

## **Gender and ethical decision-making in the general insurance industry**

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### **ABSTRACT**

The insurance industry has been under tremendous stress and scrutiny in the last decade. Heightened risk-taking by executives, deregulation of the bank and financial systems, and climate change are all stressors that have impacted insurance companies' survival capacity. In 2016, Fort McMurray, Alberta experienced the most devastating forest fire in the history of this province. To date, this is Canada's most costly disaster, resulting in unprecedented claims payouts. In facing these challenges, insurance companies must reinvent themselves in many different aspects, including ethics. This study investigates the impact of gender, age and functional role on ethical decision-making within the general insurance industry in Edmonton, Alberta.

Much research has been conducted on this topic, particularly gender, but the results have been inconclusive. Some studies have posited that females are more ethical than males while others have concluded that there are little gender differences. None of the prior research concentrated on the insurance industry or the Alberta region.

Using a validated survey questionnaire, this study attempts to determine what impact gender, age, and functional role differences play on ethical decision-making within the insurance field. In addition, other variables have been controlled for such as ethnicity, level of education, the presence of a code of ethics, to name a few.

Through this study contributions to ethical decision-making literature and practice by discussing the character of ethical training, organizational open communication, leading by example, and the importance of ensuring that university business curriculum includes robust ethics education.

Keywords: ethics, gender, ethical decision-making, age, insurance, code of ethics

## INTRODUCTION

The insurance industry has been under tremendous stress and scrutiny in the last decade. Economic incentives that have boosted risk-taking by executives coupled with the deregulation of the bank and financial systems, especially in the United States, during the past 10-15 years have created the biggest economic crisis in the last 70 years. This has had a tremendous impact on premiums paid, which in turn have affected insurance companies' survival capacity.

In addition, unusual climatic catastrophes led to another stressor. Seven of the top ten Canadian disasters have occurred in the province of Alberta (Mentz, 2016). Three recent events topped the charts for catastrophic claims payouts. In May of 2011, a fire in Slave Lake destroyed 400 buildings at an insurance cost of \$700 million. One-third of the town was destroyed (Mentz, 2016, para. 14-15).

This was followed by massive flooding in southern Alberta in June of 2013, costing insurers \$1.72 billion in insured losses. The rising flood waters forced between 100,000 to 120,000 people from their Alberta homes (Mentz, 2016, para. 6-7).

The most recent event happened in May of 2016. To date, this is the costliest disaster in Canada's history with damages being reported by the Insurance Bureau of Canada as being \$3.58 billion (Mentz, 2016, para. 4). This event was another major forest fire which threatened to destroy the city of Fort McMurray. The fire burned in more than 500,000 hectares, destroying 2400 buildings, and forcing more than 800,000 residents to leave their homes and city ("The Fort McMurray fire", 2016, para. 4). Only recently are some neighbourhoods being deemed safe enough for the evacuees to return. When claims payouts are so large, corporate profits are eroded, and executives search for other ways to realize a return on investment for their shareholders.

It is no coincidence that to face these new challenges insurance companies have the duty to reinvent themselves in many different aspects, including the ethical. This study will investigate the impact of gender on ethical decision-making within the general insurance industry in the greater Edmonton, Alberta area. Does gender play a role in ethical decision-making?

Previous research has been conducted on ethical decision-making for marketing professionals (Lund, 2008) and sales professionals (Dawson, 1997). Most of the research reviewed focused on business students. This research differs from other reviewed literature in that it focuses on the financial sector, the general insurance industry specifically. No other research reviewed pertained to this industry.

Why might the insurance industry be different? Are they more or less likely to engage in unethical practices? Do they experience a greater number of business ethics incidents? Do they employ more males or females, or vice versa? If so, understanding gender differences in ethical decision-making could be helpful in taking steps to reduce unethical practices.

The insurance industry in Alberta does not enjoy a very positive public image, despite the Insurance Bureau of Canada's work to raise public awareness of all the benefits insurance brings to society. The media has frequently portrayed the industry as being focused only on profits and not on providing security to policyholders. Some unethical practices the industry is allegedly reported to engage in, according to the media, are such things as salespersons' misconduct and/or lack of knowledge, overpricing of products during hard markets, and bad faith claims handling. This has all resulted in a less than favourable public perception of the industry. But, is it true?

Do insurance organizations experience a greater number of business ethics incidents than do other business organizations? In Canada, the insurance industry is highly regulated. Company

operations are overseen by the Office of the Superintendent of Financial Institutions (OSFI) whose main objective is to ensure that companies are solvent and can make good their promise of indemnity to their policyholders. This scrutiny by OSFI may have some impact on business ethics violations in Canada, but certainly in North America generally, incidents such as tax avoidance, selling insurance without a license, insider trading, and fraudulent schemes for selling life insurance policies are some of the violations that have been reported (Sustainalytics, 2017).

In Sustainalytics Controversy Report for American International Group, Inc. (AIG) allegations are made that a senior level executive offered a voluntary employee beneficiary association plan, knowing the plan to be an illegal tax avoidance mechanism, as ruled by the United States Internal Revenue Service (IRS) (2017). Following an IRS audit, they were penalized more than \$350,000.00. Another lawsuit against AIG alleges that during bailout negotiations in 2009, they did not disclose that two of their insurance units were operating without a license, thus defrauding the Federal Reserve Bank of New York. The United States government is investigating this allegation.

Fairfax Financial Holdings Limited and two senior executives, the Chief Executive Officer and President, are under investigation for suspected insider trading (Sustainalytics, 2016).

Another business ethics incident reported in Sustainalytics Controversy Reports involves Prudential Financial, Inc. Three former employees of Prudential Financial claim they have concerns about the company's partnership with Wells Fargo, who were selling Prudential life low cost insurance products to numerous customers. Many of these customers were Latino and did not speak or understand English very well. They claimed they were signed up for policies that they didn't remember agreeing to purchase. When the employees tried to draw attention to this potential misconduct, they were terminated. Wrongful dismissal lawsuits have been filed against Prudential Financial, Inc.

Yet another insurance organization, Aon Plc. is accused of a breach of the Foreign Corrupt Practices Act, namely bribing foreign officials to obtain contracts in a foreign country. Their board of directors are being investigated for a possible breach of their fiduciary responsibilities (Sustainalytics, 2017).

This study does not suggest that insurance organizations have more incidents than other businesses; they do, however have their share of business ethics controversies, as demonstrated in the preceding examples.

Does the insurance industry hire more males than females or is the reverse true? According to Statistics Canada in 2016 a total of 1,127,000 people were employed in the insurance, finance, real estate, rental and leasing industries (2017). No statistics are available pertaining to the insurance industry solely. Statistics Canada also reports that women make up just short of 50% of the workforce – 47.9% as at 2009. Only 31.6% of management positions, however, are held by females. This is in spite of the fact that 51.2% of the business and finance occupations are held by women. The number of men holding senior management positions is double. If there is a gender difference in ethical decision-making, this distribution of power could have important ramifications. This possibility generates interest in finding out if one gender makes better ethical decisions than the other.

This study surveyed insurance industry professionals in Alberta, a province in western Canada. Very little research of the Canadian realm has been conducted on this topic. This enquiry concentrates on actual business professionals. Although some other studies were based

on organizational managers and/or employees, most of the research involved interviewing or surveying university students.

A considerable amount of research has been conducted on ethical decision-making over the past twenty-five years, but the results have been inconclusive. Some studies have posited that females are in fact more ethical than males (Lund, 2008; Ruegger & King, 1992) while others have concluded that there are small, if any, differences between the two genders (Kidwell, et al., 1987; Tsalikis & Ortiz-Buonafina, 1990). Little research has been done in Alberta and none of the prior research concentrated on the insurance industry. The main focus of this paper is expressed in the following research question: does gender play a role on ethical decision-making within the insurance industry?

The methodology used is a validated survey questionnaire developed by Ruch and Newstrom (1975). This questionnaire includes 17 ethical situations and asks respondents to rate the situation on a likert scale ranging from very unethical to not at all unethical. The questionnaire has been used in several other studies (McManus & Subramaniam, 2009; Al-Khatib & Stanton, 2002; Al-Kazemi & Kajac, 1999; Kidwell, et al., 1987; Krugman & Ferrell, 1981). The questionnaire will be administered electronically to insurance professionals.

In addition to gender's attitude towards ethical decision-making, this work will control for other variables such as age and career stream within the insurance industry. It will also control for ethnicity, religion, political affiliation, level of education, Chartered Insurance Professional certification, management roles, and the presence of a code of ethics in the company. This study contributes to ethical decision making literature and to business practitioners by discussing the role of ethical training, the creation and enforcement of a code of conduct, the importance of leading by example, and the benefits of open communication within an organization. It also investigates the need for educational institutions to ensure that business curriculum includes robust ethics education.

The first research question this paper attempts to answer is whether there is a significant difference between males and females when it comes to ethical decision-making. Does gender play a role in such decisions, and if so, how much? A second question considers how age might affect the results. A third distinction from other research is that data will be gathered only from general insurance industry professionals, providing the opportunity to focus on the three primary career streams within that industry, namely, claims, underwriting and broker/agency. The question to be researched is whether any of these career streams is less ethical in their decision-making than the others, and to provide some insight on why.

To better understand each of these career streams, a brief functional summary for each position is provided. Let's look at the role of an underwriter first. An underwriter is responsible for risk selection. They work for an insurance company and accept or reject risk on behalf of the company. They are decision-makers for the company choosing what risks the company should invest their capital in. If a risk is accepted, an underwriter will determine commensurate pricing and appropriate terms and conditions. Underwriters are sometimes referred to as 'gatekeepers'.

A claims adjuster's primary function is to investigate, negotiate, and settle claims according to the terms of the insurance contract. They may be employed directly by an insurance company or as an independent business person who is contracted by an insurance company for specific claims assignments. Based on policy wordings, they will determine whether a claim should be paid or denied. If a claim is to be paid, they will determine and recommend the amount the claim should be settled for. Adjusters are the public face of the insurer; they are often the

only person from the insurance company the client might meet. It is important that they provide excellent customer service to the insureds.

An insurance broker or agent is an intermediary between the consumer, the buyer of the product, and the insurance company, the seller of the product. They are sales-oriented, and most often excel at customer service. The role of a broker or agent is to help the customer identify their needs and match those needs to the best product at the best price. Relationship building is tantamount to this role.

## **THEORETICAL CONSIDERATIONS**

Ethical behaviour is at the forefront of many corporations, governments and individuals as scandalous behaviours have received increasing public scrutiny and criticism over the past decades. Stories of insider trading, accounting frauds, price fixing, other stock scandals, and tax evasion, to name a few, have caused considerable public consternation and a growing appetite to ensure that consequences be meted out. In addition to the various well publicized accounting frauds in the United States such as Enron, World Com, and Tyco, Sliter (2007) provides a good example of a major stock scandal in Canada, the Bre-X case. Bre-X purchased a gold mine and committed fraud by falsely stating that gold had been found, leading to a significant upward movement of their stock prices. There was no gold; the core samples had been salted with outside sources of gold including shavings from gold jewellery. When this fraudulent act was discovered, it resulted in plummeting shares and the collapse of Bre-X.

Blatant, unethical and illegal behaviour in such cases as these, has resulted in the public's awareness of the problem. Not unexpectedly, it has led to a strong desire to hold executives accountable for their actions. It is now evident that organizational leaders must be committed to improving ethical conduct and restoring public confidence and their public image (Betz, et al., 1989).

Ethics is not easily defined. The Concise Oxford Dictionary defines ethics as "the moral principles governing or influencing conduct" (Pearsall, 1999, p. 490). Individuals view what is a morally acceptable or ethical conduct in different ways. What one views as ethical today may be vastly different from what was viewed as ethical in the 1960's or 1970's. As society changes, so does behaviour change. One's view on ethics may be partially explained by the country in which one lives, by the culture one is exposed to, or by one's religious beliefs (Ruegger & King, 1992). In a study done in Finland on moral decision making, the researchers suggest that values are influenced and change depending on the economic climate (Kujala, et al., 2011). Gilligan (1993) interviewed women to find out their view on morality and how they would define a moral person. The theme which was evident in these interviews was that "the moral person is one who helps others; goodness is service, meeting one's obligations and responsibilities to others, if possible without sacrificing oneself" (pp. 65-66).

How females and males make ethical decisions differs per many researchers. As posited by Betz, et al. (1989), women seem to be more concerned with relationships and caring for, or helping others. Utilitarian thought implies that an action that achieves the greatest good for the largest number of people is more ethical than one that does not (Verbeke, et al., 1996). This utilitarian approach to ethical decisions, a concern for the greater good of the group, is evident in the way females make ethical decisions, while men care more about money and advancement. This is supported by Bampton and Maclagan (2009) who submit that men are less likely than women to subscribe to an "ethic of care" but rather have a greater likelihood of subscribing to

less personal values such as profit, following proper procedures, and law and order. Other research agrees that women ascribe to an ethics of care but men are more concerned with justice or reasoning based on rules (Hopkins & Bilimoria, 2004; Dawson, 1997; Gilligan, 1993). The theory of justice was built on Aristotle's writings and is based on what an individual deserves and what is just and fair (Hanson, 1992). "Individual autonomy is seen as the ideal and social responsibility as guided by rules, duty, and obligation." (Hopkins & Bilimoria, 2004, p. 496).

Carol Gilligan's theory on 'ethic of care' has been criticized by several researchers. They reason that her findings lack validity. In Luria's (1986) methodological critique of Gilligan's work, it is stated that Gilligan's sample size of eight males and eight females used in one of her studies is not large enough to characterize all males and females. Further, her abortion dilemma study drew conclusions based solely on a female population. Gilligan's findings were based on excerpts from interviews with participants and the representativeness of the excerpts is uncertain (Brabeck, 1983; Broughton, 1983). In three separate studies, Gilligan did not provide any quantitative data, nor was her standardized interview published. In Brabeck's (1983) study, she concludes that Gilligan's claims lack empirical evidence. Walker (1984) agrees that Gilligan's theory is anecdotal and lacks evidence. He further purports that she does not explain why orientations towards moral judgment might develop differently between males and females. Although Gilligan's theory has not been disproved, it is obvious that empirical evidence is lacking.

Despite the criticism of Gilligan's work, literature on gender and crime purport that women are pre-disposed to an 'ethic of care'. It is put forward that women learn while growing up to avoid hurting others and to consider the needs of others. They also fear being separated from people they are close to. They value forming strong social ties to others and are communal (Steffensmeier & Allan, 1996; Grose, 2013). Females frequently prescribe to altruism or 'helping behaviour'. Heilman and Chen (2005) assert that altruistic behavior is expected of female leaders within an organization and that meeting that expectation does not often benefit them. In fact, they may be penalized if they do not act altruistically. This is not the case when compared with their male counterparts behaving in a similar fashion.

Another viewpoint is expressed in Bampton and Maclagan's (2009) research. Their work proposes that the care-oriented viewpoint might be situational. It would be manifested in some situations more than others. They state that females will form a different judgement than men when a situation regarding the well-being of humans or environmental integrity is present.

Reidenbach and Robin (1990) developed a multi-dimensional tool for evaluating ethical decisions, which included five ethical philosophies. These philosophies include the theories of justice, utilitarianism, relativism, egoism, and deontology. As stated above, the theory of justice is based on what is fair, just or getting what one deserves. The other theories are summarized by Tsalikis and Ortiz-Buonafina (1990). They explain the theory of utilitarianism as focusing on acting in such a way as to produce the greatest good for the group – caring about others, not just self. Relativism can best be expressed by the beliefs of the Greek philosopher, Protagoras, who believed "moral principles cannot be shown to be valid for everybody; ... people ought to follow the conventions of their own group" (Tsalikis and Ortiz-Buonafina, 1990, p. 510). A good example of this is when a new employee joins an organization. They observe the behaviour of others in the organization and adjust their behaviour accordingly. Tsalikis and Ortiz-Buonafina (1990) state that Kant's theory is the best example of the deontology theory and one's actions have moral worth only if our intentions are good or we act out of duty. The theory of egoism promotes one's self interests. If the act or decision does more good than harm in the long run, it

is ethical. It is not the intention of this paper to expound further on these theories, but simply to provide a summary of the common ethics theories referred to by other researchers.

More recently, cognitive neuroscience literature examines through functional magnetic resonance imaging (fMRI), how males and females reason differently. How does the human brain make moral judgments? In an fMRI study conducted by Greene, et al. (2001) it was found that certain regions of the brain were significantly more active when judging moral-personal conditions, rather than moral-impersonal conditions or non-moral conditions. These regions of the brain include the medial frontal gyrus, posterior cingulate gyrus, and the angular gyrus, bilateral.

Another study posits that patients with ventromedial prefrontal cortex (VMPC) damage responded normally to moral-impersonal scenarios, but when moral-personal scenarios were presented, the patient participants were significantly more likely to embrace a utilitarian response (Young & Koenigs, 2007). The VPMC is the known region of the brain where emotional processing is important.

Yet another theory regarding moral judgment and the role of cognitive processes found that “cognitive activity in the dorsolateral prefrontal cortex (DLPFC) predicts utilitarian moral judgment behavior” (Greene, et al., 2004, p. 397). Emotional responses can be overridden by cognitive processes, suggesting that both play a role in moral judgment.

Regions of the brain associated with moral judgment have been identified, but much further work in cognitive neuroscience utilizing fMRI imaging would be beneficial in advancing the understanding of moral reasoning.

Because previous research on this topic has been inconclusive, one focal point of this paper is to determine whether gender plays a role in ethical decision-making. Although some studies have posited that females are in fact more ethical than males (Hartman, et al., 2009; Lund, 2008; Ruegger & King, 1992), others have concluded that there is little, if any, difference between the two genders (Kidwell, et al., 1987; Tsalikis & Ortiz-Buonafina, 1990). Betz, et al. (1989) conclude that “males were more than twice as likely to say they would engage in actions regarded as less ethical” (p. 324). In another study, it was found that women made more ethical decisions than men, except in cases where the situation was clearly ethical or unethical (Glover, et al., 2002).

In addition to gender, the impact age has on ethical decision-making will be explored. It is also of interest to determine if a person’s career choice within the insurance industry is a factor in ethical decision-making. This investigation will control for other demographic variables such as before tax annual income, and if the respondent holds a leadership or managerial position. If the respondent works for an organization with a code of ethics, does this make a difference? What impact does it have on ethical decision-making if an individual has completed their CIP designation?

This paper explores the gender difference as it relates to the general insurance industry in the Greater Edmonton, Alberta, Canada area. None of the previous research reviewed concentrated on the insurance industry, and only one other study conducted in Canada (Loo, 2003) was found. Many of the studies done on gender differences are based in the United States. Studies conducted in Finland (Kujala, et al., 2011), Turkey (Ekin & Tezolmez, 1999), Russia and New Zealand (Kuntz & Nabirukhina, 2013), and Germany, Italy and Japan (Beekun, et al., 2010) were reviewed. Gender differences among university business students and business managers or executives have been most frequently studied. Lund’s work (2008) concentrated on marketing professionals, while Dawson (1997) focused on sales professionals. Dawson claims that gender

differences among sales professionals in ethical decision-making has important implications to the sales profession “because of the many opportunities and temptations that exist for ethical misconduct” (p. 1143). The researcher concurs with her viewpoint and suggests that this topic is also of great importance to the insurance industry. The fact that the insurance industry does not enjoy the greatest public image has been previously discussed. The media has enthusiastically reported on various supposed shortcomings. Most frequently these shortcomings relate to unethical sales practices, overcharging of premiums, and bad faith claims handling. Bad faith claims handling would encompass the claims adjusting professional, while overpricing of products during a hard market would apply to the underwriting professional. The broker or agent career stream might engage in unethical sales practices or lack the appropriate knowledge to provide the necessary advice to consumers purchasing products from them. Because of these issues, it is important to uncover whether one career stream is more ethical than another.

## **HYPOTHESIS DEVELOPMENT**

The primary emphasis of this paper is to explore gender differences in ethical decision-making. Because past research is inconclusive, and there has not been a study conducted specifically on the general insurance industry in Alberta, the first research objective is to explore this topic and the first hypothesis is: female general insurance professionals are more ethical than their male counterparts in decision-making. The research reviewed was not conclusive; about half of the researchers indicated that females are more ethical decision makers than males. Others posited that there were no significant differences between the two genders. Interestingly enough, none of the works reviewed espoused that males were more ethical decision-makers than females.

In addition to reviewing previous works on ethics, literature on white collar crime was also reviewed. It is not being suggested that white collar financial crimes are more rampant in the insurance industry. However, the insurance industry is a financial industry where many opportunities do exist.

Grose (2013) stated in her article that less than 10% of high-level financial crimes are committed by females, while lower-level financial crimes show that women commit about 45% of them. That leaves 55% of smaller crimes to being committed by males, and 90% of larger crimes. Daly (1989) stated that men commit both high and lower-level financial crimes while women almost always commit smaller white-collar crimes. This may be attributed to the fact that there are not many women in high level positions providing them with an opportunity to commit high-level crimes. Many lower-level crimes are committed by bookkeepers, bank tellers, and accountants, many of such positions which are held by women. Financial crimes committed by women are often asset misappropriation, typically low-level crimes (Holtfreter, 2015).

Traditional criminological theories purport that women commit less crimes than males because material success is not as culturally ingrained in them as males. A contributing factor could also be because women are in positions where there is greater supervision over their work than men, therefore not providing as many opportunities, particularly for higher-level crimes. The gendered approach theory to crime supports the traditional theory and adds that women are often excluded from lucrative or bigger crime opportunities. It is suggested that women are more likely to consider the consequences of such activities and what it might do to their family or other close relationships (Steffensmeier & Allan, 1996).

Another explanation may be that women are more risk-averse than men. Grose (2013) states that this is the case. Steffensmeier (1996) theorizes that across the board women may not be consistently less tolerant of risk than males, but risks they are willing to take will be minor legal transgressions. Women will consider their emotional commitments and whether the risk will put their close family members, friends or other close relationships in harm's way.

In 2015 Cumming, et al researched gender and securities fraud. They found that when corporate boards have more women members, their influence can effectively reduce both the frequency and severity of fraud. This research on white collar crime suggests that women are less likely to be perpetrators of crime and indicates that in some cases are likely to be more ethical decision-makers than men. This supported and led to the development of the first hypothesis: female general insurance professionals are more ethical than their male counterparts in decision-making.

In Canada, there is a lack of gender diversity on Canadian company boards, even though diversity is touted as being an important core value (Catalyst, n.d.). In a 2013 Catalyst census (2014), it was found that in Canada only 15.9% of board seats are held by women. Additionally, it was reported that approximately 40% of Canadian companies have no female board directors, while more than 33% have no female members at all. It seems the female influence which could potentially have a positive impact on fraud is seriously limited or absent.

Some of the previous research reviewed, considered age as a factor and studied the impact of age on ethical decision-making. Dawson (1997) found that there were gender differences, but that the gap was narrower among older participants than younger. Another study asserted that there was less tolerance for unethical behaviour among older respondents than younger (Ekin & Tezolmez, 1999). The second hypothesis is: older respondents are more ethical decision-makers than younger respondents.

One of the distinct areas of interest which this research studied was if there was a difference between chosen career streams within the general insurance industry. It would be worthwhile to determine if any one stream, namely claims, underwriting, and broker/agent, was more ethical than the others. The third hypothesis is: the broker/agent career stream is less ethical than claims and underwriting.

The key reason for hypothesizing that insurance brokers or agents are less ethical than claims adjusters or underwriters relates to monetary incentives. Brokers and agents are generally paid a base salary with the bulk of their earnings being comprised of commissions and/or bonuses. Underwriters make decisions based on clearly defined underwriting rules and corporate policies. Claims adjusters are also decision-makers who determine claims settlements or declinations based on the insurance contract. Both underwriters and company adjusters are paid annual salaries.

Because brokers or agents make more money if they sell more policies, they may be tempted to engage in unethical practices. For example, if a broker wants to get an underwriter to provide a quotation with a rock-bottom price and liberal terms for a client, they might be tempted to encourage that behaviour by giving a gift to the underwriter. It is not an uncommon practice for a broker to take an underwriter to lunch or to a social event to build a relationship with the underwriter. So, where would one draw the line? At what point might this type of behaviour slip into the realm of unethical? A second reason for believing that brokers or agents may be less ethical than underwriters or claims adjusters relates to the primary objective of this role – make the sale! Some sales environments may encourage making a sale at almost any cost. There may be a willingness on the part of a broker or agent to slightly manipulate the truth or omit certain

information to make the sale. Dawson (1997) suggests that the sales environment provides opportunity that may be tempting for sales persons to engage in ethical misconduct.

## METHODOLOGY

A self-administered, validated survey was sent electronically to 797 men and women in the general insurance industry in the Greater Edmonton, Alberta area. Names and email addresses were collected from the Alberta Insurance Directory and the researcher's business contacts. To be eligible, participants had to be currently employed in the general insurance industry within the stated geographical area.

This study utilized the method, design and instrument developed by Ruch and Newstrom (1975). The questionnaire they developed consisted of 17 ethical decision situations and participants were asked to rate each situation on a likert scale ranging from 1 indicating very unethical to 5 signifying not at all unethical. Table 1 (Appendix) lists the ethical decision situations. This instrument was chosen because the situations were of the type that most corporate employees or managers could identify with (Krugman & Ferrell, 1981). Ruch and Newstrom (1975) developed and used the survey to self-test managers and supervisors who were participating in an executive development program. Each participant was asked to rate on a likert scale how ethical they perceived each situation to be and how they believed their peers and top management would view each situation.

This survey was also used by Kidwell, et al. (1987) to collect data from male and female managers. The focus of their research was on gender differences. They collected data using a self-administered questionnaire. Respondents were asked to rate the ethical situations on a likert scale. The mean scores were published in their study and the results indicate no significant difference in ethical decision-making between males and females. Similar results were found in the present research, and the mean scores for males and females are depicted in Table 2 (Appendix).

In Al-Kazemi and Zajac's (1999) study, data was collected using 14 of the 17 ethical situations developed by Ruch and Newstrom (1975). Randomly selected participants were asked to rate each situation by indicating whether they believed the behaviour to be ethical or not. These participants consisted of employees from six different companies and included support staff, service providers, middle managers and executives. The 14 behaviours were categorized into three groupings: a violation of interpersonal trust between individuals, a violation of law, and a violation of agency rules, regulations and policies. Their research focused on ethics sensitivity and awareness, not on gender.

Al-Khatib, et al. (2002) also used this questionnaire, using 14 of the 17 ethical situations, to collect data from employees in three Middle Eastern countries. Each situation was measured on a likert scale. The data was also grouped into three dimensions: interpersonal ethics behaviour, organizational ethics behaviour, and illegal behaviour. Again, gender differences were not considered in their research.

Another researcher found that gender does make a difference in ethical decision-making, particularly in the perception of how serious an ethical dilemma might be (McManus & Subramaniam, 2009). Using a condensed version of Al-Kazemi and Zajac's (1999) questionnaire, which was based on ethical decisions developed by Ruch and Newstrom (1975), McManus and Subramaniam (2009) posit that females perceive ethical situations as more serious than males.

Krugman and Ferrell (1981) used 16 of the 17 questions from Ruch and Newstrom's (1975) survey questionnaire. They collected data using a likert scale, comparing mean scores of the respondents. They surveyed advertising practitioners, advertising agency account managers, and corporate advertising managers. They used a factor analysis which resulted in grouping the questions into six categories. The focus of their study was to determine if the respondents perceived themselves as having higher ethical standards than their peers.

The survey questionnaire used in this research also consisted of demographic information, some of which was specific to the industry being tested. The survey included an introductory message briefing the potential respondents on the purpose of the study and requesting their voluntary, anonymous participation. Two reminder messages were sent to the prospective participants who had not yet responded. The first was sent one week following the initial survey request, with a second reminder being sent one week later. One week after the final reminder, the survey was closed.

## RESULTS

797 questionnaires were sent out electronically. 37 were undeliverable, resulting in the delivery of 760 questionnaires. 280 surveys were completed and returned, resulting in a response rate of 36.8%. 49.27% of total respondents were male and 50.73% were female. Many respondents were within the age range of 45 to 54 (34.91%) followed by the 25 to 34 age range (21.09%). 34.91% of responses were received from brokers or agents, 30.55% from claims adjusters and 23.27% from underwriters. This provided adequate data to answer the three hypothetical questions posed.

An exploratory factor analysis was completed using a varimax rotation. Three reliable groupings emerged from the factor analysis, where most of the questions had eigenvalues of over .7, with no question having an eigenvalue of less than .6. Sixteen of the 17 questions fit into the three groupings of questions which are: 1) gift giving or receiving in exchange for favours; 2) breaking of defined rules (or in some cases even breaking the law); and 3) misusing company resources. Table 3 outlines the three groupings and shows where each ethical decision situation was placed. One question was disregarded, as it did not seem to clearly fit in any of the defined groups. The situation question not included is: not reporting others' violations of company rules and policies. The analysis was tested for reliability and found Cronbach's Alpha to be .869 and over. The questions and groupings in which they were placed are indicated in Table 3 (Appendix).

The latent variables were calculated using the means of the questions within each grouping. When considering the mean score for each ethical situation, without regard to the groupings, there are only three situations where males scored lower than females. These include: 1) divulging confidential information, 2) calling in sick to take a day off, and 3) taking extra personal time.

A regression analysis was conducted for each grouping and the results are shown in Tables 4, 5 and 6 (Appendix). On these tables, Model 1 includes the control variables only which include before tax annual income, existence of a company code of ethics, completion of the Chartered Insurance Professional designation, and whether the respondent holds a leadership or managerial role within the organization. Model 2 adds the hypothesized variables and the control variables. The hypothesized variables are gender, age and career stream. Table 4 depicts the regression results for gift giving or receiving in exchange for favours. Table 5 shows the results

for breaking of defined rules, and Table 6 provides the regression results for misusing company resources.

When analyzing the data under the grouping 'gift giving or receiving in exchange for favours', it was found that there was no significant gender difference. When focusing on the mean scores under each individual situation rather than a particular grouping, there were only three situations where males scored lower than females. In the other situations, the mean scores for males were equal to, or in some cases even slightly higher, than the scores for females. Age, however is a factor. The older you are, the less likely you are to see gifting as acceptable. It was also found that the broker/agent career stream was more likely to see gifting as being acceptable than the other career streams. The sales culture that brokers and agents work in may encourage this attitude towards the giving or receiving of gifts in exchange for a favour. Activities that result in higher sales volumes are rarely frowned upon; in fact, they are rewarded by hefty commission cheques. The end may be more important than the means.

In reviewing the control variables, it was of interest to note that individuals with leadership or managerial roles and employees of companies with a code of ethics are less likely to see gifting as acceptable. The higher the salary one earns, the more likely one is to think gifting is acceptable. It could be suggested that the reason behind this finding is that brokers and agents often earn more money than the claims or underwriting career streams, particularly if they are talented salespersons. No significant difference was found between individuals with a CIP designation and those without a CIP. It was disappointing to find that a CIP designation did not result in more ethical decision-making. The CIP curriculum does include their professional code of ethics in the capstone course, but each course is generally focused more on technical skills and knowledge. It would be beneficial to include more ethical decision-making content within each of the course offerings. Another alternative would be to develop a mandatory course specifically for ethics education.

The second grouping 'breaking of defined rules' shows no significant gender difference between career streams. It is evident that when rules are clearly defined, or in some cases even illegal, there is no significant difference between the age groups. It is thought-provoking to note that in the findings of the research done by Krugman and Ferrell (1981), they state that behaviours that could be rationalized were perceived as more acceptable than more blatant behaviour. In this research, it is evident that ethical decision situations grouped under 'breaking of defined rules' are viewed as more unethical by respondents than those situations grouped under 'misusing company resources'. In a study conducted in Kuwait (Al-Kazemi & Zajac, 1999) it was found that interpersonal ethics were viewed as more unethical than were behaviours that are illegal. The analysis of the control variables shows that annual income does not seem to be a factor in one's attitude toward rule breaking, but individuals who are not in managerial or leadership roles are more likely to think breaking rules is acceptable. It was also found that individuals who do not hold their CIP designation and those who work for a company that does not have a code of ethics are more likely to be okay with some rule breaking.

Once again, no gender difference is apparent in the data for the grouping "misusing company resources". Similarly, no difference is evident between the career streams. Age, however, is a significant factor. Younger people are much more likely to believe it is suitable to misuse company resources than older people. Those individuals earning higher salaries are also more likely to believe that it is fine to misuse company resources. There is no significant difference between individuals with a CIP designation or those without their CIP. Employees of

companies with a code of ethics or employees in leadership or managerial positions are less likely to think misusing company resources is tolerable.

In summary, the first hypothesis states that females would be found to be more ethical decision-makers than their male counterparts. The results of this study suggest there is no significant difference in gender in all three groupings. It was further hypothesized that older respondents would be more ethical decision-makers than younger respondents. This proves to be true in two of the groupings: gifting and misusing company resources. Lastly, this study postulated that the broker/agent career stream would be less ethical decision-makers than claims and underwriting streams. This hypothesis is supported only in one grouping: gifting. Because brokers and/or agents are compensated primarily by commission and bonuses, they must close sales to realize earnings. The more they sell, the more they make. They work in a competitive environment where only top producers receive bonuses. They are also competing with other brokerages and companies for clients. Therefore, it is not surprising that they may perceive the practice of both giving and receiving gifts in exchange for a favour as an acceptable business practice. If the end justifies the means and this behaviour results in heightened sales, it seems reasonable to engage in such activities. If it is not viewed negatively by sales managers, it may become part of the sales environment in which they operate.

## **LIMITATIONS AND FURTHER STUDIES**

One limitation of this study might be that respondents may have answered the questions based on what they think is right rather than how they behave. There may be a tendency to answer in such a way that makes one appear more ethical and therefore look better in the eyes of the researcher. Ruch and Newstrom (1975) acknowledged that even though the questionnaire is anonymous respondents may give false answers. Another researcher agrees that respondents may not be truthful, particularly when dealing with sensitive issues (Al-Kazemi & Zajac, 1999). It would be interesting to conduct an experiment where actual behaviour could be tested rather than intent or articulated belief.

A further study could also be conducted for the same industry but in another country. It would be interesting to see if the results were similar or substantially different. What impact does Canadian culture, or the relatively stringent regulatory environment in Canada, have on the findings?

Determining whether ethical behaviour has a positive, neutral, or negative impact on the profitability of an organization or industry would also be worth exploring. Must an organization sacrifice some degree of profitability to do the right thing – make an ethical decision?

## **CONCLUSION**

In conclusion, this research finds no significant difference between males and females in ethical decision-making. It does find, however, that age is a factor. In most situations, older respondents are more ethical decision-makers than younger respondents. It also shows that the broker/agent career stream views gift giving or receiving in exchange for favours more ethical than do claims or underwriting.

In view of this research, one might incorporate ethical situation training with a concentration on those groups who appear to be less ethical in their decision-making. For example, perhaps younger age employees who do not think misusing company resources is an

issue could benefit from ethics training. As a licensing requirement brokers and agents are required to complete a minimum of 15 hours of educational training annually. Seminars in ethics could be offered by industry professional associations, increasing knowledge and awareness of ethical behaviour for their membership, and providing an opportunity to meet this licensing requirement at the same time. By ensuring that expectations are clearly articulated as part of a training program and/or by addressing the issues in a code of conduct, one might positively impact ethical decision-making within organizations. One researcher suggested that it would be beneficial for businesses to work together with educational institutions to heighten the awareness of ethics and educate the workforce (Al-Khatib, et al., 2002). Another researcher submitted that both ethics educators and professional bodies should work together to provide better direction with respect to ethical dilemmas (McManus & Subramaniam, 2009).

In addition to communicating ethical standards in a training program, the expectations should also be clearly articulated in a professional or corporate code of ethics or conduct. A code of ethics is defined as “statements of moral principles which function as guides to behaviour within an organization” (Al-Kazemi & Zajac, 1999, p. 353). A code of ethics is useful in reducing ambiguity, providing guidance to managers, and reminding them of what is ethical. Of course, the value of a code of ethics is dependent on how current it is and how strictly it is enforced. Its usefulness increases when it is robust, but it is not the be-all, end-all. A code of ethics could not possibly foresee every situation (Ibrahim, et al., 2009). This research also found that during highly competitive times it becomes more difficult to reduce unethical practices. Females are thought to be more optimistic that a code of ethics will influence employee behaviour. Both genders agree that the code must be understood by all employees. The code is not enough; it must be coupled with training programs that promote adherence to it.

Leading by example is also an important factor in ethical behaviour (Ruch & Newstrom, 1975). Managers are role models and must behave appropriately (Ibrahim, et al., 2009). When high-level executives and managers behave ethically the overall organizational culture is impacted. The results found by other researchers concludes that “ethical climate affected ethical decision making substantially and in a positive manner” (Verbeke, et al., 1996, p. 1181). Further, an organizational culture that supports ethical behaviour will attract new hires who are ethical (Ibrahim, et al., 2009).

A culture of open communication in general among managers and employees may improve ethical decision-making and behaviour. When openly discussing situations within an organization, there is greater opportunity to learn from others and think about what others have said. Ultimately, this should result in a broader array of decision choices for consideration (Verbeke, et al., 1996).

Ethics courses at universities and colleges would be advantageous in helping educate business students, who will be the future face of commerce. McManus and Subramaniam's (2009) research shows that ethics education increased an individual's evaluation of how consequential an ethical situation might be, therefore leading the decision-maker to choose the more ethical decision. Another study expresses agreement with more business ethics courses being offered to enhance better ethical decision-making in the future (Ibrahim, et al., 2009).

**TABLE 1 ETHICAL DECISION SITUATIONS**

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Situation

- 1) Using company services for personal use
- 2) Padding an expense account up to 10%
- 3) Padding an expense account in excess of 10%
- 4) Giving gifts/favors in exchange for preferential treatment
- 5) Taking longer than necessary to do a job
- 6) Doing personal business on company time
- 7) Divulging confidential information
- 8) Concealing one's errors
- 9) Passing blame for errors to an innocent co-worker
- 10) Claiming credit for someone else's work
- 11) Falsifying time/quality reports
- 12) Calling in sick to take a day off
- 13) Authorizing a subordinate to violate company rules or policies
- 14) Using company materials and supplies for personal use
- 15) Accepting gifts/favors in exchange for preferential treatment
- 16) Taking extra personal time (long lunches, late arrivals, ...)
- 17) Not reporting others' violations of company rules and policies

S B

**TABLE 2 MEAN SCORES: ETHICAL DECISION SITUATIONS**

(1 – very unethical, 5 – not at all unethical)

<u>Situation</u>	<u>Mean Score</u>	
	<u>Males</u>	<u>Females</u>
1) Using company services for personal use	2.09	1.95
2) Padding an expense account up to 10%	1.22	1.20
3) Padding an expense account in excess of 10%	1.16	1.11
4) Giving gifts/favors in exchange for preferential treatment	1.74	1.46
5) Taking longer than necessary to do a job	2.09	2.01
6) Doing personal business on company time	2.47	2.17
7) Divulging confidential information	1.19	1.22
8) Concealing one's errors	1.54	1.50
9) Passing blame for errors to an innocent co-worker	1.16	1.16
10) Claiming credit for someone else's work	1.28	1.23
11) Falsifying time/quality reports	1.24	1.19
12) Calling in sick to take a day off	1.79	1.90
13) Authorizing a subordinate to violate company rules or policies	1.37	1.26
14) Using company materials and supplies for personal use	2.13	2.08
15) Accepting gifts/favors in exchange for preferential treatment	1.59	1.45
16) Taking extra personal time (long lunches, late arrivals, ...)	2.22	2.27
17) Not reporting others' violations of company rules and policies	2.15	2.11

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**TABLE 3 ETHICAL DECISION SITUATIONS PLACED INTO THREE GROUPINGS**

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*Gift giving or receiving in exchange for favours*

Giving gifts/favours in exchange for preferential treatment

Accepting gifts/favours in exchange for preferential treatment

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*Breaking of defined rules*

Padding an expense account up to 10%

Padding an expense account in excess of 10%

Divulging confidential information

Concealing one's errors

Passing blame for errors to an innocent co-worker

Claiming credit for someone else's work

Falsifying time/quality reports

Authorizing a subordinate to violate company rules or policies

---

*Misusing company resources*

Using company services for personal use

Taking longer than necessary to do a job

Doing personal business on company time

Calling in sick to take a day off

Using company materials and supplies for personal use

Taking extra personal time (long lunches, late arrivals ...)

J B  
S B

**TABLE 4 REGRESSION RESULTS FOR GIFT GIVING OR RECEIVING IN EXCHANGE FOR FAVOURS**

	Model 1	Model 2
<i>Control variables</i>		
Before tax annual income	.216***	.251***
Existence of company Code of Ethics	-.157**	-.125**
Completion of CIP designation	-.048	-.030
Leadership or managerial role within organization	-.244***	-.165**
<i>Hypothesized variables</i>		
Gender		.056
Age range		-.209***
Broker/agent career stream		.122*
<i>Model indices</i>		
Adjusted R <sup>2</sup>	.053	.093
Significant R <sup>2</sup> change (F statistics)	4.445***	4.557***

**Notes:**

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

J B  
S B

**TABLE 5 REGRESSION RESULTS FOR BREAKING OF DEFINED RULES**

	Model 1	Model 2
<i>Control variables</i>		
Before tax annual income	.024	.035
Existence of company Code of Ethics	-.114*	-.117*
Completion of CIP designation	-.126*	-.131**
Leadership or managerial role within organization	-.128	-.124
<i>Hypothesized variables</i>		
Gender		.037
Age range		-.022
Broker/agent career stream		-.037
<i>Model indices</i>		
Adjusted R <sup>2</sup>	.025	.015
Significant R <sup>2</sup> change (F statistics)	2.544**	.215

**Notes:**

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

J B  
S B

**TABLE 6 REGRESSION RESULTS FOR MISUSING COMPANY RESOURCES**

	Model 1	Model 2
<i>Control variables</i>		
Before tax annual income	.076	.178**
Existence of company Code of Ethics	-.164**	-.154**
Completion of CIP designation	.006	.007
Leadership or managerial role within organization	-.271***	-.201**
<i>Hypothesized variables</i>		
Gender		.003
Age range		-.272***
Broker/agent career stream		-.007
<i>Model indices</i>		
Adjusted R <sup>2</sup>	.061	.102
Significant R <sup>2</sup> change (F statistics)	4.911***	4.502***

**Notes:**

\*  $p < 0.1$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

J B  
S B

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