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# Ethical performance evaluation (EPE) in business practices: framework and case illustrations

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## Abstract

**Purpose** – A set of principal parameters (i.e. time, context, gap, outcome, and consequence) influences the ethical performance evaluation (EPE) of business practices in the marketplace and society. The purpose of this paper is to describe a managerial framework of EPE based upon these parameters.

**Design/methodology/approach** – Case illustrations are used to underpin the introduced managerial framework of EPE.

**Findings** – The EPE of business practices is not only dependent upon the ethical values and principles of today, but those principles of tomorrow may be equally, or even more, crucial. The EPE of business practices is also dependent upon the surrounding context and its specific ethical values and principles. Furthermore, it is dependent upon the gap between different perceptions of ethical values and principles and if the outcome of the corporation's ethical values and principles are proactive or reactive in relation to the reigning ethical values and principles in the marketplace and society. Finally, it is also dependent upon the potential and eventual consequences of ethical values and principles.

**Research limitations/implications** – The only way that we can “objectively” evaluate past ethical values and principles is through the use of ethical values and principles at the time and in respect to the context at hand. Research tends to fail when considering the longitudinal and evolutionary dimensions in the exploration of ethical values and principles in business practices. There is too much focus upon on-the-spot-accounts in the past and in current research efforts. An important area for further research is how to deal with the durability and variability of ethical values and principles in business practices in the marketplace and society. The key may be a stronger emphasis on longitudinal research efforts that may explore them over time and as contexts evolve. Ethical values and principles are connected and re-connected over time and across contexts in one way or another. They have a past, a current status and a future.

**Practical implications** – The decision as to whether business practices are ethical or

unethical is – relatively speaking – easy to determine from a narrow perspective, however, the decision whether business practices are ethical or unethical becomes complicated as the perspective is widened and deepened. An introduced managerial framework of EPE provides a generic foundation and structure to examine the acceptability versus unacceptability of business practices.

**Originality/value** – The paper introduces a managerial framework of EPE, followed by case illustrations. It addresses the impact of time on ethical values and principles in any context on the potential and eventual gaps, outcomes and consequences in business practices. The managerial framework of EPE may also be used in non-business areas whenever found applicable and convenient to use.

## **Introduction**

A set of principal parameters influences the ethical performance evaluation (EPE) of business practices in the marketplace and society. Svensson and Wood (2003, 2004) identify five parameters: time, context, gap, outcome, and consequence. Ethical values and principles in the marketplace and society are dependent upon them. In the first place, ethical values and principles may be seen as a function of time. The time parameter in the business and societal environment affects what are considered to be acceptable and unacceptable business practices. In literature, ethical values and principles are a function of time even if such a view is not usually spelled out explicitly (Orwig, 2002; Kilcullen and Kooistra, 1999; Feldman, 1998; Pava, 1998; Giacalone and Knouse, 1997; Yamaji, 1997; and McDonald and Zepp, 1989).

In the second place, ethical values and principles may also be seen as a function of context. The current contextual situation and the contextual evolution in the business and societal environment also affect what are considered to be acceptable and unacceptable business practices in the marketplace and society. Various studies across countries have been performed and have stressed the context of the situation (Jakubowski *et al.*, 2002; Hood and Logsdon, 2002; Bucar *et al.*, 2003; Fisher *et al.*, 2001; Seitz, 2001; Peppas and Peppas, 2000; Singhapakdi *et al.*, 1999; Fernandez-Fernandez, 1999; Vinten, 1998; and Sen, 1997). In sum, as time moves on, contexts evolve and as a consequence the ethical values and principles of groups and individuals change.

In the third place, the evaluation of ethical values and principles may be seen as a function of gap, outcome and consequences. Svensson and Wood (2004) address these parameters, where the gap underpins the outcome of EPE that in turn leads to consequences (i.e. either positive or negative ones) for the corporation in the marketplace and society. In conjunction, these parameters create a fundament for a managerial framework, and also contribute to describe the dynamics of ethical values and principles of business practices in the marketplace and society. EPE may be seen as a function of these parameters, therefore, the objective of this paper is to describe a managerial framework of EPE. It is underpinned by a selection of brief case illustrations.

## **Ethical performance evaluation**

In this section, a managerial framework and case illustrations of EPE are described. The managerial framework consists of two principal parts. One describes and discusses different zones of EPE. The other focuses on a number of interconnected parameters that complement the EPE in real life business situations. A selection of case illustrations is used to underpin and highlight the universal applicability of the introduced managerial framework.

### ***Managerial framework***

The managerial framework of EPE consists of five interconnected parameters, namely time, context, gap, outcome, and consequence. In the following paragraphs, each of them is described and discussed in isolation, but also in conjunction with the others. Altogether, they shape a complex reality of ethical values and principles in the marketplace and society to be managed in business practices.

The spectrum of ethical performance consists of two counterpoints that may be divided into three zones of evaluation (Figure 1). On the one side, the spectrum of EPE may refer to the acceptability of business practices in the marketplace and society. On the other side, it may refer to the unacceptability of the same practices in the same environments.

Acceptable business practices are interpreted to belong to the ethical zone of evaluation. This means that, there is a match with the reigning ethical values and principles in the marketplace and society. Unacceptable business practices belong to the unethical perspective. This means that there is a mismatch with the reigning ethical values and principles in the business and societal environments; however, there is not always a clear cut border between these two zones. On the contrary, it is not a matter of course, that business practices can be evaluated and categorised according to either zone. Sometimes, it may be troublesome – or almost impossible – to determine into which area some actions belong. Therefore, these two zones are connected by an intermediary zone, a so-called “ambiguous zone” where appropriate business practices represent ethical practices and the inappropriate business practices represent unethical ones. The ambiguity occurs when either category of practices cannot be determined. There are a number of reasons that cause the difficulty with ethical performance evaluation, all of which are described and discussed in the following paragraphs.

EPE should be seen as a continuous approach. It is also dynamic and complex. Furthermore, it is troublesome to manage, as well as it is hard to predict its outcome. The managerial framework of EPE that is introduced in Figure 2 is structured around five parameters (i.e. time, context, gap, outcome, and consequence).

### ***Time***

The first parameter is “time”. It underpins all of the other parameters. It affects the overall outcome of EPE in business practices, as well as having a major effect on the other parameters. The impact of time on the EPE is dynamic and continuous. For example, what have been acceptable business practices yesterday and that still are acceptable ones today may be unacceptable tomorrow. This actually means that business practices are eventually

evaluated – rightly or wrongly – based upon the reigning ethical values and principles of the future. Therefore, the EPE is extremely complicated to address adequately as it is difficult to predict the forthcoming ethical values and principles in the marketplace and society that will be used in these evaluations. As a matter of fact, current ethical values and principles tend to be used when the past business practices undergo EPE. We seem not to allow for the fact that people act in an historical context and in some part should be at least judged by the dominant values of that period of time.

### ***Context***

The second parameter is “context”. It is dependent upon the “time” parameter, but underpins the other parameters in the managerial framework of EPE. The dependence upon time makes the impact of context on the EPE also dynamic and continuous. For example, as time goes on contexts evolve. An example of this, change in context is that “bribery” is not allowed by law in many jurisdictions around the world as a way of obtaining business in other parts of the world, but over the years we have sanitised the concept of bribery into a new form called “facilitation payments”. One could contend that the end game is the same, but the semantic connotations of the word “facilitation” are softer and therefore more acceptable. This reliance on context means that the reigning ethical values and principles in a specific context change, as well as they may be different in different contexts. They will also vary over time, which will make yesterday's and today's ethical values and principles to be different from the ones of tomorrow. Furthermore, the evolution of ethical values and principles in business practices vary across contexts.

### ***Gap***

The third parameter is “gap”. It is dependent upon the “time” and “context” parameters, but underpins the other two remaining parameters of the managerial framework of EPE, namely “outcome” and “consequences”. Two generic determinants underpin the gap, namely the internal and external perceptions of a corporation's business practices. As the internal perception of ethical values and principles develops, the external perception of these practices evolves and as a consequence the gap between perceptions of ethical values and principles may change. This means that the internal perception of business practices is one of two points of reference for EPE. The internal perception may be that of the employer, the employees and/or the owners/shareholders. The other point of reference is the external perception of business practices of others outside of the corporation. The external perception may be that of the customers, the suppliers, and/or other publics/stakeholders. If there is a mismatch between the internal and external perceptions of business practices a gap occurs. This gap may be either positive or negative from the corporation's point of view.

### ***Outcome***

The fourth parameter is “outcome”. It is dependent upon the “time” “context” and “gap” parameters, but underpins the remaining parameter of the managerial framework of EPE, namely “consequences”. Two generic determinants influence the outcome of either proactive or reactive business ethical performance in the marketplace, namely the outcome

of the gap between internal and external perceptions of a corporation's business practices. Preferably, there should be a proactive outcome of the ethical performance, that is, the corporation is a step ahead of the current values and principles in the marketplace and society, otherwise, an unethical situation might occur. The latter reflects a reactive outcome of ethical performance, that is, the corporation is a step behind the current values and principles in the marketplace and society. Accordingly, the proactive and reactive ethical performance is an interactive phenomenon that depends upon contextual and evolutionary issues, such as existing values, norms, and beliefs held by the internal and external stakeholders in any ethical scenario. Eventually, proactive and reactive ethical performances are about what the internal and external stakeholders judge (i.e. relatively) as acceptable or unacceptable conduct in business practices, at a specific contextual and evolutionary stage. Consequently, what is appropriate ethical performance in business practices is determined by both the internal and external perceptions of the actions taken in respect to the situation faced. These are separate social constructions that may differ between the parties involved in a specific contextual and evolutionary situation.

### ***Consequence***

The fifth parameter is “consequence”. It is dependent upon the other parameters of the managerial framework of EPE. The internal weaknesses or strengths of a corporation's ethical performance affect the external threats and opportunities in the marketplace and society. The ethical performance has its origin in the internal perception of a corporation's business practices. Weaknesses in the internal perception may convert into threats in the external perception. Reactive ethical performance exposes the corporation to risks in the marketplace. Strengths in the internal perception may convert into opportunities in the external perception. Proactive ethical performance is crucial for long-term business success in the marketplace. The consequences of weakness and strength in the internal perception are dependent upon the contextual and evolutionary issues surrounding the external perception of threats and opportunities in the marketplace, therefore, the accurate internal analysis of weaknesses and strengths of the corporation's ethical performance in business practices is crucial to the external analysis of threats and opportunities.

### **Empirical illustrations**

The managerial framework of EPE described in the previous section is underpinned by case illustrations in this section. These four cases illustrate the influence that the parameters of “time” and “context” have on the zones of EPE, that is, whether the business practices of corporations are acceptable, unacceptable or ambiguous. Two of the cases illustrate corporations that have been unsuccessful in their EPE efforts and have got a negative EPE in their business practices and two of the cases illustrate corporations that have been successful in the way that they have addressed ethical issues in the marketplace. These cases show the importance of not being a step behind the dynamics of ethical values and principles in the marketplace and society.

### ***EPE of Tylenol***

The Tylenol case (Jennings, 1993) in 1982 had the potential for a major disaster for the corporation. Six people died in the Chicago area as a result of taking Tylenol capsules that had been laced with cyanide. The tablets had been tampered with and unsuspecting customers took them for pain relief. When the tragedy was revealed Tylenol reacted immediately. They withdrew all of their stock of the offending tablets right across USA. This action would cost them approximately US\$150 million in lost sales in the first year. The corporation would not take any chances with its product or with its consumers (i.e. context). The corporation and the CEO of Johnson & Johnson, Jim Burke, were lauded by then President Ronald Reagan for their actions (i.e. time). Tylenol implemented a full product recall. They believed that their ethical principles meant that they could not compromise on product quality and hence product safety (i.e. positive gap). As a result of these concerns, the corporation developed tamper proof packaging, which in itself was socially responsible (i.e. proactive outcome). Within a year their re-launched product had re-captured its 40 percent of market share. They had however, captured a bigger prize than market share: the ongoing trust of the US people (i.e. strength and opportunity consequences).

### ***EPE of Exxon Valdez***

The Exxon Valdez case (Ferrell and Fraedrich, 1991) in 1989 is synonymous with the destruction through corporate malpractice of a pristine environmental habitat. The shipping disaster became an ecological disaster when 11 million US gallons of crude oil was spilt into Prince William Sound. The blame was placed upon the ship's captain who had a documented alcohol problem. When leaving port, he had handed over command of the vessel to a junior officer who it appeared made some incorrect manoeuvres and in the middle of the night ran the tanker aground. The CEO of Exxon, Lawrence Rawl, reacted inappropriately when he did not comment on the spill for nearly six days nor did he appear at the scene of the disaster. He had misread the mood of the US people and the power of the environmental lobby (i.e. negative gap). The ecology of the area was severely damaged as were the livelihoods of the communities that depended on the pristine sound (i.e. context). The corporation agreed to a clean up plan that was seen by many as inadequate. As the investigation into the disaster unfolded, it was discovered that the safety equipment supposedly in place to contain spills was inadequate and costs had been saved in this area over the years by not maintaining the safety plan and the condition necessary of the equipment that should have been there (i.e. time). An interesting part of the case is that for US\$22 million the tanker could have been double hulled which would have contained the spill. As a shipper of crude oil around the world, Exxon had not correctly understood their responsibilities, nor the backlash against them that would occur. The corporation was lagging in its appreciation of the impact of environmental safety issues on the US public (i.e. weakness and threat consequences). The subsequent costs to Exxon were conservatively numbered in the hundreds of millions of dollars (i.e. reactive outcome).

### ***EPE of Volvo***

The Volvo case (Svensson and Wood, 2003) began in 1927. The car manufacturer has a long tradition of focussing upon the safety of its products. Volvo was founded in 1927 and the founders of Volvo stated a few years later, when safety issues in the automotive industry were ignored, that (Volvo, 2002, p. 1): "... Cars are driven by people. The guiding principle

behind everything we make at Volvo therefore, is – and must remain – safety ... ” Three areas are applied to fulfill Volvo's safety philosophy:

1. active safety (i.e. driving safety) – the characteristics and equipment which help the driver avoid accidents whenever possible;
2. passive safety (i.e. crash safety) – the whole of the car body and the interior are designed to protect all the occupants when an accident takes place; and
3. protection (i.e. for people and property) – designed to improve protection from car thefts and threats to the car owner on his/her way to and from the car (Volvo, 2002, p. 1).

Since, 1970, almost 30,000 accidents where Volvo cars have been involved have been analyzed (i.e. time). The standards for safety required by Volvo are far more comprehensive than the legal standards that are mandated. They go beyond the law and lead public perception to what is possible in car safety (i.e. context). The aim is to save lives, alleviate the effect of injuries, or preferably, to prevent accidents ever occurring (Volvo, 2001). Volvo has included features in their cars that at the time the market did not as a whole necessarily believe that it needed (i.e. positive gap). Some of the features included in their cars were only included by other carmakers after there was legislative intervention. For example, Volvo introduced safety belts into Sweden in 1959. The legislative intervention in Sweden for front seat safety belts occurred in 1975 and for back seat safety belts in 1985 (Volvo, 2002). Volvo has been a world leader in a number of safety areas. These areas include a triangular two-circuit brake-system in 1966; day-running lights in 1975; lap-diagonal safety belt in the back middle seat in 1986; Side Impact Protection System (SIPS) in 1991; integrated child cushion in 1992; SIPS-bag in 1994; Inflatable Curtain (IC) in 1998; and Whiplash Protection System (WHIPS) in 1998 (Volvo, 2002).

Safety has been at the forefront of all that Volvo has done, since its inception. Volvo pursued safety issues well before they were palatable in other companies. They led the market and the society in terms of making safer cars. Volvo appears to have had a genuine concern for its consumers (i.e. strength). Volvo has established a reputation for safety that in its obvious extension means a concern for their customers (i.e. strength and opportunity consequences). This focus has benefited the corporation since its inception. This concern led Volvo to implement safety features that not only challenged the market, but also that established a positive business ethical gap performance with consumers (i.e. proactive outcome).

### ***EPE of Johns Manville***

The Johns Manville case (Jennings, 1993) from 1887-1992 is not centered on a once off experience, but it is a scenario comprising institutional neglect and intransigence over many decades. The dangers of asbestosis were known as early as 1AD and reported by Pliny the Elder and Strabo. In the seventeenth and eighteenth centuries, European medical professors doing autopsies upon stone cutters documented severe respiratory problems. By 1918, the US Government was interested in the phenomenon. Johns Manville conducted its own studies in the 1930s and the 1940s and they too were aware of the insidious nature of the product that they mined. Unfortunately, they did not communicate their knowledge to their

own employees. They sponsored research grants on the provision that the results would not be made public. They compromised the integrity of academic research so that their secret would not be discovered. In the 1930s, they paid out some compensation to victims but also continued to market their products. Worker rights were not as developed in the 1930s as they were to become from the 1970s onwards. It was this evolution in the rights of employees that would eventually lead to the exposure of Johns Manville (i.e. context). The result was that in 1982 Johns Manville filed for Chapter 11 as a tactic to protect itself from lawsuits:

The bankruptcy proceedings continued through 1989 when Manville and others agreed to the Manville Personal Injury Settlement Trust. Under the agreement, Manville was required to give \$2.5 billion in assets (mostly stock) to the trust. Manville was also required, beginning in 1991, to pay \$75 million to the trust annually as well as 20 percent of its annual net income each year (p. 138).

This case shows the evolutionary progress made in workers' rights in the latter half of the twentieth century (i.e. time). Generations of managers hid the truth (i.e. negative). The price of doing business in the end was vast and lasting for the corporation (weakness and threat consequences). The interest in this case is that it was about a corporation who went one step further than exposing its customers to harm: it knowingly and for a prolonged period of time also disregarded the health and safety of its own workforce. It also shows a corporation that knowingly suppressed the truth for many decades and that had no real qualms about its expendable workforce (i.e. reactive outcome).

### ***Case summary-EPE***

The case illustrations in the previous paragraphs are briefly summarized in Table I. The table highlights the five parameters of the managerial framework of EPE.

Cases 1 and 3 illustrate that the situations that occurred in the marketplace and society were judged correctly by these corporations. Business practices were ahead of the reigning ethical values and principles in the marketplace and society. They were perceived as acceptable in the surrounding context of the corporations. In consequence, the gap between the internal and external perceptions turned out to be positive. The inherent strength and opportunity of the consequences caused a proactive outcome in these corporations' business practices.

The other two cases (i.e. 2 and 4) illustrate that the situation that occurred in the marketplace and society was misjudged by these corporations. In other words, these corporations' business practices were behind the reigning ethical values and principles in the business and societal environments. They were perceived as unacceptable in the surrounding context of the corporations. In consequence, the gap between internal and external perceptions turned out to be negative. The inherent weaknesses and threats of the consequences caused a reactive outcome in these corporations' forthcoming business practices.

### **Concluding thoughts**

A number of conclusions may be drawn from the introduced framework of EPE in business practices, and the case illustrations, provided in the previous sections:

- First, the EPE of business practices is not only dependent upon the ethical values and the principles of today, but those of tomorrow may be equally, or even more, crucial. This means that yesterday's and today's business practices may be seen as acceptable, but tomorrow they may be judged as unacceptable as society's values evolve.
- Second, the EPE of business practices is dependent upon the surrounding context and its specific ethical values and principles. This means that, what is acceptable business practices in one particular context may be unacceptable in another one. The specific context of business practices is also dependent upon the evolution of time and its impact on ethical values and principles. Business history is full of stories where a practice in one jurisdiction is unacceptable in another.
- Third, the EPE of business practices is dependent upon the gap between different perceptions of ethical values and principles. For example, it may be the internal gap between the perceptions of management and employees, or the external gap between the perceptions of the corporation's and the external others' perception of the corporation's business practices. This means that, what appears to be acceptable business practices, according to one view, may be perceived to be unacceptable according to another view. These gaps are also dependent upon the evolution of the time and context parameters in the business and the societal environments.
- Fourth, the EPE of business practices is dependent upon if the outcome of the corporation's ethical values and principles are proactive or reactive in relation to the reigning ethical values and principles in the marketplace and society. This means that, what is perceived as acceptable or unacceptable business practices may be ahead or behind the views of others in different contexts and that it may change over time.
- Finally, the EPE of business practices is dependent upon the potential and eventual consequences of ethical values and principles. This means that, the internal weaknesses of what is perceived as acceptable in business practices may turn into external threats and that the internal strengths in business practices may turn into external opportunities in the marketplace and society. In summary, the ultimate consequences are dependent upon the outcomes, the gaps, the context and the time parameters of EPE in business practices.

Accordingly, the decision as to whether business practices are ethical or unethical is – relatively speaking – easy to determine from a narrow perspective or point of view, however, the decision whether business practices are ethical or unethical becomes complicated as the perspective is widened and deepened. The introduced managerial framework of EPE provides a generic foundation and structure to examine the acceptability versus unacceptability of business practices.

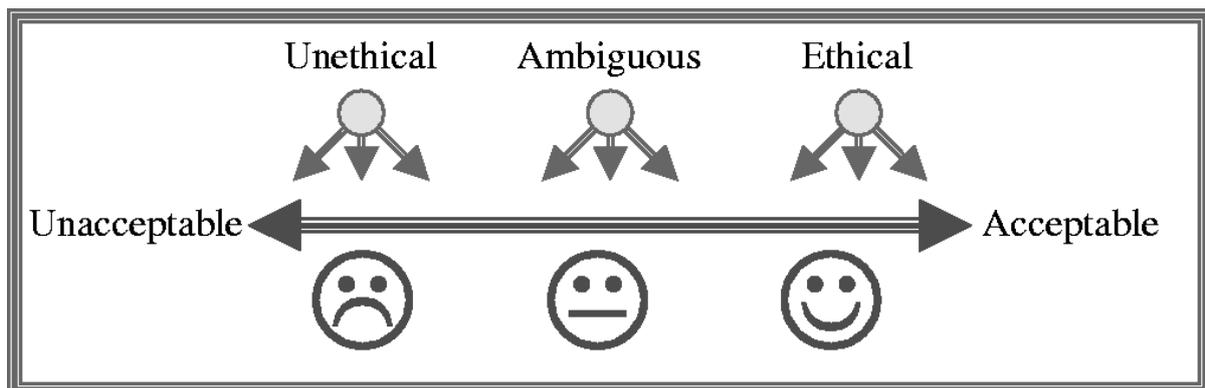
Most important, the EPE of business practices explicitly addresses the impact of time on ethical values and principles in any context on the potential and eventual gaps, outcomes and consequences in business practices. The EPE may also be used in non-business areas whenever found applicable and convenient to use. In consequence, tomorrow determines

the acceptability of today and yesterday. It must be remembered that tomorrow will soon become today and then yesterday, yet the actions taken by corporations will stand to be judged in perpetuity. Ethical values and principles have a “best-before-date” that is not indefinite or forever.

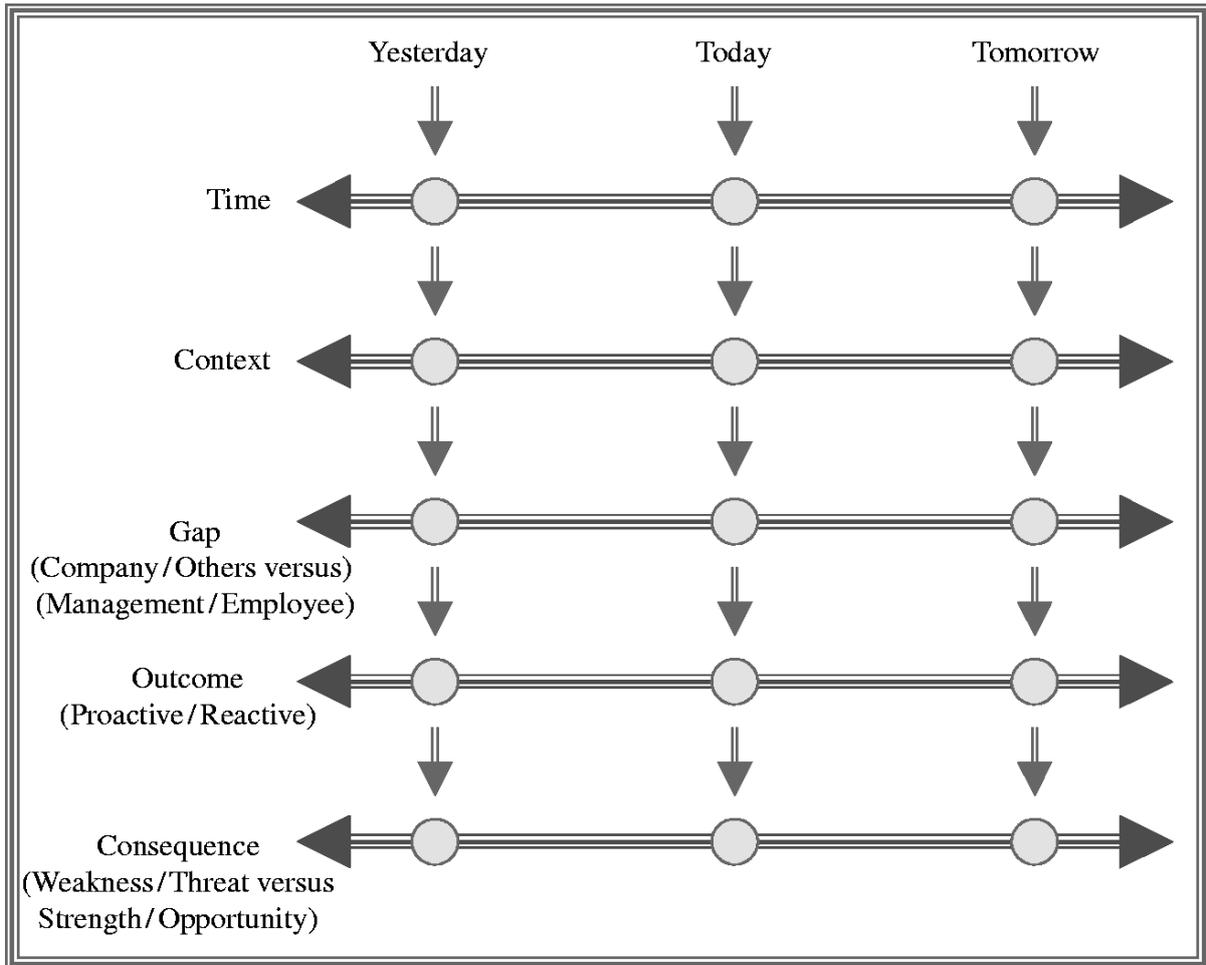
### Suggestion for further research

An important area for further research is how to deal with the durability and variability of ethical values and principles in business practices in the marketplace and society. The key may be a stronger emphasis on longitudinal research efforts that may explore them over time and as contexts evolve. It may be used by either using qualitative or quantitative methods depending upon the depth of data that needs to be collected and the analysis required. Ethical values and principles are connected and re-connected over time and across contexts in one way or another. They have a past, a current status and a future.

The only way that we can “objectively” evaluate past ethical values and principles is through the use of ethical values and principles at the time and in respect to the context at hand. Research tends to fail when considering the longitudinal and evolutionary dimensions in the exploration of ethical values and principles in business practices. There is too much focus upon on-the-spot-accounts in the past and in current research efforts.



**Figure 1** The zones of EPE in business practices



**Figure 2** EPE – a continuous approach

Case illustration	Summary of EPE Function					Table I. A summary of EPE – case illustrations
	Time	Context	Gap	Outcome	Consequence	
1) Tylenol	Ahead	Acceptable	Positive	Proactive	Strength/opportunity	
2) Exxon Valdez	Behind	Unacceptable	Negative	Reactive	Weakness/threat	
3) Volvo	Ahead	Acceptable	Positive	Proactive	Strength/opportunity	
4) Johns Manville	Behind	Unacceptable	Negative	Reactive	Weakness/threat	

**Table IA** summary of EPE – case illustrations

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