

PERFORMANCE DETERMINATION MODEL OF HUMAN CAPITAL DEVELOPMENT FOR TAKAFUL INDUSTRY IN MALAYSIA

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Abstract: This paper explore the relation between theoretic of determination factors and performance by agents for human capital development of takaful industry. Like conventional insurance products, takaful schemes are also “sold and not bought”. It means that only a few customers or participants voluntarily come to takaful operators to participate into the takaful schemes. Therefore, takaful operators have to depend on aggressive *wakil* or agents which are considered as one of the main human capital development in takaful industry who are willing to consult, explain and convince the potential participants about the takaful systems and schemes. From the Malaysian takaful industry development point of view, the role of agents as intermediaries between customer and takaful operator is getting more and more important today. This phenomenon can be represented by the increasing number of agents’ year to year (Insurance Annual Report, 2008). However the agents’ profile as a whole is still the same; Malay Muslim agent comprises of only 21% from the total number of agents and most of them are part time agents (LIAM, 2006). In addition, the duration as agents for Malay Muslim is less than two years (JAMIN, 1998). The part time agents are not keen to enhance their knowledge and skill about takaful and therefore they cannot convince the customer the importance of takaful. This will result in low participation and after a while the agent will leave the industry. Several factors like efforts, motivation (intrinsic and extrinsic), attitudes (role conflict, role ambiguity and commitment) and leadership behavior are being discussed and analyzed in this study for “performance determination model” of human capital development for takaful industry. Thus, it is hope that all parties, which are related to takaful industry i.e. regulators such as Bank Negara, Takaful Operators, agencies and agents himself can play the role in enhancing the performance among takaful agents and it would lead to the effectiveness of human capital development in Islamic economics system as a whole.

Introduction

Islamic and conventional insurance are two different contracts of insurance. Islamic insurance which is known as takaful is based on the concept of takaful that is developed on three principles: 1) Mutual responsibility 2) Co-operation with each other 3) Protecting one another from any kind of difficulties, disasters and other misfortune whereby the financial contribution (premium) is based on the concept of *tabarru'* (Jamil Osman, 2003). *Tabarru'* is derived from the Arabic noun that means donation, gift and contribution (Mohd. Ma'sum Billah, 1999). In relation to this, a participant agrees to contribute as *tabarru'*, undertakes to pay thus enable him to fulfill his obligation of mutual help and joint guarantee should any of his fellow participants suffer a defined loss (Mohd. Fadzli Yusof, 1996).

Conventional Insurance is a contract in which one person (the insurer) undertakes in return for the agreed consideration (premium) to pay to another person (the insured), a sum of money (the indemnity) on the happening of a specified event (Dorfman, 2003). It is generally accepted by Muslim jurists that the operation of conventional insurance does not conform to the rules and requirements of the Shariah. Conventional insurance involves elements of uncertainty (*Al-gharar*) in the contract of insurance, gambling (*Al-maysir*) as the consequence of the presence of

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uncertainty and interest (*Al-riba*) in the investment activities of the conventional insurance companies which contravene the rules of the Shariah.[†]

Thus, the nature of the concepts of takaful is fundamentally different from conventional insurance. The effect of *tabarru'* transforms the basis of the insurance contract from an exchange contract to a charitable (donation) contract in takaful. When a contract is a charitable (*tabarru'at*) contract, uncertainty is tolerated (Jamil Osman, 2003).

However, these two contracts have the common objective of reducing a financial burden arising from any disaster or accidental.

In other words, takaful and the conventional insurance contract is an integral part of corporate risk management. Takaful and conventional insurance have more or less the same characteristics, for example, in terms of the nature of their businesses, products and services offered. The only difference is that takaful is based on the Shariah law, while conventional insurance is not. The contract of takaful in Malaysia as practised in takaful industry is a combination of the *tabarru'* contract (donation) and either profit sharing contract (*al-mudharabah*) or agency (*al-wakalah*).

One of the common practices between takaful and conventional insurance is marketing system where agency system under the principle of *al-wakalah* is currently being practiced in takaful industry. The *wakalah* concept is essentially an agent-principal relationship, where the takaful operator acts as an agent on behalf of the participants and earns a fee (*wakalah* fee) for services rendered. The fee can be a fixed amount or based on an agreed ratio of investment profit or surplus of the takaful funds.

Diagram 1: Al-Wakalah model for General Takaful

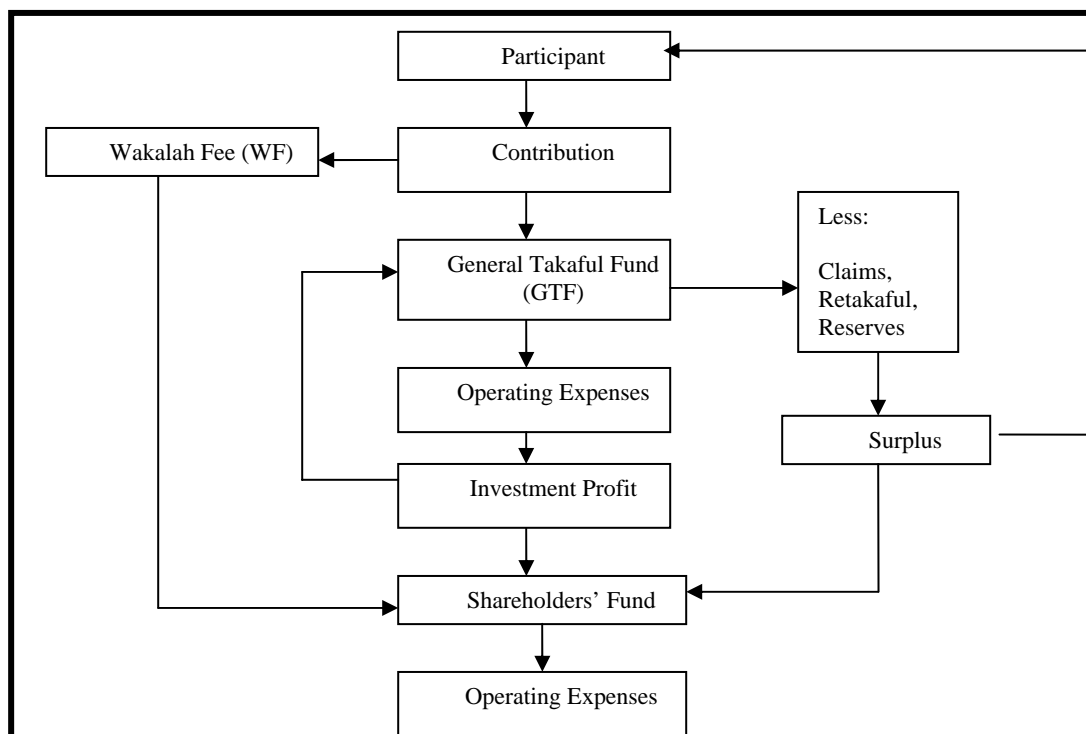


Diagram 1 shows the modus operandi of al-wakalah model for general takaful. The participant pays contribution as a donation (*tabarru'*) to help each other and the contribution will be divided into two types of accounts i.e. Wakalah Fee (WF) and General Takaful Fund (GTF). The

[†] The Central Bank and the Financial System in Malaysia – A Decade of Change (1989-1999), p. 256

allocation between WF and GTF is based on the pre agreed ratio between participant and takaful operator as specified in the contract. The WF consists of commission and management expenses will be paid to shareholders' fund. Surplus at the end of the year after deducting claims, retakaful and reserves will be distributed to the takaful operator and participants based on the pre agreed ratio as stipulated in the contract.

Diagram 2: Al-Wakalah model for Family Takaful

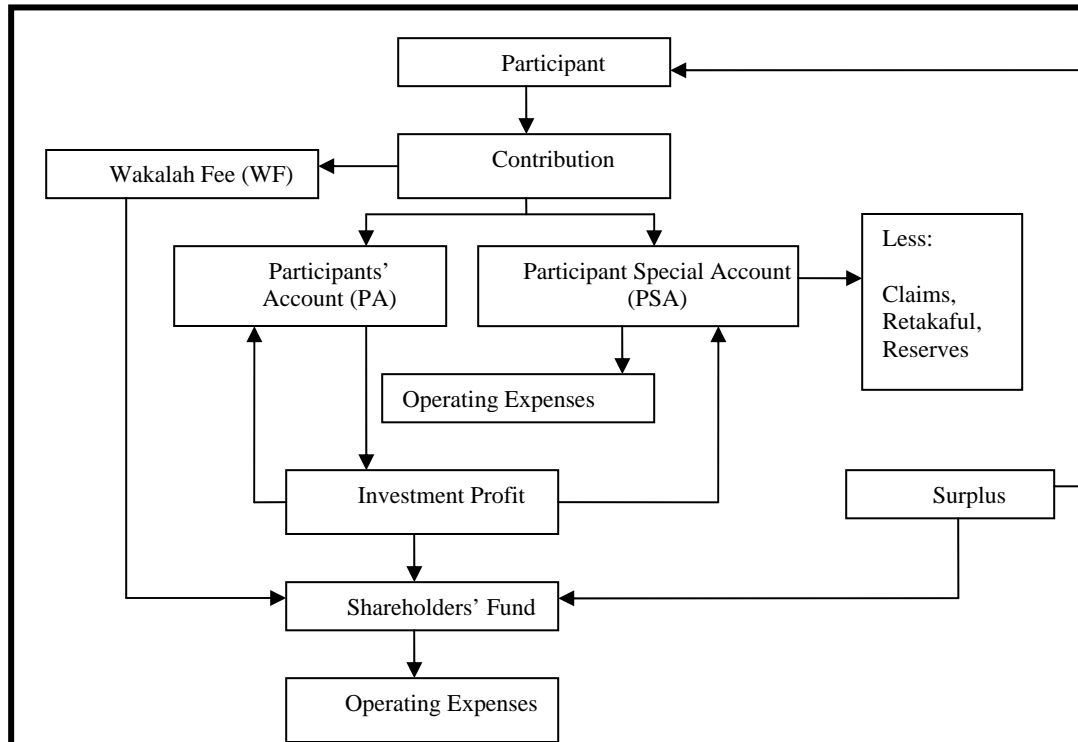


Diagram 2 shows the modus operandi of al-wakalah model for family takaful. The participant pays contribution under the family takaful products. The contribution will be divided into three types of account i.e Wakalah Fee (WF), Participants Account (PA), Participants Risk Account (PRA). The allocation between WF, PA and PRA is based on the pre-agreed ratio as specified in the contract. Wakalah fees which consist of commission and management expenses will be paid to shareholders. The PA fund and excess in PRA after deducting operating expenses will be invested according to the principles of shariah . If there is an investment profit, it will be distributed between the takaful operator and the participant in the form of performance fee (for takaful operator) as stated in the contract. The amount in PA will be accumulated and paid to participant upon death, surrender or maturity. The amount in PRA will be used to pay claims, retakaful and reserves. The surplus in PRA at the end of the year will be distributed to the takaful operator and the participants based on the agreement of the contract. Shareholders will use the WF to pay all operating expenses.

1. Issues

Marketing system for the sale of life insurance has changed dramatically over time. Traditional methods for selling insurance have been substantially modified and new marketing models have emerged (Rejda, 2003). Insurers employ actuaries, claims adjusters, underwriters and other home office personnel, but unless insurance policies are profitably sold, the insurer's financial survival

is unlikely. Thus, an efficient marketing system is essential to an insurance company's survival. Although some insurers employ a new marketing system such as direct mail, print, telemarketing, broadcast advertising or internet to market their products and services, a traditional methods i.e. agents seem to be the driving marketing force for most companies (Dubinsky. et al., 1988).

Like conventional insurance product, takaful product also is sold and not bought.[‡] It means that only a few customers voluntarily come to takaful operator or takaful agents to buy takaful policy. Therefore, takaful operators have to depend on aggressive agents who are willing to consult, explain and convince the customer about the takaful products. From the Malaysian insurance industry development point of view, the role of agents as intermediaries between customer and insurer is getting more and more important today. This phenomenon can be represented by the increasing number of agents year to year (Insurance Annual Report, 2005). However the agents' profile as a whole is still the same; Malay agent comprises of only 21% from the total number of agents and most of them are part time agents (LIAM, 2006). In addition, the duration as agents for Malay is less than two years (JAMIN, 1998). The part time agents are not keen to enhance their knowledge and skill about insurance and takaful products and services and therefore they can not convince the customer the importance of insurance and takaful. This will result in low sales productivity and after a while the agent will leave the industry. Study by Jolson, Dubinsky and Anderson (1987) and Williamson (1983) concluded that one of the major determinants of salesperson turnover is low sales productivity.

The elasticity of demand for life insurance & family takaful which is measured by premium income to nominal GNP for five subsequent years (2001-2005) remains substantially below the Asia and world averages of 4.6% and 5.7% respectively. Domestic per capita expenditure on insurance is also lower against more developed market in the region including Japan (RM11,214) and Singapore (RM5,011) whereas Malaysia's domestic per capita expenditure only RM600 in 2005. Market penetration measured in terms of total number of annual premium policies in force to total population is improved year by year but relatively, it is still low compare to the more developed market such as Singapore, South Korea and Japan which experiences the market penetration around 87% to 141%. By considering the large proportion of uninsured lives that persists relative to other markets in the region, the lower demand elasticity and domestic per capita expenditures, opportunities for growth in the life insurance sector remains significant. Looking ahead, demographic changes leading to a growing ageing population and rising healthcare costs will also continue to stimulate demand for family takaful (Islamic life insurance) as a financial tool, particularly to meet individual financing needs during retirement and for medical expenses. As mentioned, unless insurance/takaful policies are profitably sold, the insurer's financial survival is unlikely and it is also understood that most of the companies use agents to market their products and services. Thus, agents have a major impact in the financial success of a takaful operator. A key concern of takaful operator should be how to obtain positive attitudes and effective performance from their agents.

Against this back drop, this paper primarily seeks i) discuss the determinants of agents performance and will emphasized on the lesson for takaful industry due to the fact that the most of takaful agents are Malays, Malay agents seem to be less performing compare to others (JAMIN, 1998) and, ii) To propose performance determinants model of Human Capital Development for takaful industry.

[‡] Takaful contract is a tabarru' in nature, however selling and buying terms is used for explanation purpose only (it does not reflect the original contract of takaful i.e. tabarru' as opposed to the contract of buying and selling in conventional insurance)

However, to the best of authors' knowledge, none of the papers in this area of research has been explored in takaful. Due to the limited literature and empirical evidence on the topic, it is believed that the related studies, focusing on its alternative in the conventional insurance sector would also be able to provide us with some useful insights and information on the factors affecting performance in takaful industry.

2. Framework

The expectancy framework (Vroom, 1964) as adapted in the sales management context by Walker, Churchill and Ford (1977) has been the dominant paradigm for research dealing with sales force performance. Sales management researchers then further and clarify the model in attempts to better understand the relationship between motivation, performance and other variables in interest (Evans, Margheim and Schlacter, 1982; Chonko, 1986).

Performance

In a comprehensive review of salesperson performance studies, Churchill et al. (1985) note that performance has traditionally been defined in terms of salesperson behavior which has been evaluated in light of its contributions to the goals of the organization. Dubinsky et al. (1988) defined performance as the manner in which the individual executes his or her tasks, responsibilities and assignments. There is no standard measure for performance. Most of the previous studies on salesperson's performance such as Dubinsky et al., (1988), Landau and Werbel (1995), Hafer and McCuen (1985) and McElroy et al., (1993) measured performance by non-behavioral aspects such as sales person effectiveness as defined by organizational proxy measures of overall performance. Such a measure can be total sales volume, expenses, number of total calls or new account calls, the number of demonstration, percent of income derived from insurance renewals, annual earned income and the percent of total income from insurance business forces. Some of these measures reflect salesperson inputs (e.g., number of calls) and some reflect outputs (e.g., sales).

However, Ingram, Lee and Skinner (1989) measured the performance differently. They used the behavioral aspects such as customer relations, controlling expenses, sales presentation effectiveness, effective communication and management of time in carrying out selling activities. Several studies in both the marketing and organizational behavior literature have focused on the determinants of salesperson performance or productivity (Bagozzi, 1978; Hafer and McCuen, 1985; Churchill, Ford, Hartley and Walker, 1986 and Landau and Werbel, 1995). The behavioral model proposed by Bagozzi (1978) hypothesized that sales performance and job satisfaction would be a function of individual characteristics (person variables), interactions with significant others in their sales roles (interpersonal variables) and the environment in which these interactions take place (situational variables). However, Bagozzi has based on a sample of salesmen selling an industrial good. Churchill, Ford, Hartley and Walker (1986) in a meta-analysis of 115 studies have examined the relationship among the six categories of predictors namely role variables, skill, motivation, personal factors, aptitude and organizational/environmental factors to sales productivity. However they found that out of these six variables, not one explained more than 10% of the variance of productivity. They attributed these disappointing results to differences in methods, measures and samples. In particular, they argued that the relationship between performance and other variables depended on the type of product sold. Meanwhile, study by Landau and Werbel (1995) showed that age and going on joint sales calls with managers and coworkers were positively related to sales productivity.

Effort

Conceptually, effort has often been confounded with, or considered equivalent to motivation. However, Naylor, Pritchard and Ilgen (1980) and Walker, Churchill and Ford (1977) have discriminated between motivation and effort, identifying the former as an antecedent of the latter. Effort representing the force, energy or activity by which work is accomplished, whereas motivation represents the psychological state or predisposition of the individual with respect to choices involving the direction, intensity and persistence of behavior (Ilgen and Klein, 1988; Naylor, Pritchard and Ilen, 1980) as adapted in the study by Brown and Peterson (1994). Sales force and organizational researchers have consistently recognized the important of efforts in conceptual models of performance (Ingram, Lee and Skinner, 1988; Naylor, Pritchard and Ilgen, 1980 and Walker, Churchill and Ford, 1977). These models typically have considered effort to mediate the relationship between motivation and performance. In addition to motivational factors, other variables may have antecedent effects on salesperson effort. These include work commitment, personality characteristics, role perceptions, supervisory behaviors, job characteristics and environmental factors. In consistent with the study by Chonko (1986), effort is an outcome of motivation and commitment, and performance is an outcome of effort.

Motivation

Motivation has been divided into two categories: intrinsic and extrinsic motivation.

Intrinsic motivation refers to the pleasure or value of an activity itself, while extrinsic motivation emphasizes the value an individual places on the results of an action and the individual assessment of the probability of realizing the results (Staw, 1977). Oliver (1974) concluded that certain extrinsic motivations did predict performance, while intrinsic motivation did not. Contrarily, Tyagi (1985) found that intrinsic motivation produced a greater impact on performance than did extrinsic motivation. Sujan (1986) concluded that extrinsic motivation is related to selling effort, while intrinsic motivation was linked to strategy-oriented behavior. Brown and Peterson (1994) used a different category of motivation: instrumentality and competitiveness. They found that instrumentality has indirect effect on sales performance and effort act as a mediator whereas competitiveness was positively and directly related to performance.

Agent attitudes

Job satisfaction is the overall attitude (favorable or unfavorable) an individual has toward his or her job. A plethora of empirical work has focused on whether job satisfaction is an antecedent or consequence of performance. Although the findings have been contradictory, the current view is that performance has a positive influence in job satisfaction (Lawler, 1967; Pruden and Reese (1972); Bagozzi, 1978; Lawler, 1979; Walker et al., 1979 and Hafer and McCuen, 1985). For examples, the finding by Pruden and Reese (1972) concluded that circumstances fostering high sales performance may not be conducive to high job satisfaction, whereas Bagozzi (1978) reported a distinct, positive relationship between sales performance and job satisfaction.

Role conflict occurs when individual experiences incompatible job demands or expectations from his or her role-set members (peers, management, customers, family). Role ambiguity occurs when an individual has inadequate information or knowledge with which to perform his or her tasks; that is, the individual is uncertain how to perform the job. As 'boundary personnel' linking an organization to its customers, salesperson often experience role conflict and role ambiguity. The stress that results has negative effects on job satisfaction (Churchill, Ford and Walker, 1976).

Effect of role conflict and role ambiguity on sales performance has been weaker and less consistent (Brown and Peterson, 1993). If a salesperson's calling pattern generates high levels of role conflict, a degree of call reluctance could result. An obvious way to reduce the conflict is to reduce the number of sales calls. Coping with role conflict by reducing effort is likely to affect sales performance negatively. Thus, role conflict is likely to affect salesperson effort negatively, and effort is likely to mediate the effect of role conflict on sales performance. Similarly, uncertainty regarding role performance expectations is likely to result in less purposeful exertion of effort (Behrman and Perreault, 1984), resulting in lower sales performance. Thus, it is reasonable to expect role ambiguity to affect salesperson effort negatively and effort to mediate the effect of role ambiguity on sales performance. In addition, role conflict has been found to lead to higher of role ambiguity.

An emerging area of interest in the pursuit of a better understanding of sales force performance is the study of various types of work commitment (Ingram et al., 1989; McElroy et al., 1993; Dubinsky and Skinner, 1984; Dubinsky and Harley, 1986; Chonko, 1986 and Cron and Slocum, 1986). Two distinct approaches have been developed for defining commitment. The behavioral approach suggests that people link themselves to an organizational rather than pursue other occupational alternatives (Staw, 1977 and Salancik, 1977). In contrast, the psychological approach defines commitment as an individual's identification with the values and goals of the organization, loyalty to the company (organizational commitment) and high involvement in work activities (job commitment). According to the study by McElroy et al. (1993), work commitment describes a number of concepts relating to the employee attachment to work related activities.

Morrow (1983) has identifies six types of work commitment: organizational, job, personal, values, careers, union and combinations of these five types. Of the six types, job and organizational commitment have received the most attention in the sales and marketing literature. It has been suggested that since insurance agents clearly have multiple loyalties, multiple forms of work commitment should be considered within single investigation (Chonko, 1986 and Johnston et al., 1990). Johnston et al. (1987) found organizational commitment to be related to sales force turnover. The loss of an experienced agent can be catastrophic to insurers. Thus, life insurers are currently emphasizing the allocation of resources for agent training and seasoning focusing on retention rather than on new producer recruitment (King, 1992).

Despite Weiner and Vardi's (1980) finding that the organizational commitment was not related to selling effort among insurance agent while other researchers such as Hunt, Chonko and Wood (1985) and Chonko (1986) imply positive relationship between organizational commitment, effort and performance but negatively associated with role conflict and ambiguity (Dubinsky and Yammarino, 1984; Oliver and Brief, 1978). However, Weiner and Vardi (1980) found a positive relationship between job commitment and selling effort. Job involvement, a construct used interchangeably with job commitment has been studied by sales force researchers Cron and Slocum (1986) found that higher level of job involvement coincided with higher performance levels. The relationship between job involvement and intention to remain in the same career or profession has been shown to be not significant in nonselling samples (Blau, 1985, 1989). However, an examination of job involvement and intent to remain revealed a positive relationship among industrial salespeople (Ingram and Lee, 1989).

Leadership Behavior

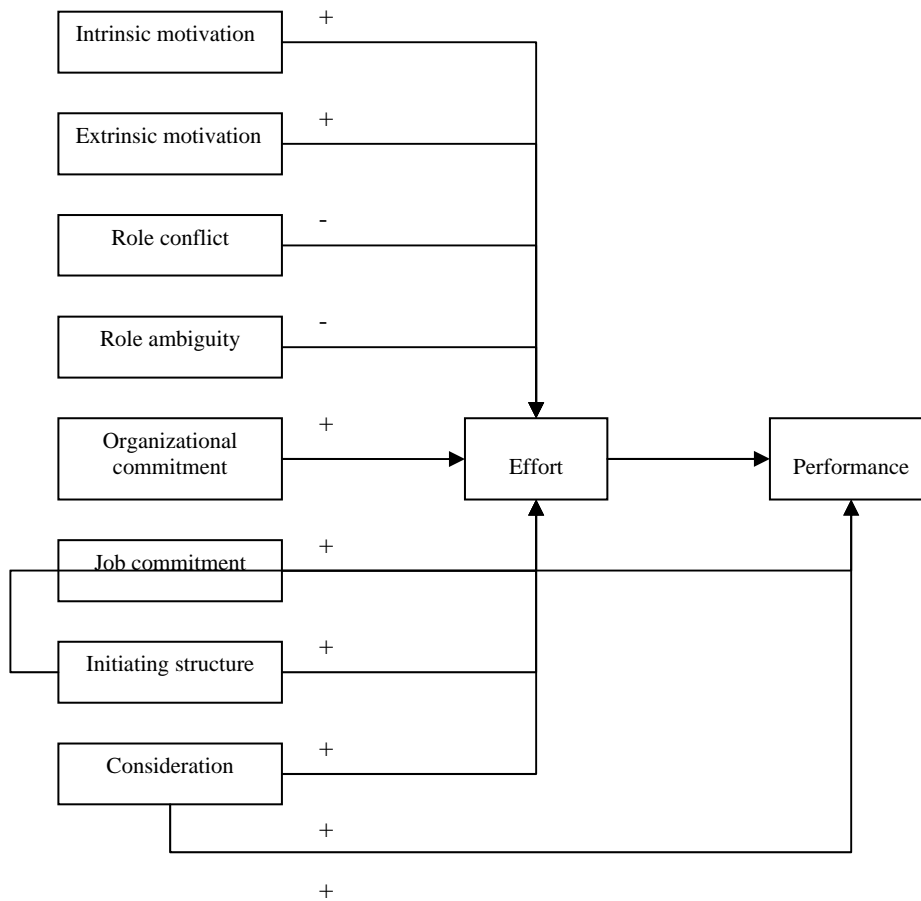
Two leadership behavior dimensions are initiating structure and consideration. Initiating structure concerns the degree to which a leader directs subordinates, clarify their roles and plans, coordinates, problem solves, criticizes and pressure them to perform better. Thus, initiating structure is manifested by task-oriented behavior (Yuki, 1981). Consideration concerns the degree to which the leader is supportive, friendly, and considerate of subordinates, consults with them, represents their interests, has open communication with them and recognizes their contribution. Consideration, then, is evidenced by relationship-oriented behavior (Yuki, 1981). Prior researchers such as Frost (1983), Szilagyi and Keller (1976) and Walker, Churchill and Ford (1975) suggest that initiating structure and consideration generally are inversely associated with role conflict and ambiguity. Published research has ascertained that job satisfaction and performance tends to be positively related to initiating structure and consideration (Downey, Sheridan and Slocum, 1975; Hunt and Liesbscher, 1973 and Teas and Horrell, 1982; Dawson, Meese and Phillips, 1972; Hand and Slocum, 1972). Initiating structure and consideration were also found to be positively related to organizational commitment and performance (Hand and Slocum, 1972; Dubinsky and Mattson, 1979).

Based on their demonstrated and potential importance to sales performance, several variables namely role conflict, role ambiguity, organizational commitment, job commitment, motivation, leadership behavior and effort are selected for investigation in this study. Job satisfaction is not included because it is the consequence rather than the antecedent of job performance in most studies. The summary of variables for this study is shown in Table 1 while the conceptual framework for this study is shown in Figure 1.

Table 1: Summary of Factors

| | Factors | Definition |
|---|---------------------|---|
| 1 | Performance | The manner in which the individual executes his/her tasks, responsibilities and assignments The force, energy or activity by which work is accomplished. |
| 2 | Effort | The psychological state or predisposition of the individual with respect to choices. |
| 3 | Motivation | Involving the direction, intensity and persistency of behavior. Intrinsic motivation: Pleasure or value of an activity itself. Extrinsic motivation: The value an individual places on the results of an action and the individual assessment of the probability of realizing the results. |
| 4 | Role conflict | Occurs when individual experiences incompatible job demands or expectations from his/her role-set members. |
| 5 | Role ambiguity | Occurs when an individual has inadequate information or knowledge with which to perform his/her tasks i.e. the individual is uncertain how to perform the job. |
| 6 | Commitment | As an individual's identification with the values and goods of the company (organizational) and high involvement in mark activities (job commitment). |
| 7 | Leadership behavior | Initiating structure: The degree to which a leader directs subordinates, clarify their role and plans, coordinate problem solves, criticizes and pressure them to perform better. Consideration: The degree to which a leader is supportive, friendly and considerate of subordinates, consults with them, represents their interests, has open communication with them and recognizes their contribution. |

Figure 1: performance determinants model



CONCLUSION

Conclusively, performance determinations models as discussed above show that there are several factors that would lead the performance of takaful agents for takaful industry. The factors are efforts; motivation (intrinsic and extrinsic), attitudes (role conflict, role ambiguity and commitment) and leadership behavior are among the important factors that should be addressed by takaful operators in order to look the development of takaful business. From the discussion it is expected and hoped that all parties, which are related to takaful industry i.e. regulators such as PIAM, Bank Negara, agencies and agents himself can play the role in enhancing the performance among takaful agents. Competitiveness will lead to better services given to the prospective customer. Empirical studies will be implemented and enhanced to show the relationship between the performance and factors affecting the takaful agents' performance in Malaysian takaful industry.

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