

# An exploration of unethical selling in the Financial Services Industry in the Republic of Ireland

By

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## **Abstract**

There is much misconception as to what exactly business ethics is by both customers and organisations. It can broadly be described as “an organisation conducting their practices and procedures in a manner that ensures rightness in behaviour’ (Bartels, 1967:22).

Velasquez (2012) defines “ethics as the discipline that examines one’s moral standards or the moral standards of a society to evaluate their implications for one’s life.” (Velasquez, 2012:13). Over the past ten years the term ‘business ethics’ has become a popular topic considering the level of unethical behavior within financial institutions such as Enron and WorldCom which has created a high level of media coverage.

The motivators that propelled the researcher to write this dissertation was personal interest within the FSI, the purpose of this paper is to explore the possibility of Unethical selling within the Financial Services Industry (FSI) in Ireland.

The researcher had previously worked in an intermediary financial services company in Ireland. The financial products this company provided were mortgages, life insurance, pensions, income protection and investments. The researcher was astounded by the lack of business ethics by financial advisors, who have worked in the industry for several years and did not possess the required qualifications to give advice to customers, such as, QFA (Qualified Financial Advisor). This qualification is required by law for any person wanting to provide financial advice to an individual. Also, the researcher had noticed the complete absence of any regulation official during that time. The un-exposure to the media has led the researcher to write the research paper.

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# Chapter 1: Introduction

## 1.1 - Introduction

The research topic for this dissertation was primarily chosen due to personal interest on the topic of Financial Services and ethical standards within the industry. The researcher's knowledge of this topic has been greatly increased in areas of interest, such as, asymmetric information between financial advisor and client, managerial pressure on advisors to meet sales targets and the debate on financial advisor's remuneration. These topics are all discussed in more detail in the Literature Review. The Financial Service Industry (FSI) is a massive industry and too broad to be a research topic. Therefore the researcher had to narrow the scope of the dissertation and chose a specific niche to focus the research on. The researcher has chosen the FSI in Ireland and a particular focus on the sales of financial products, such as: protection products, investments, pensions and mortgages (See table 1). The researcher opted for this niche topic because of its uniqueness, the FSI is described by Boatright (2009) as "the most visible face of finance and the aspects that affects ordinary citizens most directly" Boatright (2009:6). In this statement, Boatright suggests that the FSI is very interpersonal and the financial advisor and client engage in face-to-face meetings. The unique element to this sector is described by Schwepker & Good (1999), "financial advisors operate under an outcome-based control system are likely to be motivated by self-interest and sales quotas are believed to drive them to perform unethically" Schwepker & Good (1999:38).

The researcher has conducted eight semi-structured interviews with the aim to profile who an ethical or unethical financial adviser is but also to explore why financial advisors sell unethically. Using this research instrument will help determine the objective of this research paper, which is to explore the possibility of Unethical selling in the Financial Services Industry in Ireland?

Although it was difficult to categorise an unethical financial adviser by their gender, social class and age, the researcher did discover what traits an unethical financial adviser is likely to possess and why business and sales ethics have become increasingly important.



The research conducted eight interviews during the process of this dissertation and the sample was made up of eight financial advisors who currently work in the FSI in Ireland.

The interviewees had different levels of experience ranging from two to eight years' experience selling financial products. The eight interviewees were selected on a quota sampling technique, as the researcher wanted the sample to have sufficient knowledge in the research area. The interview locations were between Dublin and Donegal and the interviews were conducted between the 24<sup>th</sup> and 31<sup>st</sup> of August.

The major themes in this dissertation are all closely linked to the research questions and the researcher believes this will give a more focused perspective to the research topic.

### **1.2 - Financial Services Industry (FSI) in Ireland**

The FSI in Ireland was set up in 1987 and its purpose was to attract global investments into Ireland. The following points were sourced from the Irish Financial Services website – [www.fsi.ie](http://www.fsi.ie)

- Consists of more than 500 firms
- Directly Employs over 32,000 people
- Earning an average salary of €60,100
- Contributes 7.4% of Irish GDP

The above facts reveal how big an industry the FSI is in Ireland and if it was to collapse the consequences would be enormous. Although, the FSI is one of the biggest employers and contributor to the Irish economy does not mean that it is excluded from laws and regulation. The focus of this research is to explore the possibility of unethical selling in the FSI in Ireland. It is important to note that the researcher will pay particular attention to intermediaries because of the lack of regulation within them. The researcher expects to discover the majority of unethical selling practices to be in financial intermediaries.

The Financial Services Industry (FSI) gone through major changes in the last number of years, the global banking crisis has put a spotlight on all activities related to finance. The researcher will concentrate on the area of financial advice within the FSI. The financial products the researcher will refer to throughout this paper are: protection products, mortgages, pensions and investments (see table 1).

### **1.3 - Role of Financial Advisors**

The role of a financial advisor is described by the Financial Services Authority (UK) as:

- (i) Giving advice on investments to clients;
- (ii) Arranging (bringing about) deals in investments or executing transactions;
- (iii) Managing investments;
- (iv) Receiving or holding client money or other client assets;
- (v) Safeguarding and administering investments. (Financial Services Authority, 2013)

Aronoff & Ward, (1996) suggest that another role of financial advisors “involves the ability to take complex knowledge and simplify it to make it understandable to the client” (Aronoff & Ward 1996:30). This comment by Aronoff & Ward is discussed further in the literature review under Asymmetric Information.

According to Gillen (2010), “the financial services industry places the client and the financial advisor on opposite sides of the table, each with conflicting objectives. In Ireland, then, as well as in other jurisdiction, instead of a network of independent financial advisors working towards the best interests the client, they have a network of product sellers” (Gillen, 2010:39). Gillen implies that financial advisors are more concerned with selling financial products than giving clients independent financial advice. On the other hand, Román, Ruiz & Munuera (2005) defined ethical sales behavior as “fair and honest actions that enable the salesperson to foster long-term relationships with customers based on customer satisfaction and trust” (Román et al., 2005:1349). These conflicting quotes compare an ethical financial advisor to an unethical one and this topic will be explored further in the Chapter 2.

#### **1.4 - The concept of unethical selling**

The concept of unethical selling is defined by Haron & Hamzah (2011) as, “(1) false or misleading representations of products or services, (2) failure to identify client’s needs and recommend products and services that meet those needs, (3) lack of knowledge or skills, and (4) conflicts between opportunities for personal financial gain and proper performance of one’s responsibility” (Haron & Hamzah, 2011:2). The above quotation helps to identify what unethical selling is and why financial advisors perform in such a manner. The purpose of this paper is to, firstly, explore if there is unethical selling within the FSI in Ireland and secondly, how to deal with the miss-selling of financial products. In the Literature Review, the researcher describes the two main types of unethical selling (churning & twisting) in this particular niche of the FSI.

#### **1.5 - Statement of Research Question**

This dissertation seeks to explore the possibility of unethical sales practices within the Financial Services Industry in Ireland. The researcher also intends to identify the reasons why financial advisors act in an unethical manner.

#### **Overall Research Question**

“What are the perceived levels of unethical selling in the FSI in Ireland?”

#### **Research Question 2**

“To ascertain how the unethical behaviour of Financial Advisors has an impact on the perceived levels of unethical selling in the FSI in Ireland?”

#### **Research Question 3**

“To investigate the role of management on meeting sales targets and upholding ethical standards”

#### **Research Question 4**

“To determine whether commission based versus salary based remuneration impacts on the perceived levels of unethical selling in the FSI in Ireland?”

### *1.6 - Overview of Content from each chapter*

The introduction chapter will include the reasons why the researcher chose this particular topic, the uniqueness of the research topic, the background of the Financial Services Industry in Ireland, the role of Financial Advisors and the concept of unethical selling. The literature review will identify the three major themes of the dissertation: unethical behaviour in the FSI, sales management & targets and financial advisors remuneration. Further investigation in the literature attempts to make sense of these themes. The methodology chapter describes the research philosophy, approach, strategy, instrument, and time line. Also included in this section is the approach to analysing the data, the research sample and justification for research instrument. The findings will be analysed using qualitative techniques and are broken down into three themes. Finally, the researcher will analyse the findings, interpret the data and link back into the literature review. The researcher will also identify some limitations to the research process and will put forward recommendations for future research.

## **Chapter 2: Literature review**

### **2.1 - Introduction**

In the following section, the researcher will identify key literature within three different areas of interest to the research topic. These areas are:

- Financial Services Industry (FSI),
- Sales management, and
- Ethics.

These above sub-headings in the literature review will to be used to narrow the scope of the overall research with contributions from the above sub-headings and to identify the key themes of the research. Also, the researcher would like to highlight that the niche within the FSI is the personal financial services and advisory. Boatright (2009:5) states that the “personal finance aids individuals to save, borrow, and invest money in order to conduct their lives.” These financial decisions are usually supported by a financial adviser or financial institution.

### **2.2 – Overview of Financial Services Industry (FSI)**

The FSI is constantly changing due to new developments in areas such as technology, legislation, socio-cultural and economics. It is important to state that the term “financial services” incorporates a vast number of different sectors such as insurance, banking, mortgages, accountancy, trading stock and shares (Financial Services Industry, 2013).

The areas within the FSI that the researcher will focus on are: mortgages, investments, protection products, and pensions. The above four areas are the main sources of business for Financial Advisers and are fully explained in table 1.

The niche within the FSI the researcher is concerned with is the financial advice or financial planning, as mentioned in the above opening chapter and paragraph. The literature used is unfortunately from outside countries such as the US, England and Australia. The majority of the Irish literature is outside the scope of the research and is more focused on the banking crisis and the property market crash.

Boatright (2009) “describes the FSI as the most visible face of finance and the aspects that affects ordinary citizens most directly.” There is constant interaction between financial advisers and their clients. The idea behind the FSI is that trained professionals would give investment, insurance and other financial advice to ordinary individuals. This sounds simple but when the possibility of making money from these individuals comes into the equation, it complicates everything. Rose & Hudgins (2010:11) state that “the role of financial advisers is to offer the client a service and then charge them for this service.”

### *Financial Intermediaries*

In the following section, the research will introduce financial intermediaries into the equation. The two main roles of financial intermediaries are to enhance the capacity of agents to invest and to protect them from risks (Maderia, 2007). A financial intermediary can be classified into two different ways; deposit takers and non-deposit takers. The researcher will concentrate on the non-deposit takers for the purpose of this paper. Examples of non-deposit taking financial intermediaries are insurance companies, pension funds administrators, investments funds and mortgage providers. The definition of what financial intermediaries do is, to create assets for savers and liabilities for borrowers which are more attractive to each than would be the case if the parties had to deal with each other directly, Howells and Bain, (2000:5). The Financial Services Authority in the UK defines “an independent financial intermediary is a firm acting as an intermediary but excluding: (i) a firm which is a member of a marketing group; (ii) a product provider which sells its own packaged products” (Financial Services Authority, 2013).

In the FSI in Ireland, the companies who provide financial products and services primarily operate as financial intermediaries. Rose & Hudgins (2010) state that “financial institutions struggled in recent years to attract funds they need to lend in order to stay in business, the industry needed to change their methods of generating revenues” (Rose & Hudgins 2010:451). These intermediaries use capital to support the provision of services rather than to trade and invest on their own behalf Boatright (2009). For example, a bank or financial institutions receive their revenues through fees charged to customers for services rendered. In Ireland, the vast majority of the financial advisory companies are classed as intermediaries. An intermediary is explained in Appendix A and B, financial intermediaries such as banks, financial intuitions, brokers or agents are the “middle men” between the industry and the customers. These intermediaries facilitate financial transactions for customers.

Rose & Hudgins (2010:10) challenge “the purpose of financial intermediaries, they state, why financial intermediaries exist at all? What services do they offer that other businesses and individuals cannot provide for themselves?” There has been significant research undertaken to solve these questions. Firstly, Pringle (1974) suggests that financial intermediaries only exist because of the imperfections within the financial markets. He also states that if financial markets were perfectly competitive there would be no need for intermediaries. Secondly, according to Rose & Hudgins (2010) and Hyytinen & Toivanen (2003) the other reason for the existence of financial intermediaries is asymmetric information between the financial advisor or institution and their customers. Asymmetric information is commonly known as the doctor-patient relationship, the definition for asymmetric information in finance is that “this is when one party have better and more complete knowledge of a topic than the other party” (Klein, O’Brien & Peters, 2002:317).

The information asymmetry is very relevant in the FSI in Ireland and globally, the gap in the information could answer Rose & Hudgins questions. The financial advisors or brokers bridge the gap in the information required by individuals when completing a financial transaction. For the purpose of this

paper, the researcher will concentrate primarily on asymmetric information as it is more relevant to the research. Also, as this topic links with ethical decision making it shall be discussed in the Ethics section of the literature review.

In the following two sections (Sales Management and Ethics), the researcher will look more in-depth into areas such as introduction of fee income and commission based sales in the FSI, moral responsibility from both financial advisers and the company they work for, asymmetric information between financial adviser and their customers. The researcher also intends to revise financial institutions codes of ethics and relevant ethical theories using recent and past literature.

### **2.3 - Sales Management**

Research in this field has been on-going for more than twenty five years and one of the first scholars to research this area was Dubinsky and Levy in 1985. Dubinsky will be a key source of literature in this section of the paper. According to Ferrel, Johnston & Ferrel (2007), “Dubinsky’s early research had provided a foundation of understanding of ethical decision making for salespeople.”

The FSI has now evolved into a sales industry with the introduction of commission based income for financial advisors and fee based income for the organisations. According to Lombardi (2002), most financial services companies have now moved away from insurance sales to personal financial services as their main source of revenue. He also notes that advisors or agents pay structure has changed, nowadays “commission or fees make up over 22% of a financial advisors salary” (Lombardi, L. J., 2002:79).

Scholars have noted that ethical problems in sales are intensified because sales forces face strong pressures to perform (Strout, 2002). Financial advisors are commonly paid via commission on sales and therefore are put under pressure to meet sales targets. Schwepker & Good (1999:316) states because “financial advisors operate under an outcome-based control system are likely to be motivated by self-interest and sales quotas are believed to drive financial advisors to perform unethically.” The fact that the majority of financial advisors



in Ireland work on a commission based pay structure highlights the possibility of unethical selling in the financial services industry.

Dubinsky (1985), and Barnett, Bass and Brown (1984) had focused on two particular factors that had an effect on ethical decisions by salespeople, the two factors were;

- Individual factors, and
- Organisational culture.

### ***Individual Factors***

Individual factors are accredited to Barnett et al. they focused on profiling a typical salesperson on a number of factors; age, gender, education and ethical values. The researcher will attempt to profile unethical and ethical financial advisers using the above individual factors.

Jones (1991) suggests that a synthesis of leading ethical decision making models suggests that individuals must first recognize that a moral issue exists, and then make a moral judgment, establish moral intent, and then engage in moral behaviour. The following subsections will help to profile financial advisors on age, gender, education and ethical values.

#### *Age*

Many studies have examined the role age in ethical sales, Ferrel et. al (2007) research confirms that there is a small but consistent link between age and unethical behaviour among salespeople. A study by Dublinsky et. al (1992), suggests that younger salespeople may be inclined to behave more unethically than older salespeople. The lack of experience from younger salespeople could be a factor in unethical selling. A research paper by Schwepker (1999), attempts to link age and Cognitive Moral Development (CMD) of salespeople.

Moral judgement and development is defined by Schwepker (1999:42), “as an individual’s decision as to whether something is considered ethical or unethical, right or wrong.” According to CMD theory, an individual’s moral decision making becomes more complex and sophisticated with their own personal development. From the research, it is evident that age is a contributing factor to salespeople behaving unethically. Having said this, the researcher also notes that while unethical behaviour by younger inexperienced salespeople may be perceived as unethically, the research suggests their moral judgement and CMD may not be fully developed.

### *Gender*

According to Ferrel et. al (2007), various studies have been unable to link gender and unethical behaviour in salespeople’s ethical decision making. A further study by Hegarty and Sims (1978), back up this statement suggesting that gender does not influence either perceptions about the severity of the ethical event or their ethical decision.

### *Education*

Most researchers assume that education levels of salespeople would affect their ethical decision making, but research by Dublinsky & Ingram (1994) states otherwise. Dubinsky & Ingram (1994) state that, a salesperson’s level of education does not impact on his or her level of ethical conduct or the ability to self-report. Therefore, previous research suggests that salespeople’s level of education does not affect their ethical values.

### *Ethical Values*

Ethical values are perceived by the individual as what is either right or wrong? Previous research suggests that ethical values have a major part to play on individual’s decision making process. Dubinsky, Natarann, and Huang (2004) reported that moral philosophy affects an individual’s ethical beliefs among salespeople. This study suggests that sales people do think ethically when their

ethical values are being tested in a group. A study by Cohen & Reed (2006) reveals that organisational factors can potentially alter a salesperson's ethical values because of content specific attitudes rather than generalised attitudes influence the decision.

### *Organisational Culture*

The study of organisational ethics is the exploration of the manner in which individuals and groups of individuals act as members of the organization with reference to how they ought to act as a member of a collaborating social system (McDaniel, 2004). Organizational culture is a set of values, norms, and artefacts shared by members that result in behaviour to resolve problems and decisions (Maignan & Ferrell, 2004). Organisational culture can affect individual's ethical decision making such as competitive intensity among salespeople, supervisory role and sales role and environment.

### *Competitive Intensity*

A study by Wotruba (1990) has linked increased sales competition within organisations is likely to bring about less ethical behaviour. When competition between salespeople begins to intensify some individuals will begin to cut corners and behave unethically. More recent studies by Verbeke, Ouwerkerk and Peelen (1996) found that there is no relationship between salespeople's ethics and their perception of competitive intensity. Schwepker (1999) disagrees with Verbeke et al (1996), he states "as competition in sales departments grows such as today's environment it may be perceived that greater competitive intensity may lead to diminished unethical behaviour" Schwepker (1999:38). He also makes the point that salespeople need to build trust between their customers, so that short term unethical behaviour may be discarded by salespeople because they realise that long term success is based on trust and honest business.

Schwepker (1999:316) concludes by stating that "there is a negative relationship between perceived competitive intensity and salespeople's intention to behave unethically." This is backed up by trust facilities cooperation, buyer commitment

to salespeople, and the development and maintenance of long term buyer-salesperson relationships (Hawes, Mack and Swan, 1989).

### *Sales Role and Environment*

In this section, Piercy & Lane (2007) put forward the argument that larger more strategic accounts create greater ethical pressure from management to ensure the retention of the larger accounts. This statement becomes inconsistent from the above findings by DeConinck (1992) and added pressure from managers on salespeople. On one hand, they can act unethically if the client is not crucial to the business and then, on the other hand, they can receive huge pressure by management from ensure they act ethically if the client is large and possibly long term.

### *Management or Supervisory Role*

Supervision has been shown to impact the sales forces ethics in different ways. Studies suggest that higher performing salespeople are more leniently treated by management than lower performing salespeople (DeConinck, 1992). Further studies by Bellizzi & Hasty (2003) reinforce the reported relationship between performance and ethical leniency on ethical violations. This backs up claims by DeConinck (1992) that managers treat higher performing salespeople differently than lower performers. These two studies make the case that management may overlook unethical behaviour by high performing salespeople because of the revenue generated by their sales. This highlights a major ethical issue for salespeople and their management, theory would suggest as long as salespeople meet their targets they are untouchable in terms of discipline.

### *Types of unethical sales techniques*

There are a number of unethical sales techniques used by financial advisors and other salespeople. The researcher will concentrate only on the relevant techniques: churning and twisting. Churning is defined as excessive or inappropriate trading for a client's account by a broker who has control over the

account, with the intention of gaining commission rather than benefiting the client. This unethical technique is mainly used by stock broker, hedge fund managers and investment managers. Although it is quiet common, it becomes difficult to monitor or determine whether a transaction was unethical or not (Boatright, 2009). Twisting refers to the practice by insurance agents or financial advisors of persuading a policyholder to replace an older policy with a newer one that provides little if any additional benefit to the policy holder, but generates commission for the broker (Boatright, 2009). With the above unethical sales techniques, the researcher can identify a trend as to why financial advisors use these sales techniques. The common denominator from both of these descriptions is that the advisor receives additional commission from the sales.

#### **2.4 - Ethics in Financial Services**

According to the dictionary, the term *ethics* has several meanings. Webster's dictionary (1986) describes "ethics as the principles of conduct governing an individual or group." The above definition is the more simplistic version, while Velasquez (2012) defines "ethics as the discipline that examines one's moral standards or the moral standards of a society to evaluate their implications for one's life." Ethics plays a vital role in finance, by guiding the formation of laws and regulations and, by guiding conduct in areas not governed by laws and regulation (Boatright, 2008:6). "Ethics is the study and philosophy of human conduct with an emphasis on the determination of what is right or wrong" (Ferrell, Gresham, & Fraedrich, 1989:55). Ethics is the concept of morals; one's ability to choose between right and wrong, good and bad, acceptable and unacceptable (Desjardins, 2009). Philip & Ridge, (2002) state the code of ethics for financial advisors is "honesty, fairness, accuracy, and compliance with government rules and regulation" (Philip & Ridge, 2002:3).

Business and Financial ethics have come into the spotlight in recent years, in light of the Enron scandal and the Global banking crisis. The researcher intends to analyse the ethical standards of the Financial Services Industry in Ireland. Christensen & Brown (1994:39) describe "ethics is not concerned what is legal

or illegal, ethics focuses on our moral duties and responsibilities.” In today’s competitive and litigious business environment, it is incumbent upon sales managers to emphasize both performance goals and socialization tactics that will help regulate compliance and assure ethical behaviour (Izzo and Langford, 2003).

### **2.5 - Ethical Theories**

Jalil, Azam and Rahman (2010:145) proposed that ‘business ethics can guide the managers and executives of a business organisation in the right direction.’ The stakeholder theory will be used by the researcher to evaluate how ethical and unethical organisations conduct their businesses. Crane & Matten (2007) describe “a stakeholder as an individual or group which is either: is harmed by, or benefits from, the corporation; or whose rights can be violated, or have to be respected, by the corporation” Crane & Matten (2007:58). Appendix C helps to explain the number of different individuals or groups which are affected by organisations. Freeman (1984:46) defines “a stakeholder in an organisation as any group or individual who can affect, or is affected by, the achievement of the organisation’s objectives.” A more recent definition by Freeman, Harrison, Wicks, Parmar & De Colle (2010), states that “stakeholders are groups and individuals who have a stake in the success or failure of a business” Freeman et al. (2010:405).

### *Trust*

In a sales context, trust is defined as “one party’s belief that its needs will be met in the future by actions undertaken by the other party” (Anderson & Weitz, 1989:310). Trust is the mutual belief that each party has confidence in the other party. “Trust plays a ubiquitous role in many facets of life, from personal relationships to international trade. For Financial Advisors, “establishing and maintaining the client’s trust is crucial” (Lachance & Tang, 2012:209). The levels of trust between clients and financial advisors need to be high because of

the large sum of money are entrusted to financial advisors (Lachance & Tang, 2012).

When trust is broken by either party, it becomes extremely difficult to remedy. Since the global economic crash in 2008, trust in finance has hit an all-time low, according to a US survey completed by GSS (General Social Survey) in 2010, (Adapted from (Lachance & Tang, 2012:209-210). The researcher will revisit the concept of trust in the data analysis section in Chapter 4.

### *Stakeholder Theory*

The stakeholder theory is described as probably the most popular and influential theory to emerge from business ethics (Stark, 1994). Although the term “stakeholder” has been around since the 1960’s, the stakeholder theory has only been developed in the 1980’s by Freeman. Freeman et al. (2010) highlighted three areas of research in this book, (i) the problem of value creation and trade; (ii) the problem of the managerial mind set; and (iii) the problem of the ethics of capitalism. The researcher intends to concentrate on the ethical side of these arguments as it is more relevant to the research topic. The stakeholder theory is a difficult theory to define as it has constantly been updated in the past twenty years. The central claim of the stakeholder approach is that corporations ought to be operated for the benefits of all those who have a stake in the enterprise, such as, employees, customers, suppliers, governments, shareholders, and local communities (Boatright, 2007).

The researcher will attempt to link this theory to the unethical selling practices in Financial Services in Ireland. Freeman et al (2010) outlined three areas to concentrate on and the researcher will focus on the ethical side of the equation. The stakeholder theory helps to highlight the moral responsibilities of both individuals (salespeople) and corporations, and the duty of care for customers.

The researcher intends to link both stakeholder and shareholder theory to ethics in selling financial services. There will be a particular emphasis on the sales targets within a sales environment (maximisation of shareholder wealth) and moral responsibilities of salespeople, management and organisations.

### *Shareholder Theory*

Milton Friedman describes the Shareholder theory in a report published by the New York Times in 1970, he states, “there is one and only one social responsibility of business: to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.” The statement clearly shows that Friedman agrees with the idea of maximising shareholder wealth, as long, as the organisation remains ethical or “stays within the rules of the game”. From a capitalist perspective, the researcher would agree with Friedman statement because all organisations are in the business of making profit. Selling products or services is the most important component of a business (Clark & Lattal, 1993). On the other hand, the theory may be misunderstood by CEO’s, managers, executives and employees as a licence to do anything to make a profit. Also, the concerning element of the statement would be the gap between academic literature and the reality of the workplace, a research paper by J. Shen (2005) highlights the gap between theory and reality.

### **2.6 - Sales targets, commission and Ethics**

The research intends to make a link between the shareholder theory and the pressure on financial advisors to meet sales targets, and the possibility of selling unethically. Using the shareholder theory and the comment by Friedman, we see that organisations are focused on making a profit. This is no different in the FSI, it is a cut-throat business and financial advisors are only graded on their sales figures. Past studies have shown that quotas can negatively affect salesperson moral judgment (Schwepker and Good 1999). This quote suggests that the pressure to meet sales targets may affect salespeople’s ethical or moral judgement, this could cause them to sell unethically. “The majority of financial advisors are more incentivised by selling a product rather than providing genuine independent financial advice to their client” (Gillen, 2010:39), Gillen suggests that financial advisors are more concerned with making a sale than giving the “best advice” to their clients.



Another factor to add to this equation is the commission based salaries given to the vast majority of Financial Advisors. The most common forms of remuneration are a base salary plus a bonus, or commission (J. Hall, 2007). "In organizations where sales representatives have greater influence on the buying decisions of customers, a larger portion of the salesperson's pay should come from commissions" (Neal, Stone & Cossack, 2012:23). As financial advisors depend on commission as their source of income, the researcher believes it is conceivable that these advisors may sell unethically to gain the commission from the sale. The researchers beliefs are backed up by a major insurance company's actions to remove the commission based salary because of unethical selling practices. "The company's new pay structure will sharply reduce the emphasis on commissions - widely seen as the main cause of mis-selling in the financial services industry", (C. Brown-Humes, 1998:26).

The removal of commission based remuneration would have both positive and negative effects on the workforce; the positive being that when the pressure of meeting sales targets is removed. There should be improved customer relations and more ethical sales practices. Gillen (2010) states "In my view, the system needs to change. I see no adequate solution other than a ban on commission based selling of investment products altogether" (Gillen, 2010:40). In a more recent study by Gillen and the Financial Services Authority (FSA) both agree that the commission based remuneration seems to be the root of the problems in terms of unethical selling in the FSI in Ireland. In its wide-ranging industry review published in 2009, the FSA stated that "commission-based selling was at the root of all product mis-selling scandals over the years" (Gillen, 2010:40). The FSA is a UK regulatory authority on financial services and the FSA plan to remove commission based product selling by 2013. The topic will be revisited in the Findings and Analysis chapter, due to its significance to the overall research.

The negative effects may be that high performing sales people with big commission bonuses may leave the company and a possible drop in revenue as salespeople are not made to sell products because of salary based remuneration. "It takes away the fear of not having a salary this month because your new business figures have dropped," said John Elbourne, head of the Prudential's retail financial services division.

### *Moral Responsibility of Organisations, managers and salespeople*

There is much discussion around Corporate Social Responsibility (CSR) and there are arguments for and against CSR. Corporate social responsibility includes the economic, legal, ethical and philanthropic expectations placed on an organisation by society at a given point in time (Carroll & Buchholtz, 2009:44).

Appendix D displays the four part of Carroll's model of CSR: philanthropic responsibilities, ethical responsibilities, legal responsibilities, and economic responsibilities. Both economic and legal are required by society, ethical responsibilities are expected and philanthropic are desired by society. Friedman (1970) argues the point that corporations do not have to be socially responsible. He bases his beliefs on these three premises;

- Only human beings have a moral responsibility for their actions,
- It is managers' responsibility to act solely in the interests of shareholders, and
- Social issues and problems are the proper province of the state (government) rather than corporate managers. (Crane & Matten, 2007)

Milton Friedman believed that corporate social responsibility (CSR) was a distraction from the economic fundamentals of business-maximizing profits and returns to shareholders (K. Todd, 2009). Todd (2009) agrees partially with Friedman's suggestion that CSR is almost irrelevant; Todd uses the example of Starbucks in 2008. Starbucks had a strong CSR focus, giving employees above average wages, giving generous labour policies to international coffee suppliers. This took its toll in 2008, when the company's share price dropped by 50%. Using this example, it does highlight the point that Friedman makes that companies should be more focused on being profitable and let the human beings (employees, managers, etc.) and governments be responsible for their own actions.

The other side of the debate is Carroll (1979) and his four tiered model of CSR (Crane & Matten, 2007:53). Carroll disagrees with Friedman's idea of CSR,

when he suggests that if corporations should not be allowed to ignore their social and ethical responsibilities. This has happened in the past with large corporations such as Nike, Abercrombie and Fitch and Walmart using “slave labour” to cut their production costs. This is also evident in financial institutions such as Enron, WorldCom and more recently Irish banks like Anglo Irish bank, Bank of Ireland and Allied Irish Bank.

Some theorists suggest that companies have to make a decision whether to have an ethical corporate strategy or the common profit making strategy. In the context of this research paper, it is only conceivable that a financial institution would choose a profit making strategy. Both have their advantages and disadvantages, the questions remains which strategy is more viable for the long term future. The perception of greedy, unethical corporation would be that they are just in business for a “quick buck” rather than retaining customers. While the ethical strategy is more complicated as seen with the Starbucks example; companies may treat their stakeholders well such as: employees, suppliers and local community. But this doesn’t always reflect in the company’s balance sheet or share price.

This brings the researcher back to Friedman’s concept of shareholder wealth maximisation. Often it comes down to an organisation having to decide between following an ethical strategy, a profit making strategy or a balance of both of these, however ‘the deciding factor is often money’ (Johnson, 2007:17) as for an organisation to be ethically conscious it can be a costly process with many organisations now claiming they satisfy both ends of the spectrum.

### **2.7 –Financial Services Ombudsman Report**

The researcher discovered that mis-selling of financial products and services is evident in Ireland. A Bi-Annual report by the Financial Services Ombudsman for 2013, this report reveals that there is a constant increase in complainant’s year on year. The bullet points below show the increase of complainants from three sections; insurance, banking and investment.

#### **Insurance**

- Insurance complaints continue to make up 50% of all complaints received.
- Payment Protection Insurance (PPI) complaints increased by 150% over the same period last year and account for 44% of all insurance complaints so far in 2013.
- Most PPI complaints concern alleged mis-selling of PPI to Consumers.

### **Banking**

- 36% of complaints received in the first half of 2013 were about banking products.
- Mortgages and accounts generate the most complaints in the Banking sector.
- Mortgage-related complaints increased by 51% on the same period last year, with 'MARP' and 'Tracker' related complaints driving this increase.

### **Investment**

- While Investment complaints account for only 12% of all complaints received by the FSO, these complaints tend to be more complex and raise more difficult issues which must be addressed in adjudication.

(Financial Services Ombudsman, 2013)

This report shows the researcher that there is evidence of unethical selling with the Financial Services Industry. The Ombudsman's report indicates that complainants within the industry are increasing every year, the insurance sector and more specifically the Payment Protection Insurance (PPI). This report helps to clarify the researchers overall aim for this dissertation, to identify unethically within the FSI in Ireland.

The researcher stated in Chapter 1, that the main source of unethically selling will come from the Financial Intermediaries rather than the heavily regulated banks. The Ombudsman full year report from 2012, states that complainants of mis-selling of financial products have decreased by 5% from 2011 to 2012 (Financial Services Ombudsman, 2012).

## **2.8 - Conclusion**

The literature examined in Chapter 2 was the main principles of financial services industry. It explores areas such as ethics, sales management and the background of the FSI, defining the personal finance niche on which the researcher has concentrated. Furthermore, the literature highlighted the type of unethical sales practices the researcher is exploring and examined the organisational culture and individual factors which can be attributed to unethical selling practices.

The role of management when setting sales targets for financial advisors and these targets can be linked with financial advisors selling unethically. The influence of competitive intensity within an organisation, the shareholder and stakeholder theories is also examined in the literature review chapter. These theories are linked with role of management and competitive intensity within an organisation to ensure that financial advisors conduct themselves in an ethical manner. The shareholder theory was an area of particular concern as the definition states the sole purpose for business is to make a profit and more or less disregards all other factors, such as ethics.

The area of financial advisors remuneration is a huge talking point in the methodology section of this report. In the literature review, the researchers' aim was to give the reader a detailed description of the area with the aid of the literature.

The three major themes from the literature review are Ethics, Remuneration of financial advisors and Sales Targets. These themes will give the next two chapters more structure and tie in with the research questions.

The researcher would also like highlight that the lack of Irish literature was an issue and this will be mentioned again in the limitation section.

## **Chapter 3: Methodology**

### **3.1 - Research Questions**

#### **Overall Research Question**

“What are the perceived levels of unethical selling in the Financial Services Industry in Ireland?”

#### **Research Question 2**

“To ascertain how the unethical behaviour of Financial Advisors has an impact on the perceived levels of unethical selling in the FSI in Ireland?”

#### **Research Question 3**

“To determine whether financial advisors remuneration has an impact on the perceived levels of unethical selling in the FSI in Ireland?”

#### **Research Question 4**

“To investigate the role of management on meeting sales targets and upholding ethical standards”

### **3.2 - Introduction**

Methodology is “the theory of how research should be undertaken, including the theoretical and philosophical assumptions upon which research is based and the implications of these for the method or methods adopted” (Saunders, Lewis, & Thornhill, 2007:602). Collis and Hussey (2009) believe that the methodology of an investigation is ‘an approach to the process of the research encompassing a body of methods’ (Collis and Hussey, 2009:73). Within this section the researcher will aim to clearly outline not only the chosen research instruments but also the thinking behind the research.

The research being conducted is classed as an exploratory study which is defined by Robson (2002:59) as “a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in a new light.” Saunders et al. (2007) state that there are three principles of exploratory research;

- A search of literature;
- Interviewing industry “experts”;
- Conducting focus group interviews.

The researcher has completed two of the three of these principles which implies that the research being conducted is an exploratory study. Saunders et al., (2007) also state that an exploratory research has to be flexible and adaptable to change, the researcher completely agrees, as the research has changed direction as a result of data collected.

Chapter 3 outlines the research philosophy followed and methods used to achieve the objectives outlined in the chapters 1 and 2. This chapter will encompass discussions on the following: research philosophy, approach to research, research strategy, research instruments, data analysis methods, and the research time line. The philosophy and methods used were heavily influenced by the research aims as by attempting to develop deep understanding of contextually sensitive situations it was imperative to use an interpretivist approach. The researcher will use Saunders et al., (2007) research “onion” to explain the steps, methods and strategies taken complete the research.

### **3.3 - Research Philosophy**

Research methodologies have many important variables. According to Saunders et al., (2007, p.102), (see appendix E) they can be broken down into five key stages, or onion layers in order to better justify their importance and indeed relevance to the research questions. The five layers of the research “onion” are;

- research philosophies,
- research approaches,
- research strategies,
- research time horizons, and
- Research techniques and procedures.

The aim of using the research “onion” is to deduce a valid, appropriate and effective research methodology, to qualify the research objectives and thus provide the most accurate answer to the research question (Saunders et al., 2007).

This section will describe the interpretivist approach to research. An interpretivist approach to research is suitable when research needs to know ‘how’ and ‘why’ and detailed contextual information, complex number of issues and where research seeks explanation and understanding. Interpretivist approach to research is described as “the epistemological position that advocates the necessity to understand differences between humans in their role as social actors” (Saunders et al., 2007:600).

This needs to be explained in relation to the research aim and objectives. Using this research approach, the researcher tries to interpret previous studies and theories which have been completed previously.

The thinking behind this research will be an epistemology philosophy with an interpretivist perspective. Epistemology is described as a ‘general set of assumptions about the best ways of inquiring into the nature of the world’ (Easterby-Smith, Thorpe and Jackson, 2008:60). While Saunders et al., (2007) define Epistemology as “a branch of philosophy that studies the nature of knowledge and what constitutes acceptable knowledge in a field of study” (Saunders et al., 2007:595).



### **3.4 - Research Approach**

The research “onion” contains two approaches to research; inductive and deductive.

Inductive approach to research “involves the development of a theory as a result of the observation of empirical data” (Saunders et al., 2007:599).

Deductive approach to research “involves the testing of a theoretical proposition by the employment of a research strategy specifically designed for the purpose of its testing” (Saunders et al., 2007:596).

The researcher will follow an inductive strategy and the collection of qualitative data for the purpose of the dissertation. The researcher has used semi-structured interviews as a method of collecting data for this research project, which is a part of the inductive approach to research. The data collected by the researcher will be analysed in Chapter 4. This analysis may explain the factors behind unethical selling in the FSI in Ireland. In the inductive approach theory follows the data, while the deductive approach is the opposite. The main reason why the researcher picked inductive approach to research is the flexibility and the ability to cater for constraints in the research (Easterby-Smith et al., 2002). This type of approach is less rigid than deductive and the researcher may need to tailor the interview questions depending on the willingness of the sample to answer the interview questions. “The main reason for the potential superiority of qualitative approaches for obtaining information is that the flexible and responsive interaction which is possible between interviewer and respondent(s) allows meanings to be probed, topics to be covered from a variety of angles and questions made clear to respondents” (Sykes, 1991:8).

### **3.5 - Research Strategy**

There are a number of different research strategies; experiment, survey, case study, action research, archival research, grounded theory and ethnography (Saunders et al., 2007). The strategy which is most suited to inductive research is ethnography. Ethnography is described as “research strategy that focuses upon describing and interpreting the social world through first-hand field study” (Saunders et al., 2007, 597). Ethnography is linked to this research project in a number of different ways. Firstly, the researcher will use an inductive research

approach. Secondly, the research strategy involves interpreting external factors and this dissertation follows an interpretivist philosophy of research. Lastly, it involves a first-hand field study, in the case of this dissertation, semi-structured interviews.

### **3.6 - Research Time Horizons**

The time horizons are broken down into two different representation of the research being studied. The two different types of time horizons are: longitudinal studies and

cross sectional studies.

Longitudinal studies are described as a diary or events which occur over an extended period of time. This is not relevant to a minor dissertation because of time constraints; this will also be mentioned again in the limitations section of this research paper.

On the other hand, cross sectional studies are more relevant because it is the research of a specific topic, in this case Ethics in Financial Services and within a particular time scale. Cross-sectional studies are described as “a methodology designed to obtain information on variables in different contexts, but at the same time” (Collins et al., 2003:346). Cross-sectional studies are described as “snapshot” of a particular topic within a smaller timeframe than longitudinal. The cross-sectional or “snapshot” study is more suited to this research paper because the researcher is focused on the current events of the Financial Services Industry in Ireland. The data was collected by the researcher over the course of one week (23<sup>rd</sup> – 31<sup>st</sup> august) rather than multiple occasions in time or longitudinally.

### **3.7 - Research Procedures and Techniques**

Under this heading, the researcher will compare and contrast quantitative and qualitative techniques. The researcher will also justify why a particular technique was picked and then describe the research instrument(s) used.

Quantitative research is defined as “an objective approach which includes collecting and analysing numerical data and applying statistical tests” (Collins et al., 2003:355).

Qualitative research “focuses on words rather than numbers in the collection of data. Qualitative research as a research strategy is inductive and subjective, constructivist and/or interpretivist” (C. Quinlan, 2011:482).

There are three main differences between quantitative and qualitative research. Firstly, the most obvious difference in quantitative research is based on numerical data and whereas qualitative data is focused on words and literary research. Secondly, quantitative research is often referred to as more standardised collection of data, while, qualitative is described as non-standardised. Lastly, quantitative data is analysed by the use of diagrams and statistics. On the other hand, qualitative data analysis is conducted through the use of conceptualisation (Saunders et al., 2007).

The researcher opted for a qualitative because it suited the structure of the research. The researcher used semi-structured interviews from the beginning as it gave an insight into the role of a financial advisor. This would not have been ideal, if the researcher had chosen quantitative research. The flexibility of the semi-structured interviews was crucial to the success of the research and to ensure the researcher could tailor questions to suit the interviewees. It is also important to note that it wouldn't have been impossible to conduct the research using qualitative research and a method such as questionnaires, having said that it may not have given the researcher the relevant information that was required.

The researcher is aware that quantitative research would have been acceptable, if the timeframe was longer and the word count of the dissertation was greater. Similar research such as Schepker (1999) has followed a quantitative research technique. The researcher acknowledges this study but still argues that the information obtained through interviews may not have been as rich, if the researcher opted for quantitative research.

### **3.8 - Research Instrument**

Given the nature of the research objectives and the exploratory nature of the research a non-standardised semi-structured interview was the most logical choice of primary data collection, Saunders et al. (2007). From the literature

review, one of the key authors Schwepker, (1999) has previously used questionnaires to collect data for his research. The researcher acknowledges this and would have used this method if there was time available and the researcher had contacts for the adequate number of firms to send the questionnaire to. Schwepker had sent over 300 questionnaires and had a response rate of 48% (150). Questionnaire may have been the most appropriate research instrument but the cons in this case outweighed the pros.

The research instrument used in this report was semi-structured interviews, they are defined by Saunders et al., (2007) as “wide-ranging category of interview in which interviewees commences with a set of interview themes but is prepared to vary the order in which questions are asked and to ask new questions in the context of the research situation” (Saunders et al., 2007, p.611). The researcher developed the interview questions based on three key themes on the research topic and had eleven interview questions in total, see appendix F for interview questions and matching research themes.

The researcher opted for this research instrument because the flexibility of the interview questions can be tailored to ensure that significant data is retrieved. As this research paper is classed as an exploratory study, the semi-structured interview was best suited to understand the relationship between the key variables in this paper (i.e. ethics, finance, salespeople, etc.). Some of the other reasons are personal such as, the researcher felt comfortable with asking interview questions, the semi-structure interview gave the researcher the ability to probe the interviewees to give the research more relevant information. The researcher preferred semi-structured interviews as it enabled the researcher to create an interview schedule which simplified the interview process and ensured that all relevant topics were covered. See appendix G.

The semi-structured interview was also suitable for the qualitative research which the researcher intended to use. Although, the method was the most suitable for this dissertation there were some disadvantages: finding suitable participants within relevant knowledge and experience in the FSI, the possibility of bias from researcher and interviewee and issues surrounding the ordering of questions and general competence of the interviewer, Bell (1999). Researcher bias came in the

form of choosing the sample that had the relevant knowledge and experience in the field. Interviewee bias came in form of response bias. Interview question number six may have been over sensitive and the interviewees were inclined not to answer.

The researcher also considered using focus groups as a research instrument, but decided it would not be a suitable method of data collection. The reasoning behind this is was it would have proved difficult to get a location, date and time to suit all interviewees. Some other reasons would have been the quality of answers from the interviewees may not have been as good as that of a one-to-one interview. Also, some of the financial advisors may have been from rival companies and would not want to disclose information in front of competitors.

### **3.9 - Sample Selection**

There are two different types of sampling: probability and non-probability sampling. For the purpose of this paper the researcher has only focused on non-probability sampling. Non-probability sampling is defined as “selection of sample techniques in which the chance or probability of case being selected is not known” (Saunders et al., 2007:604). Within the non-probability sampling techniques there are a number of different methods. The researcher only used two methods, they were:

- Quota sampling – this ensures that the sample represents certain characteristics of the population chosen by the researcher.
- Snowballing sampling – this is where subsequent respondents are obtained from information provided by initial respondents (Saunders et al., 2007).

The researcher has used a combination of the above methods to ensure that respondents chosen had the following criteria: knowledge of the research topic worked/working within the FSI in Ireland and willingness to partake in this research paper.

The researcher had identified eight fully Qualified Financial Advisors (QFA) who were currently practicing in Ireland. When selecting the sample, the

researcher contacted a total of thirty financial advisors working within either in financial intermediaries (12) or in a bank (18). The response rate from the financial intermediaries was four out of twelve, giving a response rate of 33%. The response rate from the banks was four out of eighteen, giving a response rate of 22%. The overall response rate was eight responses out of a potential thirty, giving a total response rate of 27% (26.67%).

The researcher was lucky to have interviewed a senior manager. This interviewee is the Managing Director of an Intermediary in Donegal and for the purpose of the study is called “Interviewee number 1” who has over eight years’ experience in financial services.

### **3.10 - Justification for Interview Questions**

The researcher’s justification for choosing the researcher question (see appendix 1.6) was that the questions all complimented the major themes from the literature review. The major themes were: Financial Services Industry and its background, Sales Management and Ethics. Each of the interview questions is paired with either one or two of these themes, see Appendix F. The dates of the interviews and other relevant information are shown in Appendix G.

### **3.11 - Approach to Analyse Data Analysis**

In this section, the researcher will identify a suitable approach to aid the data analysis in chapter 4. According to Saunders et al., (2007) there is no standardised approach to the analysis of qualitative data. Having said that, there are a number research traditions or approaches, with the result of different strategies to deal with the data collected (e.g. Coffey & Atkinson, 1996; Dey 1993, Miles & Huberman 1994; Tesch 1990).

### **Coding Data**

Coding is defined by Malhotra et al. (2012) as “breaking down qualitative data into discrete chunks and attaching a reference to those chunks of data,” (Malhotra et al, 2012:1005). The researcher coded each relevant piece findings

under three major themes of the research. The researcher used this particular type of coding as it fits with the philosophy of the research, (i.e. interpretivism).

As mentioned before, the researcher instrument used was semi-structured interviews. The researcher conducted a total of nine interviews. Appendix G displays all relevant information such as: interviewee initials, age, gender, type of company, (i.e. bank, intermediary, etc.), years' experience in the FSI, date of interview, location of interview and length of time. The researcher also transcribed all of the interviews, see appendix H for example of interview questions and transcribed interviewee response I.

## Chapter 4: Findings and Analysis

### 4.1 - Findings

#### 4.2 - Introduction

The purpose of this section is to illustrate the findings which emerged from eight semi-structured interviews. The sample was made up of eight fully Qualified Financial Advisors (QFA) who currently work in the FSI in Ireland. The researcher has attempted to make the linkage between the interview questions and research questions, see appendix E.

The keys themes throughout this dissertation are: *Ethics & ethical behaviour of financial advisors, sales targets & managerial pressures and remuneration of financial advisors.*

#### 4.3 - Theme: Ethics & ethical behaviour of financial advisors

Research Question 2

“To ascertain how the unethical behaviour of Financial Advisors has an impact on the perceived levels of unethical selling in the FSI in Ireland?”

The first major theme addressed by the interviewees is Ethics and the importance of ethics in the Financial Service Industry. All of the eight interviewees believed that ethics was imperative to the success of the FSI in Ireland. Interviewee number 5 stated that “Ethics is a principle aspect of financial advice because it plays a necessary role in attracting customers to the firm, thereby boosting sales and profits.” While interviewee number 1, describes ethics as “vitaly important” to the success of the FSI. Also, interviewee number 1 states that “unethical advice is typically poor or unsuitable advice on financial products. This will be detrimental to the advisor and also the industry.”

Interviewee number 8 states that, “Ethics are of utmost importance within the Banking sector. Customers place their trust in us, assuming that we will do the right thing by them. With the business becoming more and more complex, we



face difficult ethical decisions every day and without the presence of strong ethical guidelines we can easily make the wrong decision which can not only harm customers we are dealing with but also damage the reputation of employers and the industry as a whole.”

This section is still under the heading of the first theme of ethics and unethical behaviour. Although the majority of the interviewees declined to comment on question 6 (see appendix H). Three out of the eight said they were aware of other financial advisors selling unethically for different reasons. Interviewee number 2 stated that, “I have known people who have sold financial products to earn the best commission from this particular product even though it did not suit the customer’s best interest.” Interviewee number 1 stated that “I am aware of my clients who have purchased products which were to my mind entirely unsuitable either by unqualified or unethical brokers or agents.”

Finally, interviewee number 8 commented, “I personally have never sold unethically however I have witnessed a previous colleague sell to customers on occasion whom they were aware were unable to afford the products being sold, in order to gain their bonus. This is something which became apparent to superiors within the team and was quickly eradicated and we were all given a presentation on the code of ethics.”

#### **4.4 - Theme: Remuneration of financial advisors.**

##### Research Question 3

“To determine whether financial advisors remuneration has an impact on the perceived levels of unethical selling in the FSI in Ireland?”

The majority of the financial advisors interviewed agreed that salary based remuneration is a more suitable form of remuneration. Interviewee number 7 states that “salary based remuneration for me works best as a client will immediately find more comfort in the knowledge that you are not effectively seeking a sale but rather demonstrating an extensive knowledge of the market.” While interview number 4 states, “In my opinion, financial advisors should be

paid a salary. Where remunerations are based on commission I believe financial advisors will be tempted to sell the product that will earn them the highest commission rather the product that is more suited to the customer's needs." Interviewee number 2 also believes that, "Salary, as with commission based the emphasis is to sell and not to give the customer the best financial product for their needs. The advisors are more of a sales man than an advisor." On the other hand, interviewee number 1 explains "I feel that commission based salary is perfectly fine provided supervisors or managers have rubber stamped the advice."

Interviewee number 8 disagrees and states. "I think that Financial Advisors should be paid a mix where they receive a basic salary with the opportunity to earn commission on the top of this. In the industry I believe Advisors need to be given an incentive to perform better and achieve targets in order for the industry to grow a set salary would not provide this, however a purely commission based remuneration can lead to unethical selling where advisors need to make sales in order to make any money." This argument will be discussed in more detail in the Analysis section.

The next part of Remuneration theme is detailed in Question 8 of the interview questions, (see Appendix H).

Interviewee number 6 states that, "the commission based element would create bias towards the larger buyers, revenue or commission groups, so the essential element in the decision making process for a commission paid financial advisor would be the amount they could earn from a sale." While interviewee number 7 indicates that "product driven sales still forms part of a small minority of financial advisors. With the addition of minimum competency requirements and APA most recently, it would be remiss of me to say that nothing is being done to eradicate this style of selling." Finally, Interviewee number 3 states that "FAs are enticed to sell the product or service that will generate the most commission for them and eventually high revenue for the financial institution.

#### **4.5 - Theme: Sales targets & Managerial pressures**

##### Research Question 4

“To investigate the role of management on meeting sales targets and upholding ethical standards”

The first comment is from interviewee number 2 stating that, “the commission element of sales makes the advisor look at which products will give them the best commission rate and not which one is in the customer’s best interests.” While interviewee 1 explains, “I can only speak from myself and my staff. When the appropriate product/advice has been identified commissions will be queried but only in circumstances where the product placement or advice is not compromised.”

Interviewee number 5 comments, “The commission element to a sale obviously plays a big part in the decision when making a sale to a customer, however with so much scrutiny currently on the sector Advisors have had to think beyond this. The culture has definitely changed a lot in recent times, Advisors are looking at the bigger picture when it comes to sales, is this the right fit for this customer, can this customer afford this product, is there something else more suitable are all questions which must be asked when selling to a customer ensuring that ethics are also coming into play.”

##### Interview Question 9

Interviewee number 2 states “Of course as with today’s current employment market place people are worried about their jobs. With these sales targets in place advisors will resort to unethical selling in order to hit targets as they may fear for their own job if they fail to hit these.” Interviewee number 7 suggests, “meeting sales targets inherently means aggressive sales and with that a connotation of unethical selling.”

Interviewee number 5 also suggests that, “yes as in your desperation to hit targets you can quickly sell a product/service without giving the customer the time to think it over and if they want or require this product/service.”

On the other hand, interviewee number 1 commented, “the managerial pressure to meet targets doesn’t affect our firm as we do not set sales targets for staff.”

**4.6 - Summary of key findings**

Table 2 (A) – Ethics and unethical behaviour

Theme -Ethics and unethical behaviour	Evidence – Quotes from Interviewees
<p>Interview question(s)</p> <p>Q5. “Ethics is the study and philosophy of human conduct with an emphasis on the determination of what is right or wrong”</p> <p>How important do you think ethics are in your field?</p>	<p>“Ethics is a principle aspect of financial advice because it plays a necessary role in attracting customers to the firm, thereby boosting sales and profits.”</p> <p>Interviewee number 5</p> <p>“Given the vital role that financial Institutions play, the moral hazards may be more acute and it is therefore logical that the industry should be subject to higher ethical standards than other commercial sectors.”</p> <p>Interviewee number 7</p> <p>“Ethics are of utmost importance within the Banking sector. Customers place their trust in us, assuming that we will do the right thing by them. With the business becoming more and more complex, we face difficult ethical decisions every day and without the presence of strong ethical guidelines we can easily make the wrong decision which can not only harm customers we are dealing with but also damage the reputation of employers and the industry as a whole.”</p> <p>Interviewee number 8</p> <p>(Continues on next page)</p>

Table 2 (B) – Ethics and unethical behaviour

Theme - Ethics and unethical behaviour	Evidence – Quotes from Interviewees
<p>Q6. Have you or do you know anyone who has ever sold unethically to gain commission? Please explain briefly.</p>	<p>“I have known people who have sold financial products to earn the best commission from this particular product even though it did not suit the customer’s best interest.” Interviewee number 2</p> <p>“I am aware of my clients who have purchased products which were to my mind entirely unsuitable either by unqualified or unethical brokers or agents.” Interviewee number 1</p> <p>“I personally have never sold unethically however I have witnessed a previous colleague sell to customers on occasion whom they were aware were unable to afford the products being sold, in order to gain their bonus. This is something which became apparent to superiors within the team and was quickly eradicated and we were all given a presentation on the code of ethics.” Interviewee number 8</p>

Table 3 – Financial Advisor remuneration

Theme: Financial Advisor remuneration	Evidence – Quotes from Interviewees
<p>Financial Advisors remuneration</p> <p>Q8. To what extent, does the commission element affect Financial Advisors decision making process during a sale?</p>	<p>“In my opinion, financial advisors should be paid a salary. Where remunerations are based on commission I believe financial advisors will be tempted to sell the product that will earn them the highest commission rather the product that is more suited to the customer’s needs.” Interviewee number 8</p> <p>“Salary based remuneration for me works best as a client will immediately find more comfort in the knowledge that you are not effectively seeking a sale but rather demonstrating an extensive knowledge of the market.” Interviewee number 7</p> <p>“Salary, as with commission based the emphasis is to sell and not to give the customer the best financial product for their needs. The advisors are more of a sales man than an advisor.” Interviewee number 2</p> <p>“I feel that commission based salary is perfectly fine provided supervisors or managers have rubber stamped the advice.” Interviewee number 1</p>

Table 4 – Managerial pressures to meet sales targets

Theme: Managerial pressures to meet sales targets	Evidence – Quotes from Interviewees
<p>Q9. “Moral Responsibility is the unique ability of persons to exercise control over their conduct in the fullest manner necessary for moral responsibility. We care about our decisions and we also care about our actions and conduct.”</p> <p>Do managerial pressures to meet sales targets implicate your moral responsibilities towards customers?</p>	<p>“Of course as with today’s current employment market place people are worried about their jobs. With these sales targets in place advisors will resort to unethical selling in order to hit targets as they may fear for their own job if they fail to hit these.”</p> <p>Interviewee number 3</p>
	<p>“Yes as in your desperation to hit targets you can quickly sell a product/service without giving the customer the time to think it over and if they want or require this product/service.”</p> <p>Interviewee number 5</p> <p>“The managerial pressure to meet targets doesn’t affect our firm as we do not set sales targets for staff.”</p> <p>Interviewee number 1</p> <p>“Meeting sales targets inherently means aggressive sales and with that a connotation of unethical selling.”</p> <p>Interviewee number 7</p>

## 4.7 - Analysis

### 4.8 - Introduction

In this section, the researcher will highlight the important material from the findings section, then the researcher will include interpretations of the findings and finally, tie these findings and interpretations back into the theory from the literature review. The researcher will also use some of the research questions and research themes as headings, as this will give the Analysis section more focus and structure.

### 4.9 - Research Question 2

*“To ascertain how the unethical behaviour of Financial Advisors has impacted the perceived levels of unethical selling in the FSI in Ireland?”*

Theme: ***Ethics & unethical behaviour of financial advisors***

Interviewee number 5 states that, “Ethics is a principle aspect of financial advice because it plays a necessary role in attracting customers to the firm, thereby boosting sales and profits.” This quotation explains that ethics is an important principle of the FSI and also that customers are drawn to more ethical companies. Boatright (2009) implies that financial advisors meet their clients in face-to-face meetings. This suggests that business practices within the FSI are completed with face-to-face meetings; this includes the financial advisor and the client. The researcher interpretations of these comments are that, if financial institutions want to attract new or old customers they have to act in a more ethical manner. The use of face-to-face meetings may be a tactical ploy by financial institutions to increase sales. Customers would be more inclined to purchase products/services from face-to-face meetings rather than someone cold calling.

Neal et al. (2012:23) suggest that, “in organisations where sales representatives have greater influence on the buying decisions of customers, a larger portion of the salesperson's pay should come from commissions.” As stated by Neal et al.



companies who are influential in the customers' buying decisions, the advisor can manipulate the customer. A possible method of deception by advisors could be information asymmetry or the "doctor-patient relationship. Interviewee number 8 agrees with Neal et al. and she states that, "Also, I think there is a significant gap between a financial advisors' knowledge and a customers' knowledge of financial products." The researcher also agrees with these comments, financial advisors are meant to bridge the information gap for their clients and give them independent financial advice. Instead, this suggests that financial advisors leverage their knowledge to sell products with biggest commission price tag. The researcher suggests unethical behaviour by financial advisors leads to unethical selling aided by information asymmetry.

The researcher found a link between trust and asymmetric information from the literature review. Trust is defined as "one party's belief that its needs will be met in the future by actions undertaken by the other party" (Anderson & Weitz, 1989:310). The link between these two theories is evident from these definitions as the information asymmetry gives the financial advisor a position of power. The client places trust in the financial advisor because the financial advisor has a "more complete knowledge" of all financial products and services.

The researchers' interpretations are once trust between client and financial advisor is established, the financial advisors can, "influence on the buying decisions of customers" (Neal et al., 2012:23). The type of mis-selling the researcher is referring to is "twisting". Twisting refers to the practice by insurance agents or financial advisors off persuading a policyholder to replace an older policy with a newer one that provides little if any additional benefit to the policy holder, but generates commission for the broker (Boatright, 2008).

#### **4.9 - Research Question 2**

*"To ascertain how the unethical behaviour of Financial Advisors has impacted the perceived levels of unethical selling in the FSI in Ireland?"*

The researcher will conclude by answering the research question above (this will be repeated in the next two sections as well), the unethical behaviour of financial

advisors does directly affect the perceived levels of unethical selling. Once trust is established between client and advisor, the advisor has the choice whether to selling ethically or unethically. The researcher is focused on the unethical selling side of the argument. Asymmetric information can be used as a tool to sell unethically; twisting is the most common type of mis-selling by financial advisor (Boatright, 2008).

#### **4.10 - Research Question 3**

*“To determine whether financial advisors remuneration has an impact on the perceived levels of unethical selling in the FSI in Ireland?”*

Theme: ***Remuneration of financial advisors***

“Financial institutions have struggled in recent years to attract funds they need to lend in order to stay in business, the industry needed to change their methods of generating revenues” (Rose & Hudgins, 2010:451). The FSI has changed drastically in the last fifty years, one of the biggest changes has been the introduction of fee based sales and commission based remuneration. The FSI had previously used the common salary based remuneration before the introduction of commission based remuneration approximately fifty years ago.

From the literature review, Brown-Humes (1998) on Prudential, (Prudential are one of the world's largest financial services institution). “The company's new pay structure will sharply reduce the emphasis on commissions - widely seen as the main cause of mis-selling in the financial services industry”, (C. Brown-Humes, 1998:26). The problem with commission based salaries have been a major problem in the global FSI for more than fifteen years, Prudential removed the emphasis on commission within the companies pay structure. Gillen (2010:209) states “In my view, the system needs to change. I see no adequate solution other than a ban on commission based selling of investment products altogether.” The researcher agrees with this statement by Gillen, the emphasis on commission based remuneration is a fundamental flaw in the FSI.

The commission based salary when simplified means for every completed sale, the salesperson will receive a fee. This pay structure is flawed because financial advisors are to some extent salespeople but with specific knowledge in the finance industry. As Schwepker & Good (1999:316) implied, the financial advisors are “outcome-based control system are likely to be motivated by self-interest and sales quotas”, the likelihood for financial advisors to sell unethically increases. The findings and Table 2 (B) has evidence of unethical selling in the FSI in Ireland.

Interviewee number 4 states, “In my opinion, financial advisors should be paid a salary. Where remunerations are based on commission I believe financial advisors will be tempted to sell the product that will earn them the highest commission rather the product that is more suited to the customer’s needs.” A more recent comment by Gillen (2010:39) implies that “the majority of financial advisors are more incentivised by selling a product rather than providing genuine independent financial advice to their client.” The researcher agrees with this comment, the commission based remuneration is open to so much abuse by financial advisors. The comment by Gillen (2010) strengthens the argument that financial advisors sell a product or service to gain the commission rather than give the customer independent financial advice.

Interviewee number 7 states that “salary based remuneration for me works best as a client will immediately find more comfort in the knowledge that you are not effectively seeking a sale but rather demonstrating an extensive knowledge of the market.” This financial advisor believes that if he was paid a salary rather than commission based remuneration, he would feel more secure and more importantly so would the client. This quote encompasses both the debate on financial advisors remuneration and the role of trust between salespeople and customers. Trust is consider being one of the key players in sales and described as crucial in financial services by Lachance et al. (2012) because of the large sums of money are entrusted to financial advisors.

A survey completed in 2010 by General Social Survey, which was adapted by (Lachance et al. 2012). The survey found that after the global economic crash in 2008, trust in all financial sectors had hit an all-time low. Tyler & Stanley (2007)

state that trust levels will decrease even more with the introduction of technology into financial services and banking. Interviewee number 8 also implies that, “Customers place their trust in us, assuming that we will do the right thing by them. With the business becoming more and more complex, we face difficult ethical decisions every day and without the presence of strong ethical guidelines we can easily make the wrong decision which can not only harm customers we are dealing with but also damage the reputation of employers and the industry as a whole.”

#### **4.10 - Research Question 3**

*“To determine whether financial advisors remuneration has an impact on the perceived levels of unethical selling in the FSI in Ireland?”*

The most common remuneration for financial advisors is commission based, according to Brown-Humes (1998) with the removal of the commission pay structure should greatly reduce the unethical or mis-selling of financial products. Commission based remuneration is and was seen as the main contributor to the unethical or mis-selling in the FSI. The changes in the FSI stated by Rose & Hudgins (2010) have negatively impacted the levels of unethical selling in the FSI. Gillen (2010) states in the literature review that the most plausible solution is to remove the commission based remuneration pay structure. The researcher agrees with the material from the literature review and this also backed up by the findings, interviewee number 8 states “In my opinion, financial advisors should be paid a salary. Where remunerations are based on commission I believe financial advisors will be tempted to sell the product that will earn them the highest commission rather the product that is more suited to the customer’s needs.”

#### **4.11 - Research question 4**

*“To investigate the role of management on meeting sales targets and upholding ethical standards”*

Theme: *Sales targets & Managerial pressures*

Interviewee number 3 says, “Of course as with today’s current employment market place people are worried about their jobs. With these sales targets in place advisors will resort to unethical selling in order to hit targets as they may fear for their own job if they fail to hit these.” The researcher’s interpretation of this comment are that the pressure on financial advisors to meet certain sales targets whether be it weekly, monthly or quarterly do affect how financial advisors’ ethical standards. This is also backed up by Schwepker & Good (1999:38) who state because “financial advisors operate under an outcome-based control system are likely to be motivated by self-interest and sales quotas are believed to drive them to perform unethically.” The researcher suggests the more emphasis placed on sales targets will negatively affect the ethical behaviours of financial advisors. This could impact customers directly as they may be mis-sold a financial product or service.

Interviewee number 7 also agrees, he states, “meeting sales targets inherently means aggressive sales and with that a connotation of unethical selling.” The researcher interpretation of this comment is, when management set sales targets for financial advisors it seems to put them out their comfort zone and therefore behave unethically. Past studies by Schwepker & Good (1999) suggest that the pressures placed on financial advisors have a negative impact on their ethical behaviour. Strout (2002:32) agrees, he states “scholars have noted the ethical problems in sales are intensified because sales forces face strong pressures to perform.” Schwepker (1999:38) also suggests that, “as competition in sales departments grows such as today’s environment it may be perceived that greater competitive intensity may lead to diminished unethical behaviour.”

A conflicting statement from interview number 1 suggests “the managerial pressure to meet targets doesn’t affect our firm as we do not set sales targets for staff.” This comment from an experienced financial advisor and a managing

director of a financial services company has deliberately not set targets for his staff as this could lead to unethical sales practices and the possibility of losing customers. The researcher assumes that the interviewee has learned the hard way, but has no evidence to back this up. The researcher also notes that the exclusion of targets may help to remedy the unethical sales practices by financial advisors in the future. Also, the concept of commission based salaries is a huge talking point and will be discussed under the next research question.

#### **4.11 - Research question 4** (continued)

*“To investigate the role of management on meeting sales targets and upholding ethical standards”*

Based on the literature review, the researcher has found a negative relationship between sales targets set by managers and the ethical sales by financial advisors. Strout (2002:41) agrees, he states “scholars have noted the ethical problems in sales are intensified because sales forces face strong pressures to perform.” This quote suggests that financial advisors sell unethically due to pressures from management to meet targets. Past studies by Schwepker & Good (1999) have negative relationship between sales targets and a salesperson’s moral judgement. Schwepker & Good state that the pressure of targets can negatively affect a salesperson perspective on what is right or wrong. The researcher and interviewee number 3 agree with this comment. He states that, “of course as with today’s current employment market place people are worried about their jobs. With these sales targets in place advisors will resort to unethical selling in order to hit targets as they may fear for their own job if they fail to hit these.” The link between the findings and literature review is clear, that pressure from management to meet sales targets do affect financial advisors ethical behaviour.

## **Chapter 5: Conclusion**

### **5.1 - Conclusion**

The purpose of this dissertation was to explore the possibility of unethical selling within the Financial Services Industry. This dissertation contained three key themes throughout this dissertation; Ethics & ethical behaviour of financial advisors, sales targets & managerial pressures and remuneration of financial advisors. The themes are also linked to the three (periphery) research questions, which have been addressed in the Analysis section of Chapter 4. Since the researcher began this investigation, there has been increased media attention on the mis-selling or unethically of financial products with several banks in Ireland. The Financial Services Ombudsman half year report for 2013 highlighted that there is clear evidence of unethical selling within the Financial Services Industry in Ireland; the report is also supported by the researcher's findings in Chapter 4. Interviewee's 1, 2, & 8 all answered interview question number 6 (see appendix H); they stated that they all knew a colleague who has sold unethically. Interviewee's 2 & 8 work for Bank of Ireland and interviewee number 1 is a Managing Director of a financial intermediary.

The findings are different from what the researcher expected to find, in Chapter 1 the researcher states that the evidence of unethically selling was expected to be found in Financial Intermediaries rather than heavily regulated national banks. A possible explanation could be linked back to the literature review and more specifically Friedman's Stakeholder Theory and Shareholder maximisation model. These theories suggests that the only purpose of a business in to make profits and maximise shareholder wealth. The Ombudsman report clearly identifies that the banks are repeat offenders in terms of unethical and mis-selling of financial products. The researcher did not expect to find evidence of unethical selling in the banks in Ireland, as the media coverage of the banking crisis has been so well documented.

## **Overall Research Question**

*“What are the perceived levels of unethical selling in the FSI in Ireland?”*

The researcher’s objective was to explore if unethical selling was evident in the Financial Services Industry in Ireland. The research believes that this objective has been met with support from the literature review, especially the Financial Services Ombudsman report 2012/2013, and the findings in Chapter 4. While the researcher aimed to quantify the levels of unethical selling in the FSI in Ireland, the research ultimately found that unethical selling in the FSI is evident in Ireland, but the level of unethical selling still remains unknown.

The researcher believes that each of the research questions outlined throughout this dissertation has been adequately answered. The researcher has highlighted three key themes throughout this dissertation; two of the three themes are directly related to the unethical selling practices within the FSI. The two themes that are most relevant to the unethical selling are managerial pressure to meet sales targets and financial advisors remuneration. These two themes are directly related to unethical sales practices in the FSI, this is backed up by both the findings and the literature review. According to Strout (2002) and Schwepker & Good (1999), the pressure from management to meet sales targets directly affects financial advisors moral judgment and ethics when selling. When financial advisors are pressured to meet targets, they are more likely to give the wrong advice. The second factor is the commission based remuneration which is the biggest talking point of the three themes, because financial advisors sell unethically to gain more commission from their sales. The role of a financial advisor is to give independent financial advice, which should ultimately benefit the customer not hinder them.



### **5.1 - Limitations of the research process**

The researcher faced a number of limitations throughout this dissertation. The first limitations that researcher encounter was the time scale for the dissertation; time limits restricted the researcher's range of methodologies used in this research process. If given additional time, the researcher may have opted for a combination of qualitative and quantitative research techniques. For the quantitative research technique, the researcher would have followed the previous study by Schwepker (1999). Schwepker (1999) sent over 300 questionnaires to 34 organisations test his hypothesis, "to understand why salespeople behave unethically".

The second limitation of the research process was the lack of response by the sample. The overall response rate was 27% or eight responses from total of thirty. In relation to the interviews, Flick (2002:80) warned of the dangers of being influenced by the "subjective definitions of the situation". The researcher believes this may have been possible during the interview process.

The third limitation was the lack of relevant Irish literature on the research topic. From the literature review, the main sources are from outside of Ireland and the bulk of the literature is from the US and the UK. The majority of the Irish literature is outside the scope of the research and is more focused on the banking crisis and the property market crash.

The final limitation of the research was again related to the time restrictions. If additional time was granted the researcher could have broaden the sample to an international level rather just the Republic of Ireland. The researcher could have interviewed financial advisors from the UK, the US, Australia and other countries. This would have added more depth and understanding to the research topic on an international scale.

## **5.2 - Recommendations for future research**

The researcher suggests for future research to get the customers perspective rather than the financial advisors perspective. Suitable research instruments would be focus groups, questionnaires or interviews and this could have added a different perspective on the research topic. A different research instrument may have increased the response rate from the selected sample.

Other recommendations for future research could be the reasoning behind financial institutions opting for commission based remuneration over salary based remuneration. The researcher does go into some detail in this dissertation but this area is much broader than the scope of this research project.

Similarly, the researcher suggests an investigation to “Why financial advisors sell unethically” on an international level. This research could help identify the reasons “why” they sell unethically, rather than “who” sells unethically.

One of the major shortcomings of the research was the researcher’s exclusion of a key variable, which was the regulation of the FSI in Ireland. This could also be a future research topic as well.

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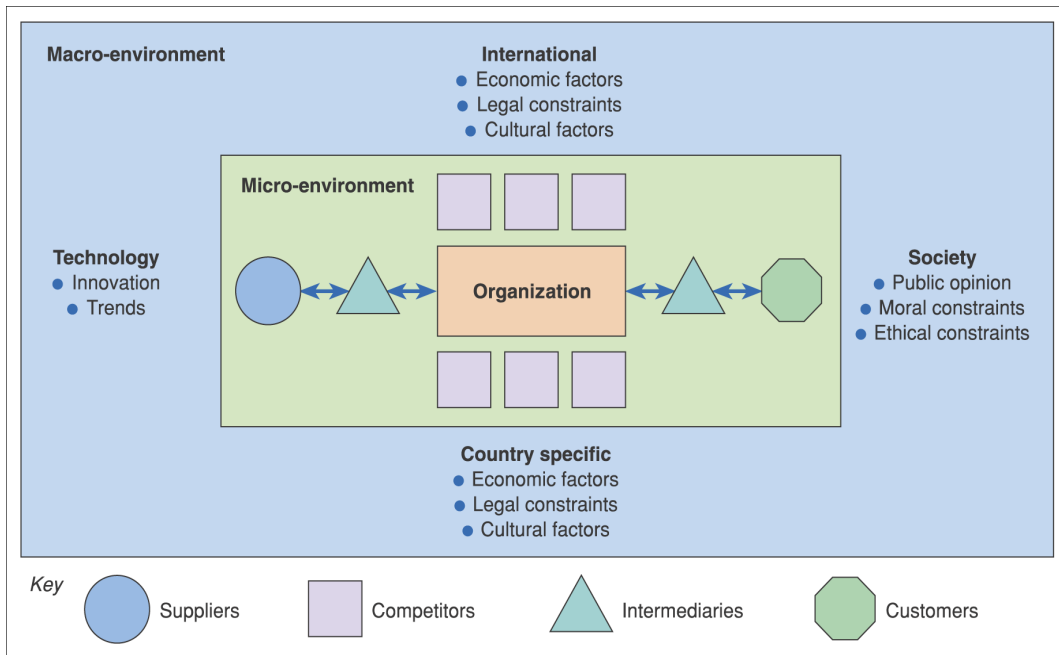
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# Appendices

## Appendix A

### Intermediary Diagram

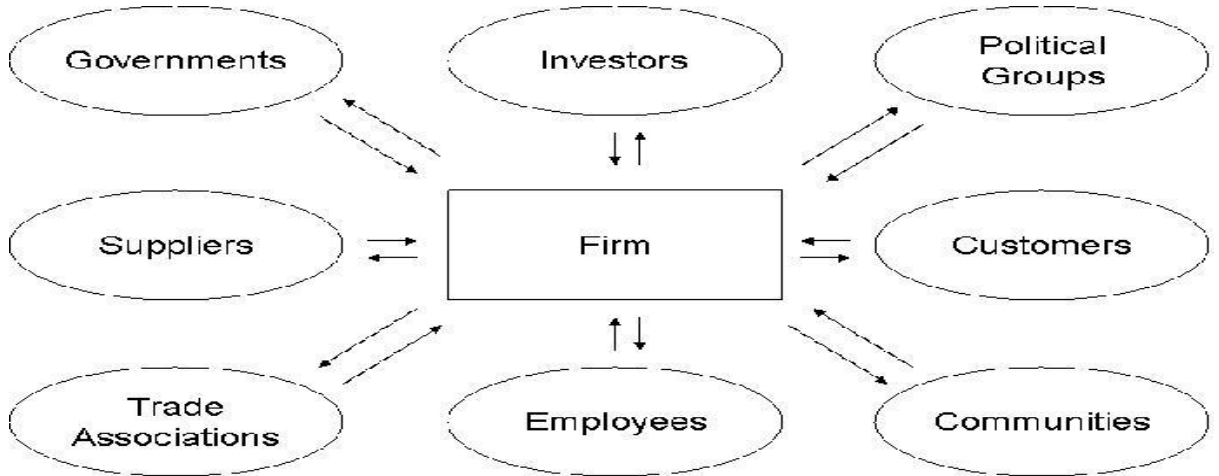


Source: adapted from

Unpublished, Dublin: National College of Ireland



Appendix B - Stakeholder Model

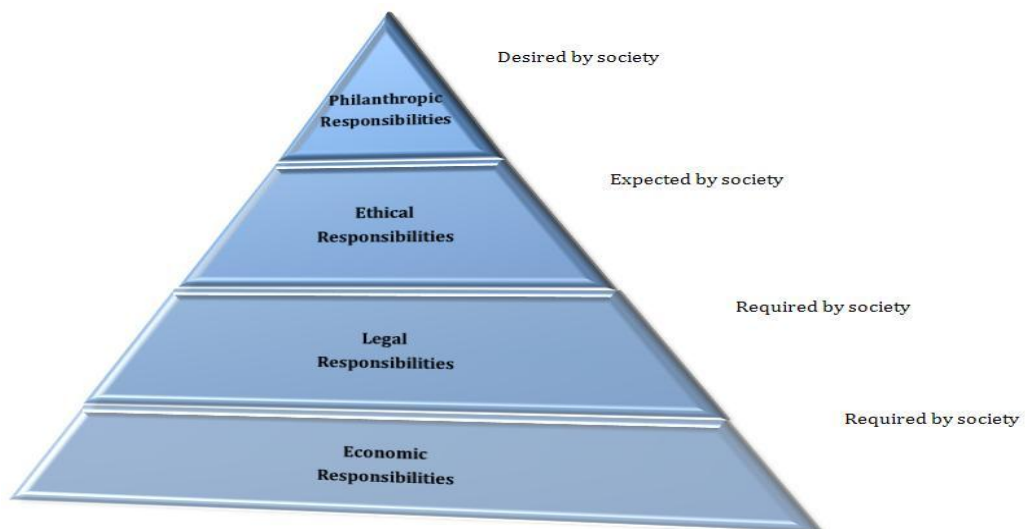


Source: Donaldson and Preston, 1995

Adapted from:

Donaldson and Person (1995)

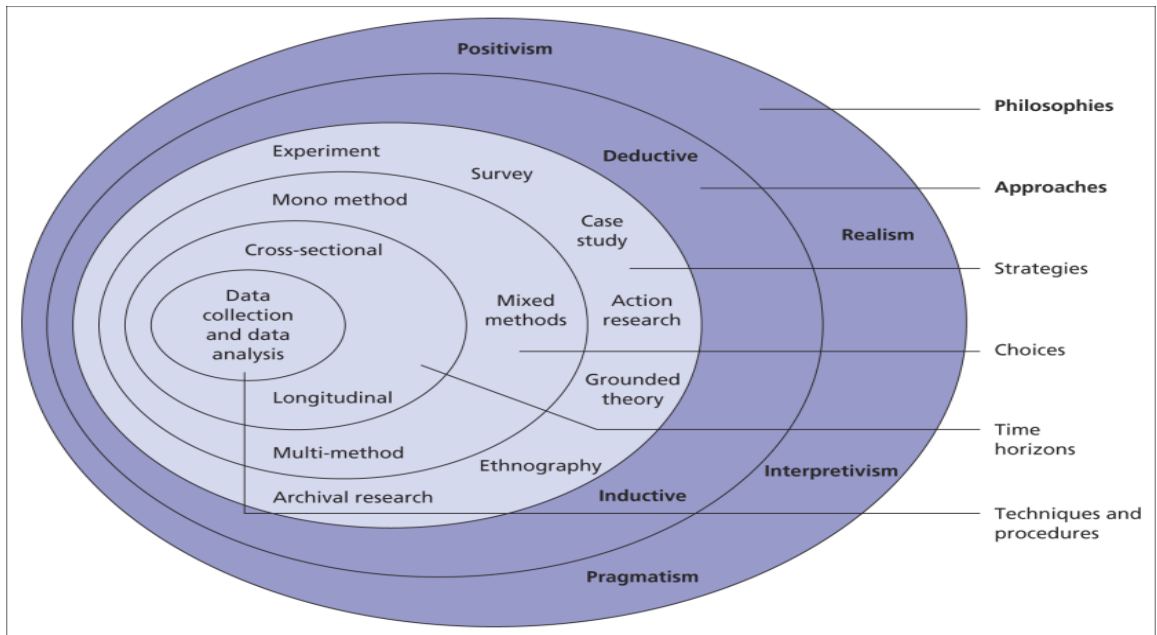
Appendix C - Carroll's (1991) four part model of CSR



Sourced from

Crane & Matten, 2007, p. 53.

Appendix D – Research “Onion” Model



Sourced from

Saunders et al., 2007, p.102

## Appendix E

### Interview questions and research questions table

Interview Questions	Research Questions
Q 1,2,3,4	Financial advisor profiling
Q 5,6,10	Ethics
Q 8,9	Sales targets & sales management
Q 6,7,8	Financial advisor remuneration
Q 4,11	Financial advisor training

## Appendix F

### Interview Details and Schedule

Interviewee number	Initials	Age	Gender	Company	Years' experience	Date of Interview	Location	Time
1	PMG	31-40	M	Inter	8	27/8/13	Donegal	25mins
2	BMN	23-30	M	Bank	2	25/8/13	Dublin	20mins
3	GD	31-40	M	Bank	4	31/8/13	Dublin	29mins
4	MM D	41-50	F	Inter	5	24/8/13	Dublin	22mins
5	FM	31-40	M	Bank	6	26/8/13	Donegal	23mins
6	JMC	23-30	F	Bank	4	26/8/13	Donegal	27mins
7	JT	31-40	M	Inter	5	24/8/13	Dublin	30mins
8	NG	31-40	F	Bank	6	27/8/13	Dublin	26mins

## Appendix G – Interview Questions

### Semi-structured Interview Questions

#### Q1. Gender

- Male
- Female

Please tick the relevant box.

#### Q2. Age

- 18-22
- 23-30
- 31-40
- 41-50
- 51-60
- 60+

Please tick the relevant box.

#### Q3. What is your educational background? (E.g. leaving cert, QFA, Degree, Masters, PHD, etc.)

- Leaving Certificate
- QFA
- Ordinary Degree
- Honours Degree
- Masters Degree
- PHD

Please tick all of the relevant boxes.

Q4. (a) Current position in the financial institution and time spent in that role?  
The number of years spent working in the Financial Services Industry?

Please specify.

(b) Type of organisation you currently work in? (E.g. Bank, insurance company, financial intermediary)

Q5. “Ethics is the study and philosophy of human conduct with an emphasis on the determination of what is right or wrong”

How important do you think ethics are in your field?

Please explain briefly.

Q6. Have you or do you know anyone who has ever sold unethically to gain commission? Please explain briefly.

Q7. Do you think Financial Advisors should be paid a salary or commission based remuneration?

Please explain briefly.

Q8. To what extent, does the commission element affect Financial Advisors decision making process during a sale?

Please explain briefly.

Q9. “Moral Responsibility is the unique ability of persons to exercise control over their conduct in the fullest manner necessary for moral responsibility. We care about our decisions and we also care about our actions and conduct.”

Do managerial pressures to meet sales targets implicate your moral responsibilities towards customers?

Q10. Using your insight in the Financial Services Industry, are there any other ethical issues you think affect financial advisors?

Please explain briefly.

Q11. Could you please describe in detail the training programs you have completed to become a Financial Advisor?

## **Appendix H** - Interviewee no. 7 responses

Q1. Gender

Male

Female

Please tick the relevant box.

Q2. Age

18-22

23-30

31-40

41-50

51-60

60+

Please tick the relevant box.

Q3. What is your educational background? (E.g. leaving cert, QFA, Degree, Masters, PHD, etc.)

Leaving Certificate	<input checked="" type="checkbox"/>
QFA	<input checked="" type="checkbox"/>
Ordinary Degree	
Honours Degree	<input checked="" type="checkbox"/>
Masters Degree	
PHD	

Please tick all of the relevant boxes.

Q4. (a) Current position in the financial institution and time spent in that role?  
The number of years spent working in the Financial Services Industry?

Please specify.

Financial Advisor for the past five years

(b) Type of organisation you currently work in? (E.g. Bank, insurance company, financial intermediary)

Financial intermediary

Q5. "Ethics is the study and philosophy of human conduct with an emphasis on the determination of what is right or wrong"

How important do you think ethics are in your field?

Please explain briefly.

It should perhaps be said from the outset that there need not be anything intrinsically unethical about the financial services industry. The industry provides essential services, which are fundamental to support a modern economy and society, such as safeguarding money and providing domestic lending. However, given the vital role that financial institutions play, the moral hazards may be more acute and it is therefore logical that the industry should be subject to higher ethical standards than other commercial sectors.

The question of what these ethical standards should be, how we judge them, and what we are ultimately aiming for, is central to how important I think ethics are in our field. When an aspect of the law needs to be determined, there is a mechanism for deciding what the outcome should be. But how should ethics and its grey areas be determined? Should public opinion be the point of reference? To do so could be a dangerous approach as public attitudes can change over time – ethics is not a static concept. Whilst we may agree the norms at a high level, how they are applied in practice will be hotly contested and bitterly fought. We can already see this in the retail sector, where the line between 'mis-selling' and

'mis-buying' can be closely contested. What constitutes a 'mis-sold' product for one person, may be seen as a fair transaction for another. Clients and shareholders can also push firms to conclude transactions or pursue profits at the expense of ethics.

Q6. Have you or do you know anyone who has ever sold unethically to gain commission? Please explain briefly.

I have no experience of selling unethically as in today's highly regulated environment with more savvy and discerning clients, the onus is on the advisor to offer best advice rather than product driven sales which may have been the norm in a bygone era.

Q7. Do you think Financial Advisors should be paid a salary or commission based remuneration?

Please explain briefly.

Salary based remuneration for me works best as a client will immediately find more comfort in the knowledge that you are not effectively seeking a sale but rather demonstrating an extensive knowledge of the market. As an advisor, you will engender a circle of trust with the client that will allow them to value your service to them. Fundamental to the daily ethos of a qualified financial advisor is the concept of adding value to the client.

Q8. To what extent, does the commission element affect Financial Advisors decision making process during a sale?

Please explain briefly.

Product driven sales unfortunately still forms part of a small minority of financial advisors. With the addition of minimum competency requirements and APA most recently, it would be remiss of me to say that nothing is being done to eradicate this style of selling. Striking also is the fact that the financial services ombudsman is busier dealing with complaints than in recent years.

Q9. "Moral Responsibility is the unique ability of persons to exercise control over their conduct in the fullest manner necessary for moral responsibility. We care about our decisions and we also care about our actions and conduct."

Do managerial pressures to meet sales targets implicate your moral responsibilities towards customers?

No, but I can only speak for myself. Meeting sales targets inherently means aggressive sales and with that a connotation of unethical selling. Conversely, I would say that if you engage with a client outlining the add value aspect you will bring to the client, he/she will soon realise the positive impact you can bring to them when securing their financial well-being.



Speaking on the company as a whole and with respect to their ethical culture – the “ethical whole” is not the sum of the parts, i.e., is not the sum of the ethical cultures of those individuals within the organisation. Organisations are comprised of individuals, but individuals alone cannot necessarily withstand the structures, processes and the ethos of the organisation. As a result, those who may be quite ethical in their lives outside work may behave unethically in their corporate or professional lives. Organisational structures and processes (notably remuneration structures) are more likely to reinforce self-interested norms rather than those which are ‘other-interested’. Organisations are difficult to manage and run. The leaders of brokerage firms/banks face the same problem as regulators - thus management based regulation is not a solution to the regulators’ problem. It simply displaces it. Organisations risk sending contradictory signals about what behaviour is expected; individuals lower down the hierarchy may not trust senior management to behave ethically themselves, either in relation to clients or internally; and what it means to be “ethical” is not always clear.

Q10. Using your insight in the Financial Services Industry, are there any other ethical issues you think affect financial advisors?

Please explain briefly.

Lack of integrity and due diligence when offering advice. Advice given by certain advisors does not serve the best interest of their clients and they face possible complaints further down the road. Very poor sales techniques and a lack of understanding of financial products can contribute to the client receiving a poor overall service that will taint their impression of the company they are dealing with.

Q11. Could you please describe in detail the training programs you have completed to become a Financial Advisor?

QFA comprises of 6 modules – Loans, Investments, Regulations, Pensions, Life Assurance and Financial Planning. I am also currently undergoing my compliance officer exams.

## List of Tables

Table 1 - The range of financial products

Type of products	Description	Example(s)
Protection products	Products that provide protection against the financial effects of unforeseen or unfortunate events which may befall individuals, their families and other organisations. These	Life assurance, term assurance, whole of life assurance, critical illness cover, health insurance, etc.
Investments	Products that enable people to save money and invest for short-term or long-term financial goals.	Unit linked funds, government savings, securities, shares
Pensions	Products that are designed for specific goal of planning for an adequate income in retirement.	Defined benefit schemes, defined contribution, additional voluntary contribution (AVC), personal retirement savings accounts (PRSAs)
Mortgages	Products that enable people to borrow money to make purchases they cannot afford from their current savings.	Mortgages, second mortgages, interest only mortgages.

Source: adapted from

Brighthouse and Montoir, 2003, p. 4.

*Summary of key findings*

Table 2 – Ethics and unethical behaviour

Theme - Ethics and unethical behaviour	Evidence – Quotes from Interviewees
<p>Interview question(s)            Q5. “Ethics is the study and philosophy of human conduct with an emphasis on the determination of what is right or wrong”            How important do you think ethics are in your field?</p>	<p>“Ethics is a principle aspect of financial advice because it plays a necessary role in attracting customers to the firm, thereby boosting sales and profits.”            Interviewee number 5</p> <p>“Given the vital role that financial Institutions play, the moral hazards may be more acute and it is therefore logical that the industry should be subject to higher ethical standards than other commercial sectors.”            Interviewee number 7</p> <p>“Ethics are of utmost importance within the Banking sector. Customers place their trust in us, assuming that we will do the right thing by them. With the business becoming more and more complex, we face difficult ethical decisions every day and without the presence of strong ethical guidelines we can easily make the wrong decision which can not only harm customers we are dealing with but also damage the reputation of employers and the industry as a whole.”            Interviewee number 8</p> <p>(Continues on next page)</p>

Theme - Ethics and unethical behaviour	Evidence – Quotes from Interviewees
<p>Q6. Have you or do you know anyone who has ever sold unethically to gain commission? Please explain briefly.</p>	<p>“I have known people who have sold financial products to earn the best commission from this particular product even though it did not suit the customer’s best interest.” Interviewee number 2</p> <p>“I am aware of my clients who have purchased products which were to my mind entirely unsuitable either by unqualified or unethical brokers or agents.” Interviewee number 1</p> <p>“I personally have never sold unethically however I have witnessed a previous colleague sell to customers on occasion whom they were aware were unable to afford the products being sold, in order to gain their bonus. This is something which became apparent to superiors within the team and was quickly eradicated and we were all given a presentation on the code of ethics.” Interviewee number 8</p>

Table 3 – Financial Advisor remuneration

Theme: Financial Advisor remuneration	Evidence – Quotes from Interviewees
<p>Financial Advisors remuneration</p> <p>Q8. To what extent, does the commission element affect Financial Advisors decision making process during a sale?</p>	<p>“In my opinion, financial advisors should be paid a salary. Where remunerations are based on commission I believe financial advisors will be tempted to sell the product that will earn them the highest commission rather the product that is more suited to the customer’s needs.” Interviewee number 8</p> <p>“Salary based remuneration for me works best as a client will immediately find more comfort in the knowledge that you are not effectively seeking a sale but rather demonstrating an extensive knowledge of the market.” Interviewee number 7</p> <p>“Salary, as with commission based the emphasis is to sell and not to give the customer the best financial product for their needs. The advisors are more of a sales man than an advisor.” Interviewee number 2</p> <p>“I feel that commission based salary is perfectly fine provided supervisors or managers have rubber stamped the advice.” Interviewee number 1</p>

Table 4 – Managerial pressures to meet sales targets

Theme: Managerial pressures to meet sales targets	Evidence – Quotes from Interviewees
<p>Q9. “Moral Responsibility is the unique ability of persons to exercise control over their conduct in the fullest manner necessary for moral responsibility. We care about our decisions and we also care about our actions and conduct.”</p> <p>Do managerial pressures to meet sales targets implicate your moral responsibilities towards customers?</p>	<p>“Of course as with today’s current employment market place people are worried about their jobs. With these sales targets in place advisors will resort to unethical selling in order to hit targets as they may fear for their own job if they fail to hit these.”</p> <p>Interviewee number 3</p>
	<p>“Yes as in your desperation to hit targets you can quickly sell a product/service without giving the customer the time to think it over and if they want or require this product/service.”</p> <p>Interviewee number 5</p> <p>“The managerial pressure to meet targets doesn’t affect our firm as we do not set sales targets for staff.”</p> <p>Interviewee number 1</p> <p>“Meeting sales targets inherently means aggressive sales and with that a connotation of unethical selling.”</p> <p>Interviewee number 7</p>