead others. We can deceive by gestures, disguise, action or inaction or by keeping silent on an important issue (Bok, 1978, pp. 17-32). Lying is a part of deception. In fact, a lie is a deceptive message stated to others. Allhoff (2003, p. 285) is of the view that if we hide some important facts that can change the whole situation, it is also deception.

Carson and Bok agree that lying is an expression with the intention of misleading others. But this does not mean that all misleading includes lying. Practices like exaggeration in advertisements or withholding information about competitor's product are not categorized as lying (Takala and Urpilainen, 1999, p. 187). Both male and female managers think that holding back information is not lying (Ibid, 1999, pp. 181-195).

Lying or deception can take any form but it is evident that such practices are intentionally made to ensure that the other person should act in a way contrary to the ends that he has set for himself. The aim of this discussion is to show that bluffing is not lying or deception. Therefore, whenever business bluffing takes the form of deception or lying, it is “ethically inappropriate” even on the basis of self defense. On the other hand, bluffing is usually a relatively innocuous tactic -sometimes referred to as exaggerating claims (Provis, 2000, p. 146).

### 2.3.2 When is bluffing ethical?

By eliminating the elements of deception and lying, bluffing does not prove to be ethical; rather it falls in the category of “grey area” on continuum of ethics. Hence, there is a need to explore it further. As Beach (1985, p. 191) states, “Business bluffing is an act of puffing at best and misrepresentation or fraud at the worst”. Bluffing can be “passive” or “active”. Active bluffing involves deliberate misstatements for the purpose of impressing others. A passive bluff is one where one consciously omits some useful information in order to make the statement impressive. It is not the act of making a false statement, but merely concealing certain facts (Beach, 1985, p. 192).

Now, it is clear that if the statement made by a seller is just an opinion (known as puffing), it can be considered as ethical (Beach, 1985, p. 193). Puffing is the exaggeration of the good features of a product or a business. Usually, a certain amount of puffing can be expected of any salesperson, and it cannot be the basis of a lawsuit for fraud or breach of contract unless the exaggeration is against the reality. Passive bluffing then falls under the category of puffing and thus the “ethically appropriate”. However, if the puffery includes outright lies or has no basis in fact (active bluffing), a legal action for rescission of the contract or for fraud against the seller is possible. Carson *et al.* (1982, pp. 13-22) consider active bluffing as a lie and as a result illegal and immoral.

Therefore, passive bluffing is morally permissible because it does not involve lying. If we have good reasons to believe that the other party is bluffing, we are morally permitted to bluff (Carson, 2005, p. 399). In this situation we are not violating the autonomy of other person. The judgment of behavior like deception or lying often depends upon sensitivity of the context and an awareness of common linguistic practices in the culture (Holley, 1997b, pp. 370-74). For instance, if a health insurance policy mentions that it covers everything, a reasonable customer is not expected to believe every word. Rather, he should infer that it is better than other policies. When a practice becomes publicly widespread, it opens the door to different interpretations of words and actions. Hence, the consumer most probably anticipates and responds to expected behavior. If a person knows that the salesperson is bluffing, and he is capable of taking care of his interests, the resulting injury is directly brought about by the party's own actions. In such a case, the act is considered as ethically permissible (Beach, 1985, pp. 194-95). According to the rules of ethics, we should avoid harm to others. Since bluffing as discussed above is such a mild practice that harm inflicted by it does not possibly breach a person's autonomy, bluffing is legally and ethically acceptable. Therefore, one should consider the expectation of the customer before judging the situation and act accordingly.

#### 2.3.3 Conclusion

The above discussion on the nature of bluffing reveals that passive bluffing is ethical as long as the customer is not vulnerable to exploitation. However, if the salesperson is intentionally making a false statement and knows that the customer is deceived by his statement, the act is unethical. But in this case, the act made by the salesperson is not "bluffing"; rather it is a case of "fraud". So, by definition, said Beach (1985, p. 195), bluffing (or puffing) is legal and ethical.

Therefore, bluffing is not considered as generally prohibited but falls somewhere between an ethical ideal and the immoral. Now onwards, this thesis refers to bluffing in the sense of passive bluffing, i.e. concealment of some facts and exaggeration of the company's products. The thesis will not consider any misstatement or deception. So far, it is concluded that morality of bluffing depends upon the particular situation and the reasonableness of a customer. To judge whether a customer is reasonable enough to bluff (i.e. the customer is not vulnerable to exploitation) and the impact of cultural practices on morality of bluffing are the topics which need to be discussed in detail. The thesis will return to this discussion after considering an industry which is widely known for its practice of bluffing.

### 2.4 Insurance sale and Bluffing

Overall, the insurance industry has a negative image in the eyes of its customers due to malpractices by insurance salespersons and frauds by the industry's executives. The products of the insurance industry are complex and customers are dependent on the salespersons to fulfill their needs. This provides an opportunity to benefit from customer's innocence. The study conducted by Eastman *et al*. (1996, pp. 951-62) on insurance professionals shows that they are more likely to behave unethically in order to gain professional benefits as compared to when behaving outside their professional role.

Finding an ethics for the insurance business is difficult because the business has some rules which deviate from common moral laws; the essence of this business is discrimination (Barrese, 2007, p.59). We have to separate good drivers from bad ones in order to evaluate risk accordingly. Also, Ericson and Doyle (1990, p. 1000) claims that the insurance market is based on commission system which is a prime motive for misconduct. The ethical dilemmas that insurance sales agents face daily include (mentioned by Ericson and Doyle, 2006, pp. 997-1002; Eastman *et al.*, 1999, p. 955; Cooper, 2007, pp. 17- 36):

- Convincing a client that the product is superior to the competitor's, while in fact this is not true.
- Misrepresentation of a claim or investment value to insurance scheme (e.g. in life insurance schemes).
- Encouraging a customer to buy a policy while in reality he needs none or selling extra coverage in addition to customer requirement in order to raise premium and thereby also the sales agent's commission.
- Replacement of policies without offering full disclosure or offering low priced policy without disclosing higher deductibles.
- Failure to provide honest responses to a customer's inquiry, instead providing false or misleading representation of a product in advertising, marketing and sales efforts.
- Making disparaging remarks about a competitor's products or staff.

From these points, it is clear that some of the practices fall under the category of deception and lying and therefore are immoral. But some of the practices like failure to provide an honest response to customer or information in advertisement are forms of bluffing which can be ethically justified by considering the reasonableness of the customer.

One of the unfortunate factors for insurance personal, and especially insurance sales agents, is that they are not acknowledged by customers as professionals (Oakes, 1990, pp. 676-78). A number of industries including financial services, insurance and automobile repairs have started certification programs in order to present their salespersons as professionals and by this tactic enhance the customer's trust in them (Donaldson, 2000, pp. 83-94). However, the lack of professional status encourages salespersons to impress the customers by highly speculative assumptions about the payment period of premiums (Ericson and Doyle, 2006, pp. 998-9). In doing so, they conceal some key facts like hidden costs, deductibles, fees and surcharges. Their main focus is on exaggerating the risk to the customer in order to convince him to make the sale. They usually make reasonable assumptions and confidently project the returns. Once the salesperson succeeds to win the customer's trust, the number of variables in sales process reduces. The customer does not doubt whether the sales agent's claim is true or not, the agent has understood the needs or whether agent's intention is to make a commission. In some cases, the insurance agents make some assumptions about the reduction in payment periods based on high interest rates, but in reality, the situation is reversed and the customers has to pay for longer periods.

There have been some efforts to make this industry ethically sound. The "Life Insurance Marketing and Research Association (LIMRA)" is a marketing research institution for life insurance industry in more than 70 countries. It provides training materials and training services to the industry. However, Oakes (1990, pp. 672-679) observes that in the literature provided by LIMRA, salespersons are taught to manage their skills to ensure good relationships with the client. For this, salespersons are allowed to violate ethical principles. LIMRA claims that customers are aware of the risk of trusting a salesperson but they are trying to balance this effect by gaining potential benefits from the policy. Since the customer has taken the risk to trust the salesperson, it is easy for an insurance company to blame the customer in the case of a conflict. The insurance company can claim that the customer is unfairly attacking the insurer for his/ her own bad choice of policy (Ericson and Doyle, 2006, p. 996).

Cooper (2007, p. 17- 36) surveyed the Chartered Property Casualty Underwriter (CPCU) professionals in 2005 while comparing results to the surveys in 1989 and 1999. Their results show that in earlier studies, the CPCU professionals considered misrepresentation in advertising and sales as an important ethical dilemma but in 2005, they ranked it very low in importance suggesting that they are no longer taking this matter seriously. Moreover, misinformation about the competitor and its product is considered somewhat more unethical in 2005. Similarly, failure to respond to customer's inquiries is considered somewhat ethical issues in 2005 as compared to previous studies. Therefore, it can be inferred that insurance professionals are now more comfortable with misrepresentation of their products to customers.

Unethical behavior can also be the result of business traditions and considered as perfunctory (Dubinsky and Ingram, 1984, p. 344). Sometimes, the insurers ignore the natural biases of their employees in the case of sales and claim handling if these biases work to the advantage of insurers, even at the expense of policy holders (Doerpinghaus *et al.*, 2003, pp. 185 205). There are also cases where managers taught the sales agents various techniques of misconduct (Ericson and Doyle, 2006, p. 997).

Moreover, the absence of direction from upper management and ambiguous codes of ethics open the door to questionable practices (Bellizzi and Hite, 1989, pp 36-47). A competitive environment, ever increasing consumer demands, ambiguous ethical standards and pressure to produce results provide opportunities to salespersons to become involved in unethical practices. The people in organizations tend to develop practices that are contrary to prevailing ethical standards because those who commit unethical behaviors are rewarded by the organizations (Mulki *et al.*, 2009, pp. 125-126; Sims, 1992, pp. 505-13). This is the situation the insurance industry is currently facing. The insurance industry has to improve its image while at the same time having to increase the sales volume in order to sustain itself in such a competitive environment. It is already discussed in previous sections that common practice cannot guarantee that bluffing is ethical. To evaluate whether bluffing is ethical for an insurance salesperson in such a competitive and commission based industry, it is necessary to consider the role of the salesperson.

### 2.5 Role of a Salesperson

Most of the ethical conflicts are the product of the salesperson's role being isolated from the company's direct supervision as well as competitive in nature and involving direct interaction with customers. They are rewarded for their sale's performance which creates opportunities and temptations to short term orientations (Strutton *et al.*, 1997, p. 545). Salespersons have two ethical systems, the personal and the company's. A personal ethical system is usually stricter than the company's system (Dubinsky *et al.*, 1980, pp. 11-16).

According to ethical egoism, everyone should maximize his own benefits. Other people should be treated well only because this is for the person's own welfare in long run (Takala and Urpilainen, 1999, p.185). Being an agent of the firm, the salesperson has a moral obligation to take care of the company's interest. Since the livelihood of a salesperson is dependent on the company's performance, he is basically protecting his self interest. In this context, the salesperson has no obligations to reveal all the information. He is acting ethically according to ethical egoism. But on the other hand, the company's long term profit is based on a strong relationship with its customers. Therefore the salesperson has an obligation to treat them fairly.

These obligations towards the company and the customers create contradictory demands for the salesperson and he has to face truth telling dilemmas (Strutton *et al.*, 1997, p. 546). Moreover, if misrepresentation is the industry's norm, then a moral salesperson who knows there is no guarantee that the competitor's lie will be uncovered gets frustrated. Thus, a suggestion that the person should tell the complete truth will most probably be rejected. In such situations a salesperson is often caught between the moral standards to tell the truth or to use realistic selling behavior. Since salespersons are not philosophically equipped to resolve the ethical dilemmas, they most likely conclude that morality is not germane to the business conduct (DeGeorge, 1990, pp. 263-93).

Although research studies show that customers are vulnerable and that is in the salesperson's self interest to prey upon the customer's vulnerability, the question rises whether it is a salesperson's duty to protect the customer's interest instead of selling the product? (Radin and Predmore, 2002, p. 80). It is already discussed that there is a moral difference between providing false statements and not revealing full information. A salesperson is obliged not to tell a lie but can be permitted to speak less than full truth in some circumstances. It is doubtful that any such moral obligation exists that directs a salesperson to tell the complete truth regardless of the situation (Strutton *et al.*, 1997, p. 584). The role of the salesperson is not to make sure that the customer takes the best product. He is not obliged to act altruistically and to provide the customer with a superior product from the competitor (Holley, 1998, p. 638). In such a case, the salesperson is acting immorally by denying his role as the company's agent and an advocate of the company's product. This situation leads to the problem of how much information a salesperson can provide to customers in order to remain within the standards of ethics i.e. what are the limits within bluffing that are ethically justified?

## 2.6 Duty of Information Disclosure

One of the most problematic areas to study in ethics is the connection between ethics and telling the truth (Takala and Urpilainen, 1999, pp. 184-86). The study of lies or the act of lying is the most neglected area in business ethics as only very few studies can be found on this topic.

A salesperson cannot easily decide what type of information a customer needs. It is not possible to reach the "whole truth". There are many barriers that prevent us from attaining full knowledge (Bok, 1978, pp. 22-23). The customer might need tailored information according to his needs. He might have interest in some specific aspects of a policy. The customer might have a better approach to information collection about the policy and regards full disclosure of information as a waste of time. A customer might be interested in the evaluation of all the products available in the market. In any case, the salesperson cannot decide about the perfect information for a particular customer (Holley, 1998, p. 633). However, considering the salesperson's role as an advocate to the company's products, the salesperson's obligation to information disclosure is limited. By providing limited information, the salesperson is persuading the customer, not coercing. It can be inferred from a salesperson's role that he is expected to reveal the competitor's information only when it is strategically advantageous to do so.

Previously, people looked towards salespersons as guides to rely upon. The role of salesperson has now changed. Salespersons are more concerned about the product they are selling instead of focusing on the customers need. The customers are also using much more time on information gathering and product research prior to purchase. The internet has provided so much knowledge that it is inappropriate on customer's part if he does not take the time to educate himself about the product (Strutton *et al.*, 1997, p. 555). Moreover, customers do realize that there are hidden incentives behind the salesperson's advice. They are naturally aware of the biases and expect the salesperson to promote his company's product over a competitor's product (Radin and Predmore, 2002, p. 80).

According to the basic ethical principles, the salesperson should treat the customer fairly, i.e. if a customer needs information which is unavailable from any other resources, salesperson has a duty to provide; otherwise, it is the customer's responsibility to find information to protect his interest (Holley, 1998, pp. 633-36). However, the principle of fairness demands that vulnerable customers should be protected and therefore it is the salesperson's duty to provide information that saves such customers from choosing a product contrary to their interest. A vulnerable customer is one who is not capable of protecting his interest. There can be many reasons for vulnerability: he might have no experience with such products before, the product is so complex that he is not capable to understand it easily, he is less educated about how to get information about the product, he is a child or mentally handicapped etc. Hence being a naive customer, who lacks sophistication, expertise or experience about the product or lacks cognitive ability, he is unable to make informed decision. He is not only relying on the salesperson's information, but also is seeking guidance by considering him a consultant. In such cases, providing false information is a betrayal of trust instead of a competitive move and this makes bluffing an immoral act.

Usually with experience, a salesperson has an idea what type of information buyers of a particular policy demand. During negotiations, the expertise of a customer gives an idea which type of information he needs. A sophisticated or knowledgeable customer needs less information about the policies available in the market. A salesperson should reveal relevant information which helps a customer to make informed and reasonable judgment. Information about every aspect of policy or information which is easily available can be considered as a waste of time by such customers.

In order to exaggerate the product's features or hide information about the competitor's product during negotiations, a salesperson has to establish the competence of the customer. Bluffing is only ethical when all the parties have the capacity to evaluate the claims made during negotiations. If the playing field is leveled, it is ethical to bluff. If the salesperson can establish that any reasonable person in this situation expects less than full information, his act is moral if he bluffs. In general, the accepted norm is that while comparing competitor's product, salespersons bluff because it is unreasonable on the customer's part to expect full disclosure in competitive environment (Strutton *et al.*, 1997, pp. 553-56). On the other hand, if a customer is vulnerable, then it is customer's right to have access to the full truth. Moreover, if the customer has all the reasons to expect the full truth in a particular situation, e.g. the salesperson's firm has a reputation as truthful; it is the salesperson's moral obligation to tell the truth (Ibid, pp. 549-56).

Hence, in a case where both parties think that full disclosure is not expected, the salesperson is not deceiving by hiding information about the competitor's product or puffing the product features he endorses. It is also ethically permissible to bluff when the industry environment is really competitive, resources are scarce and a customer does not require full disclosure (Strutton *et al.*, 1997, pp. 553-56). The situation can be compared to an acceptable behavior common in job interviews. A job interview candidate generally dresses formally and to some extent exaggerates his or her capabilities in order to come across as impressive. He or she is usually not expected to reveal personal characteristics like age or marital status unless they are really important for job requirements.

So, the rule to evaluate bluffing in business can be simplified as, when the result of selling is a customer who is deceived, the action is immoral. Otherwise, if the customer is informed enough to make independent decision; it is morally acceptable. Any partial information or nondisclosure that is deliberately made to deceive a customer is equivalent to a lie and hence immoral.

## 2.7. Conclusion

This chapter answers one of the important research questions of this thesis, i.e. whether or not bluffing is ethical. After evaluating the ethical theories and claims made in favor of bluffing, it is clear that the moral standing of bluffing is assessed based on the situation and norms of the industry. However, bluffing is different from deception or lying. Bluffing includes mild practices like concealment of some facts or exaggeration of the product features which lies in “grey areas” on the continuum of ethics. Moreover, these practices are also dependent upon the duty of a salesperson towards its customers. By looking into the practices used in the insurance industry and establishing the role and duties of an insurance salesperson, it is concluded that if customers are deceived, these practices are immoral. If the customer is informed enough that he can make an independent decision without any coercion or infringement of his autonomy and privacy, bluffing is ethical. So, bluffing is ethical depending on the industry norms and customer expectations.

## 3. Cultural Impact on Ethical Decision Making

So far, it is clear that the morality of bluffing depends upon whether the customer is vulnerable or not. While considering the role of insurance salespersons, it is established that they are generally expected to bluff. However, the impact of cultural practices in shaping the expectations from any role cannot be ignored. Culture is one of the main factors that affect our ability to perceive information. It leads us to the ethical decisions that are applicable in particular cultures. Cultural differences allow for different interpretations of ethical standards which are practiced differently in other cultures. Starting from Hofstede's cultural dimensions, this chapter argues that business managers and salespersons behave and accept different ethical practices depending on which cultural values they have.

### 3.1 What is a Culture?

Culture is based on the values and beliefs that prevail in the society. They are the components of culture that gives preference to certain actions over the others (Cohen *et al.*, 1993, p.3). Hence, culture has a significant influence on ethical reasoning and attitudes of a person. Every culture interprets moral rules according to its components and as a result, various practices are developed that are acceptable in the specific culture and might be treated as unacceptable in others. Cultural relativism (also called descriptive relativism or cultural descriptive relativism) is defined as:

> Beliefs of standards about moral issues are relative to different individuals and different societies: that is, different individuals and different societies accept different moral beliefs or standards and thus disagree about the answers to moral questions (Moser & Carson, 2001, p. 1).

Geertz (1973, p. 145) argues, "Culture is the fabric of meaning in terms of which human beings interpret their experiences and guide their actions". Culture can never be treated as a single unit. It has a number of complex components. Two economically similar countries can have totally different cultures. It is a system which is learned from the environment in which a person lives. It cannot be taught intentionally or by force.

As Riahi-Belkaoui (1995, p. 3) mentions, culture is the main factor that determines our judgment on any issue. According to him, a country's culture through its elements and dimensions formulate the organizational cultures, organizational behavior and controls the cognitive process of individuals which eventually regulates their decision process and judgments.

The decisions of marketing managers can be affected by internal factors (i.e. their moral values) and external factors (environment, colleagues or situation etc) as observed by Eastman *et al.* (1996, p. 953).

The culture acts as a network where people share common meanings and references (Riahi-Belkaoui, 1995, p. 53). Therefore, it can be assumed that different cultural groups value different systems of knowledge for interpreting the acceptable insurance sales practices, making expectations from the insurance salesperson and making relationships with the company. Therefore, an insurance company has to consider these factors when moving to a new country.

## 3.2 The Cultural Dimensions

Since culture is important to formulate expectations from a particular role, it is important to consider its different aspects to understand how it affects the decision making process. Culture varies by nation and the components of culture can be observed by using the dimensions presented by Hofstede (1980, 1991) and Bond (1988).

### 3.3.1 Individualism vs Collectivism

Individualists take care of themselves and their immediate families only. Individualists value independence, personal goals and pleasures. Collectivists are emotionally attached within the group; they perceive themselves in a group and prefer the interest of the group over self interest. The group protects them in exchange for unquestioning loyalty.

### 3.3.2 Power Distance

Large power distance societies accept hierarchical orders and consider such inequalities as natural and deserved. They need no justification for difference in status. They believe that superiors are entitled to privileges. On the other hand, small power distance societies demand equality for everyone.

### 3.3.3 Uncertainty Avoidance

Strong uncertainty avoiding societies are intolerant of any ambiguities and demand precise rules and regulations for every issue. They seldom deviate from the rules. The people in such cultures are concerned with security in life and prefer hierarchies in organizations. Uncertainty avoidance concerns the extent to which a “structured” situation with clear rules is preferred over an ambiguous one. Weak uncertainty avoidance societies manage to live with ambiguities and are more tolerant towards risk.

### 3.3.4 Masculinity vs Femininity

Masculine societies prefer achievement, assertiveness, profit making and sympathy for the strong. They are more ambitious, competitive and materialistic. Feminine societies prefer relationships, modesty, care for the weak, preservation of environment, quality of life etc.

### 3.3.5 Confucian dynamism

A culture with Confucian dynamism values long term orientations. Values typically associated with long term orientation are thrift, perseverance, respect for tradition and fulfilling of social obligations, while values typically associated with a short term orientation are concerned with protecting one's “face”. Those in favor of Confucian dynamism restrain themselves from disobeying social norms. They try to avoid guilt generated by non-conformity to local teachings, customs and traditions. The long term perspective emphasizes one’s willingness to subordinate oneself to the group’s interest, make and respect relationships, perseverance towards slow results and having a sense of shame. The short term perspective forces social and status obligations and expectation of quick results.

## 3.3 Ethical practices based on Cultural differences

The combination of the cultural dimensions results in different practices based on the same moral law. The practices of various ethical concepts vary in a manner with which they can be recognized, grasped, interpreted or understood by users form various cultures. The differences in expectation from a role can be explained by differences in value systems and the way the culture pays attention to particular information and meanings based on norms. Abratt and Penman (2002, pp. 269-80) studied the behavior of salespersons in South Africa and found that the use of various psychological tricks, e.g. making claims about competitor’s product, or indirect bribing a customer, are conceived as normal business practices. However this is considered an unacceptable practice in the U.S. Moreover, the salespersons are very loyal to their employers and prefer their interest over the customer’s interest in case of a conflict because for them, their prime duty is towards their employer.

While discussing accounting procedures, Riahi-Belkaoui (1995, p. 9) says that accounting practices are determined by the culture of a given country. Although a particular culture does not block the practices and opportunities that are used in other cultures, it can confuse the way people perceive opportunities, leading to different decisions and eventually affects the organizational performance (Acheson, 1972, pp. 83-91). The same can be inferred for other financial services like investment funds, banking practices, mortgages and insurance. Since they all depend upon the decision of the people and their perception of the investment opportunities, the role of culture is very important.

High power distance and high uncertainty avoidance cultures require organizations which are highly structured or hierarchy based. These firms provide extensive rules, guidelines and comprehensive monitoring systems to avoid any ambiguity. In low uncertainty avoiding cultures, there can be judgments without any rules and if someone breaks a rule on occasions for company's benefit, it is acceptable (Cohen *et al.*, 1993, pp. 4-5).

In a collectivist society, a group's interest is always given priority. Therefore there can be a tendency that the attitude towards customers will be given less priority than the attitude towards peers. In such cultures, pressure on a subordinate to cover up the superior's questionable behavior might be regarded as an ethical duty (*Cohen et al.*, 1993, p.6). For instance, it is most likely that in Japan, the members of a group participate willingly to cover unethical motives of a group member in order to save a group's reputation. The same practice is likely to be considered as coercion in the U.S.

It is interesting to note that people who belong to high masculine and individualistic cultures are more vulnerable to bluff because they place their personal interest ahead of company or other stakeholder interests (Lu *et al.*, 1999, pp. 95-105). People in high uncertainty avoiding culture are more likely to prefer the company's interest over their own. Based on the combination of different cultural dimensions, different attitudes emerge. For example, U.S salespersons are more prone towards unethical behavior in consumer-salesperson relationships. Australians generally accept questionable practices towards their employers as a common practice. Moreover, the reward systems based on masculinity and individualist culture can change the salesperson's attitude towards customers and organizations (Stevenson and Bodkin, 1998, pp. 44-55).

People who belong to Confucian dynamism also give priority to the company's interest because they want to avoid a sense of shame and guilt. Hence they try to foster long term relationships. This sense of duty towards others might serve as a safeguard against potentially unethical practices. But the study made by Lu *et al.* (1999, p. 95-105) shows that in order to avoid uncertainty, Confucians and collectivists may blindly adhere to a company's culture and as a result, even questionable norms will be followed. Because of high power distance, these norms are not challenged. So, unethical practice can prevail in such countries.

It is important to mention here that cultural relativism and "religious relativism" are different concepts (Riahi-Belkaoui, 1995, p. 14). However the role of religion in decisions about the purchase of insurance products cannot be ignored. As Clark (1966) mentions, religion and culture are interrelated. Religion provides the reason to live according to the standards of ethics. Religion plays an important role in business ethical attitudes.

It can be argued after considering the above discussion that the cultural dimensions create different expectations from a role. For example, a salesperson in a collectivist society is generally expected to be loyal towards the company. This expectation can lead to the attitude that making a sale should be the first priority rather than customer satisfaction. Similarly, the high power distance society can expect the salesperson to follow the steps of his superiors without questioning the morality of the act. A short term orientation might lead to making immediate profits by any means while compromising long term relationships with the customer. Also, individual cultures value certain practices over others. For instance, loyalty might be considered more valuable in employer-salesperson relationship as compared to the salesperson-customer relationship. Therefore, it is the culture which creates expectations from a salesperson's role. The customer might expect that it is a duty of the salesperson to guide him. A culture can consider his role as only advocate of a particular product.  Moreover a cultural practice can make a customer responsible for his own interest. Also, it is a culture that determines whether the bluffing in insurance sales is expected and a customer's autonomy is not violated.

### 3.4 Conclusion

Although there are universally acceptable moral rules, their practice varies with the culture of a particular country. Our cultural beliefs and values are the main components that shape our decisions about particular concepts. Therefore, we come up with different meanings and practices of some concepts depending on the cultural values. Hence, the cultural relativism makes some acts ethical in some cultures while making the same acts taboo in others. The concept of insurance sales is also dependent on the cultural perception of the industry and the general attitude towards salespersons. The duty of a salesperson is determined by the role expectations in the culture. The culture can assign him the duty of a guide and consequently make bluffing an immoral act.

## 4. Insurance sales in Pakistani Culture

At this stage, it is evident that bluffing in insurance sales is ethical if the customer does not get deceived by this practice. Moreover, it is discussed how various dimensions of a culture interact to make a particular expectation from a role leading to the acceptance of various ethical behaviors. This chapter applies the above mentioned concepts to a particular scenario. It is an attempt to assess whether bluffing in insurance sales is ethical in the Pakistani society. This chapter discusses that if an insurance company enters a Pakistani insurance market and discovers the industry norm, country's culture and customer expectations favorable for bluffing, is it then permissible for an insurance salesperson to bluff? Such a decision is taken after considering the country's common practices, cultural values, customer expectations and insurance industry's reputation throughout the world.

### 4.1 Insurance industry in Pakistan

#### 4.1.1 Negative attitude of buyers

As indicated by a report from the State Bank of Pakistan (2003, p. 95), the cultural and religious aspect of the country affects the development of insurance business. In Pakistan, as in other developing countries, the problem is that the supply of insurance services is always greater than the demand. In Pakistan, 67.5 % of the population lives in the rural areas while the insurance companies are concentrated to urban areas. At present there are 54 insurance companies 49 of which are none-life insurance companies. Most of the insurance companies are created by large manufacturing companies in order to insure their own businesses only. Given the lower per capita income in Pakistan, the insurance industry has not been able to create sizeable demands for its services. Sachak (2007) asserts that in Pakistan, life insurance has increased at an average annual rate of 22% during the period 2003-2006. According to him, Pakistan has one of the lowest life insurance densities (premium per capita) in the world i.e. $2.3 compared to India's $33.2 and Iran's $2.6. Similarly life insurance penetration (premium as % of GDP) in Pakistan is 0.3% compared to India's 4.1%. Considering these figures, there is a huge potential for growth in this sector.

In addition to the conventional insurance companies, Pakistan also has Islamic insurance companies which are in their early stages as this concept is new. As Islam is the religious majority in Pakistan, the products of these companies are based on Islamic laws. This Islamic insurance is known as *Takaful* (Takaful Pakistan, 2008). So, conventional insurance companies are in competition with this *Takaful* insurance. *Takaful* companies have the inherent advantage of people's positive perceptions due to their Islamic nature.

The negative perception people have towards conventional insurance products, especially life insurance, being "Haram" or impermissible by Islam, is the major reason why insurance (especially life insurance companies) cannot capture this market. According to Sachak (2007), *Takaful* rules have recently been publicized. It is hoped that these will be amended soon and eventually they will help to promote "Shariah compliant" products and tap a market which currently avoids life insurance due to religious reasons.

### 4.1.2 Reputation of the salespersons

Khan (www.netvert.biz) argues that insurance salespersons in Pakistan do not get the trust and respect other professionals enjoy. Even in teleplays and movies, the insurance agents are portrayed as cunning characters begging for business. The main reasons for the denial of respect are: numerous cases of frauds, defalcations and misrepresentation by the industry's executives. The negative image towards the insurance industry is generally the result of recruiting "untrained", "uneducated" and "unprofessional" individuals. Due to the lack of respect from customers, honest and well-educated individuals lose heart and leave the industry after a few months. The industry is working on "amateurs", "untrained" and "uneducated" salespersons. Due to their improper approaches and unprofessional attitude, they are ridiculed or insulted by their customers.

The above discussion reveals that the insurance industry in Pakistan is facing trouble due negative attitudes of people towards insurance products. As discussed in ch. 2 (section 2.4), the negative image of the industry has lead the customers to infer that insurance salespersons have lower ethical standards. Although the insurance executives or managers are responsible for many fraud cases, the salespersons are cold-shouldered by the customers. In general, the insurance industry in Pakistan is facing the same problems as the whole insurance industry worldwide (see section 2.4).

## 4.2 Dimensions of Pakistani culture

As shown by Hofstede (2009), Pakistan is high in power distance (ranking 55). This is clear from the presence of distinct social classes in the country. There are different life styles, educational and medical facilities based on these social classes (Ali *et al.*, 2010, pp.1-2). Pakistan is very low in individualism as it scored 14 while the world average is 40. This low score shows that

Pakistan is a highly collective society. The Pakistani people are generally recognized by their casts, religion or social classes which show their collective culture (Ali *et al.*, 2010, pp. 1-2). Pakistani culture is also uncertainty avoiding, with a score of 70 as compared to a world average of 65. Further, the Pakistani culture is masculine with score of 50. The culture is also short term oriented which can be seen from the lack of long term planning in policies implemented by the government (Ali *et al.*, 2010, pp. 1-2). Most of the problems that the country is facing, e.g. energy crises, food shortages, water crises etc., are the results of a short term orientation culture. Hofstede (2009) asserts that there is a strong correlation between Islam, power distance and uncertainty avoiding scores. According to Hofstede (2009), Pakistan being a Muslim state means that it has high power distance and is a high uncertainty avoiding culture.

The data on Pakistani culture and values is not easily available, therefore it is convenient to take India as a close example. India and Pakistan share almost the same culture. Similar to Pakistan, India is a high power distance and high uncertainty avoiding society. India scored average in individualism and Indian culture is masculine. However, Indian culture is long term oriented.

## 4.3 Discussion

### 4.3.1 Culture and values of Pakistani Insurance Industry

#### 4.3.1.1 Loyalty with Employer

When a culture is high power distance and collectivist like Pakistan, subordinates are more likely to bend to the demands of their superiors instead of exhibiting high ethical standards (Cohen *et al.*, 1993, p.6). This fact can affect insurance salespersons in Pakistan. The growth rate in the sector is very low which pressurizes a salesperson to bring in more customers and meet his target sales number. Being a part of collectivist society, the salesperson is more sincere towards his employer and can use unethical means to close the sales. Since the industry already has a bad reputation for frauds and misstatements, the salesperson can consider bluffing as a strategic tool to reach the goals.

A similar fact was found in a study that highlights the attitude and values of Indian managers as compared to their Korean and American counterparts. Christie *et al.* (2003, p. 280) claims that Indian and Korean managers do not consider exaggeration of the product or some lies in advertisement as an immoral act as compared to managers in the U.S. They attribute these variations in managerial responses to different decision making processes. Americans are more focused on analytical decision making while Indians rely on relationships between the persons involved in the particular action. Therefore, collectivist societies feel more comfortable with unethical practices.

#### 4.3.1.2 Value of Immediate Profits

Pakistan has short term perspective culture, the notion of “keeping up with Joneses” and protecting one’s “face” can lead an insurance salesperson to aggressively solicit a client in order to make short term gain (Cohen *et al.*, 1993, pp. 6-8). As discussed earlier (section 4.1.2), most of the insurance salespersons in Pakistan do not have formal training in the field of insurance sales and are often less educated, consequently, they are unable to resolve ethical issues because they are not philosophically equipped to resolve the matter. Therefore, the short term perspective might lead them to ignore ethical conflicts and favor the matter in the company’s best interest.

#### 4.3.1.3 Prefer to be “Conservative”

As discussed earlier in chapter 3, high uncertainty avoiding and high power distance societies prefer compliance with legal requirements and statutory control. They also need uniformity in various business practices between companies and consistent use of such practices over time. This can lead them to use bluffing without questioning the morality of this norm as long as it is not considered an illegal practice. Similarly high uncertainty avoiding cultures prefer to be “conservative”, i.e. they use a cautious approach to cope with the uncertainty of future events. Moreover, high power distance and high uncertainty avoiding cultures prefer confidentiality and restrictions on disclosure of information about the business (Riahi-Belkaoui, 1995, p. 11). These cultural dimensions lead an insurance salesperson to disclose very little information about the parts of an insurance policy which are inferior to a competitor’s product.

#### 4.3.1.4 Rules are the only “Truth”

In high uncertainty avoiding cultures, rules are the only “truth” which eliminates the possibility of any other “truths” (Cohen *et al.*, 1993, pp. 4-5). It means the people in such cultures are unlikely to deviate from the rules. These cultures need to have rules even if they are non functional. The absence of written rules specifying each scenario can be considered as a license for questionable practices. These cultures tend to equate ethics with legal responsibilities. It is quite possible that if there are no rules addressing the topic of bluffing, it is assumed ethical to bluff. For example, in Pakistan, the “Insurance Association of Pakistan (IAP)” has provided a code of conduct to ensure ethical behavior in the industry. According to the code (www.iap.net, pp. 3-4), it is a customer's responsibility to ask for details of insurance coverage in order to protect his interest. The insurer's duty is to provide the important features, exclusions and warranties etc. The code at no place states that insurer must provide full information to the customers. The code merely promises to give customers enough information in order to make informed decisions and to avoid misleading information. The guideline at no place provides any information to the salespersons what counts as an unethical practice. For instance, the code does not mention anything about bluffing. This type of guideline can provide an incentive to a salesperson to exaggerate the product features to an extent that is acceptable under legal terms.

#### 4.3.1.5 Labeled as Haram

As conventional insurance products are not allowed in Islam, people in Pakistan have negative image of these products. Therefore Islamic insurance or *Takaful* was introduced. This increases the pressure on the companies to present their conventional insurance products as superior to *Takaful* products.

#### 4.3.1.3 Evaluation

After discussing the situation of the insurance industry in a Pakistani culture, it seems clear that the industry can find it acceptable to bluff in insurance sales.  This is in conformity with salesperson's loyalty towards his group, i.e. employers, to prefer company's interest over customer. The insurance industry has a negative image and is less acceptable to customers as compared to *Takaful* products. Also, the industry is commission based and the unemployment rate in 2010 was 14% (index mundi, 2010). This leads to pressure on salespersons to maintain their jobs by bringing in customers. The absence of any specific guidelines on information disclosure to customer gives room to accept bluffing as a norm. As discussed in section 2.5, if misrepresentation is the industry's norm, then a suggestion that the salesperson should tell the complete truth will most probably be rejected.

This fact is proved by the example of India. Most of the Indian managers believe that main objective of a business manager is to make profit and ethics is secondary. They also mention that the competitive environment makes it difficult to make ethically sound decisions in business. The manager's view is that business and ethics are incompatible. Moreover, 60% of the managers from India believe that they have two standards of ethics, one for personal life and another for business (Christie *et al.*, 2003, pp. 270-80). Using these values as a representation of

Pakistani managers' attitudes towards business, bluffing can be considered as a competitive tool for effective business management.

### 4.3.2 The customers

#### 4.3.2.1 Seeking Guidance

As mentioned above in section 4.1.2, the customers have low trust in insurance salespersons and in the insurance industry overall. Pakistan has low GDP growth i.e., 4.3% in 2010, and the latest survey in 2009 shows that 24% of population was living below the poverty line (index mundi, 2010). These facts make insurance products unaffordable for the majority of the population. Also, as discussed above, insurance products are not common among the people. Therefore, when making an investment decision, the customers really need to make a careful decision. Moreover, the literacy rate in Pakistan was only 49.9% by 2010. The internet users per 100 persons in Pakistan were only 10.5 in 2008 (index mundi, 2010). Most of the less educated people live in the rural areas of Pakistan which makes it a huge market to capture. Thus people cannot garner knowledge from any sources about insurance products. The role of consumer protection agencies is also negligible. If an insurance company has to move to the rural areas for insurance coverage, it has to deal with the customers who are not educated enough to understand the complex insurance products and have no access to the internet. This means they cannot get information about the insurance product from any other sources except the insurance salesperson. Therefore, having less capacity to evaluate insurance products, customers are highly vulnerable and dependent on the salesperson's advice. They seek guidance from insurance salespersons.

#### 4.3.2.2 Little Trust in Other People

We can get some idea about the values the Pakistani people prefer by using data from India. The World Values Survey (2009) shows that 69% of Indian population feel that their fellow countrymen will take advantage of them if they find a chance. Indians believe that they have to be careful in dealing with others. If we apply this situation to the Pakistani population, we can say that people do not trust the salespersons and try to be careful in dealing with them. This aspect is already discussed in section 4.1.2 with reference to insurance salespersons.

#### 4.3.2.3 The Value of Honesty

According to World Values survey (2009), 80% of the Indians believe that cheating on taxes is never justifiable and 83% feel that accepting a bribe is immoral. Moreover, 56% accept lying when in your own interest is never justifiable. Also, 33% mention that killing even in self defense is unacceptable. By using this data as an indicator for Pakistani population as well, we can say that people are intolerant of unfair means in business dealings.

#### 4.3.2.4 Evaluation

It is clear from above data that people do not trust insurance salespersons and they are intolerant of unethical practices in business negotiations. However, buying an insurance product is a serious matter for them as they have limited money to invest; therefore they really need salesperson's guidance. The insurance products are not common and simple enough to be handled by the less knowledgeable customers. They also have little means to get information about the insurance policy independently. This situation makes them vulnerable to exploitation by insurance companies.

## 4.4 Bluffing in the Pakistani insurance Industry

As discussed earlier, the insurance industry in Pakistan is facing problems due to low sales growth. The people of Pakistan have a negative image of the insurance industry due to its non-religious status and "unprofessional" attitudes of the salespersons. The insurance sales force also consists of "amateur" and less educated persons who are not trained enough to differentiate between ethical and unethical behavior. Moreover, the high power distance, high uncertainty avoidance and collective culture demands a salesperson's loyalty to his employer. The high unemployment rate, commission based work, pressure from the managers to reach sales targets and unavailability of specific guidelines for unethical conducts make the use of bluffing a common practice.

On the other hand, customers usually have little knowledge of insurance products. Although they know that a salesperson can bluff to them during the negotiations, they cannot negotiate with equal capacity. Due to less education, lack of information and unfamiliarity with insurance products, they are less competent to make an informed decision. Moreover, the code of conduct by the insurance association of Pakistan places responsibility on customers to protect their interest which make them more vulnerable to malpractices of insurance salespersons.

Now, there is a dilemma whether a multinational insurance company should also take advantage of the situation when entering the market. The common practice in the industry and the expectations of the salesperson's role based on culture of the country makes bluffing an attractive choice in order to compete. At first glance, they can consider that bluffing is also ethical because it is a common practice. It is also expected from a salesperson and it is not a salesperson's duty to provide the best product in the market (see section 2.5 for detail). However, as discussed earlier in detail, common practice or bluffing in self defense are not the criteria that makes bluffing ethical (see sections 2.2.4 and 2.2.5). To prove bluffing as an ethical act in this situation, the insurance company needs some other reasons. Moreover, it is wrong to consider only one side of the situation, i.e. the salesperson's perspective (see section 2.3.2. and 2.6 for details). It is necessary to make sure that the company is not violating customer's autonomy by using them as means (criteria developed in section 2.2.3). According to salesperson's duty to disclose in section 2.6, it is clear that in the Pakistani insurance industry's situation, the customer has a right to full disclosure because he lacks moral capacity to defend his interest. The negotiation is not taking place between two equally morally capacitated persons; therefore, even if the customer expects bluffing in negotiation, he is vulnerable. If the salesperson is allowed to bluff a highly vulnerable customer, the result is a customer who is deceived. Therefore the act of bluffing is immoral in this situation.

## 4.5 Conclusion

After evaluating the situation of the insurance industry and the culture of Pakistan, this chapter concludes that bluffing is immoral in the context of Pakistani insurance industry. The country's economic situation, the insurance industry's reputation, the expectations of the salesperson's role and the duty to remain loyal to employer make the act of bluffing an attractive choice for an insurance salesperson. If a multinational insurance company has to enter the Pakistani insurance market, it will face the dilemma whether to follow industry's norm of bluffing or to evaluate the morality of bluffing altogether. As discussed, the self defense or common practice as a reason to make bluffing ethical is not plausible; therefore, it is necessary to consider the customer's expectations. After an evaluation of the customer's situation, it is concluded that the high dependence of the customer on the salesperson's guidance makes the act of bluffing immoral. Therefore to avoid the deception of a customer, the insurance companies should behave honestly in Pakistan.

## Conclusion

It is argued in this thesis that the morality of bluffing depends upon the particular context. For this purpose, the concept of bluffing is discussed in detail while considering various arguments given by philosophers. All the arguments whether in favor or against bluffing are evaluated using ethical theories. By looking into the details of the meanings of bluffing, this thesis comes to the conclusion that bluffing is not always immoral. Bluffing and deception are different and therefore, bluffing falls into the “grey area” on the continuum of ethics. It depends upon the particular situation whether bluffing is ethical or not.

This thesis evaluates ethical aspects of bluffing by applying it to the insurance industry. It evaluates whether hiding facts or bluffing to a customer is ethical in insurance industry. Since on one side there are customers who trust a company’s experts to help them in need and, on the other hand, there are insurance salespersons whose salaries depend on the number of sales. The situation leads salespersons to conceal facts and make extra ordinary promises to attract the customer. By evaluating the role of an insurance salesperson and considering the duty to disclose information, the thesis argues that to assess the morality of bluffing, it is necessary to consider the impact of bluffing on customer’s decision. If the customer can independently make informed decision, bluffing is an ethical act otherwise it is immoral.

The thesis also discusses the impact of culture in shaping expectations of the role of a salesperson. Some cultures consider salesperson as a guide to trust while others consider him only a company’s advocate. Therefore, the duty to disclose information changes with cultural practices. Finally, the thesis considers the situation of the Pakistani insurance industry. After detailed analysis of Pakistani economy, cultural dimensions, situation of insurance industry and customer’s expectations from salesperson’s role, this thesis shows that it is immoral to bluff in the Pakistani insurance sales process. Therefore, it is concluded that the morality of bluffing cannot be separated from the context.

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