Role of Ethics in Modern Business: An Important Key Aspect of the Concern

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ABSTRACT

Business ethics simply we mean that the application of ethics in business. Earlier it was the opinion that a business cannot be ethical. This trend has been changed today. Today business has found out that they are, responsible for social welfare, since they live and operate within a social structure. In this present globalised economy; corporate social responsibility, corporate governance, ethical behavior becomes the important key factors of the concern. The study concentrates on how the modern businesses are accelerated by applying the code of conduct in the environment of the business. The article discusses the survival of modern in the present society. The results of this study would help the modern industries in achieving their targeted result in a smooth way. The existing companies can improve their practices and new business can comply with the results for better performance.

Keywords Business Ethics, Corporate Governance, Social Responsibility, Ethical Behavior, Code of Conduct
Introduction

‘Ethics commonly means rule or principles that define right and wrong conduct. It may be defined as:

“Ethics is a fundamental trait which one adopts and follows as a guiding principle of basic dharma in one’s life. It implies moral conduct and honorable behavior on the part of an individual. Ethics in most of the cases runs parallel to law and shows due consideration to others rights and interests in a civilized society. Compassion on the other hand may induce a person to give more than what ethics might demand”¹

Recently, there has been an increasing awareness and more importantly interest in the field of Business Ethics. This trend was appreciated in the present stage of globalization. Ethics in business can be considered as system of moral principles dealing with right and wrong. Ethics is basically an area dealing with moral judgement regarding voluntary human conduct. Moral judgment requires moral standards by which to judge human conduct. Moral standards are also related to moral obligations, or the duty to do what we consider to be ‘right’ and ‘proper’. The main objective of ethics is to define the highest good of man and set a standard for the same. In doing so, Ethics has to deal with several inter-related and complex problems which are psychological, legal, commercial, philosophical, sociological and political in nature.

Defining ‘Ethics’ and ‘Business Ethics’

Ethics is derived from the Greek word ‘ethos’ which means a person’s fundamental orientation toward life. Ethics may be defined as a theory of morality which attempts to systematize moral judgments. According to Garret, “Ethics is the science of judging specifically human ends and the relationship of means to those ends. In some way it is also the art of controlling means so that they will serve specifically human ends.” 2 Thus ethics is the science of judging right and wrong in human relationship. It can also be termed as the science of character of a person expressed as right of wrong conduct or action. Having the concept of ethics, we can say that ‘Business Ethics’ is nothing but the application of Ethics in business. The term business ethics represents a combination of two very familiar words, namely “business” and “ethics”. The word business is usually used to mean “any organization whose objective is to provide goods or services for profit” (Shaw and Barry, 1995) 3 In a nutshell, Business ethics can be regarded as the study of business situations, activities, and decisions where issues of right and wrong are addressed. Business ethics, it has been claimed, is an oxymoron (Collins 1994) 4. By oxymoron, we mean the bringing together of two apparently contradictory concepts, such as in ‘a cheerful pessimist, or ‘a deafening silence’. To say that business ethics is an oxymoron suggests that there are not, or cannot be, ethics in business; that business is in some way unethical (i.e. that business is inherently bad), or that it is, at best, amoral (i.e. outside of our normal moral considerations). For

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example, in the latter case, (Albert Carr 1968) notoriously argued in his article ‘Is Business Bluffing Ethical’ that the ‘game’ of business was not subject to the same moral standards as the rest of society, but should be regarded as analogous to a game of poker where deception and lying were perfectly permissible.

**Purpose of the Study**

The purpose of the study is to contribute to the understanding of business ethics and particularly it reflects the modern business practice with the application of code of conduct. The study concentrates on how the modern businesses are accelerated by applying ethics in the environment of the business. The study also focuses on why the modern business needs the application of ethics in their survival in the society.

**Looking Back**

Previously it was thought by the classical economists that the only objective of business was profit maximization and business has nothing to do with the ethics. In medieval and pre-medieval period, the Church itself regulate the moral functioning of business, making moral declarations like- all businesses must remain closed on Sunday, the holy-day, when Jesus Christ was supposed to have taken a rest and it was morally correct to stop working on Sundays. These two are extreme views, known as the Unitarian View and the Separatist View. According to this view, business and morality cannot be separated and business must play by the rules of morality.

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and ethics of the community which guides the activities of the community. This view was emphasized more by the Church in the European countries and Church prescribed that business must exist only to do good for the society. Dramatically opposite to the Unitarian View, classical economists like Adam Smith and Milton Friedman asserted that the only goal of business should be profit maximization; and that ethics and morality plays no part in business conducts. Theodore Levitt, the well-known psychologist, believed that if ethics and morality were allowed to enter the realms of business, then there is a danger of business values ultimately dominating over social values. He expressed thus, in his famous article,\(^7\)

> “The danger is that all these things (social aspects of business functioning) will turn the corporation into twentieth-century equivalent of the medieval Church. The Corporation would eventually invest itself will all-embracing duties, obligations, and finally powers-ministering the whole man and moulding him and society in the image of the corporation’s narrow ambitions and its essentially unsocial needs”

Apart from above two views, Talcott Parsons has founded the Integration View as quoted in the book “A study in Business Ethics” written by Rituparna Raj\(^8\). This view states that business is an economic entity and it has the right and need to make profits, but, it must also discharge its obligations to the society where it exists and operates. This view states that society consists of a number of subsystems and business and morality are just two of these subsystems.

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Literature Review

The Classical economists like Adam Smith and Milton Friedan were of the opinion that the only objective business was profit maximization and business had no right to ‘meddle’ with ethics. Today many businesses are involved in social action. A decision as to whether companies should extend their social involvement requires a careful examination of the arguments for and against such actions. Certainly society’s expectations are changing and the trend seems to be toward greater social responsiveness. In fact, most respondents in a study of Harvard Business Review readers consider social responsibility a legitimate and achievable aim for business.\(^9\)

Deetz(1992)\(^{10}\) reminds us that, by many standards, the business organization has become the central institution in modern society, often eclipsing the state, family, church, and community in power. Organizations pervade modern life by providing personal identity, structuring time and experience, influencing education and knowledge production and directing news and entertainment. From the moment of our birth to our death, organizations significantly influence our lives in ways that often go unnoticed. The classical paper by Gray, Dey, Owen, Evans and Zadek, (1997)\(^{11}\) is one from some of the leading contributors to the social accounting literature. It offers a comprehensive analysis of the major challenges facing those engaged in the theory and practice of social accounting.

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The study of (Parker 1988)\textsuperscript{12} provides a deeper background for most of the more contemporary theories in business ethics. The study made by (Kaler 1999)\textsuperscript{13}, questions the value and the function of ethical theories and in so doing is very readable and through provoking. In combination with a reply by Tom Sorrell in a later issue of the same journal, this debate helps us to understand the potential and the limits of the theories. Similarly

Recently, however, several authors have noticed a renewed focus on organizational ethics, among them Lynn Sharp Paine (2003)\textsuperscript{14}, a noted Harvard professor of business ethics. In her book, \textit{Value Shift}, Paine explains that ethics has found its way back onto the agenda of organizational leaders.

Trevino, Hartman and Brown (2000)\textsuperscript{15} address the question of what it means to be an ethical leader. Featuring the results of a survey of employees it shows the importance of different dimensions of ethical leadership. A ‘must-read’ for anyone hoping to develop a reputation for ethical leadership!

\textbf{Potential benefits of implementing an ethical Code}

A Code of Ethics is a statement of the norms and beliefs of an organization. Norms are the standards of behavior, expected from everyone in the organization when confronted with a


particular situation consisting of ethical dilemmas. The norms of behavior in the Code of Ethics are a series of ‘do’s and don’ts’ detailing the expected standard of behavior from everyone in the organization. These codes are helpful for mental set ups for doing or not doing something. This will help the mind to decide any matter which has ethical value. Code of ethics can generally make an employee of the organization aware of his or her obligation and the moral duties towards the organization. As we have already discussed that ethics have no universal acceptance. Managers sometimes faced with situations which are ethically ambiguous without any clear-cut ethical guidelines. In India there are some provisions regarding the welfare of the community. But on the part of the business activities there is no such mandatory code of conduct. These deficiencies can be avoided if there is a formal and specific code of ethics. According to the Business Ethics Survey Report India\textsuperscript{16} conducted by KPMG India- Smart Indian companies are increasingly becoming concerned about “The way they do business”. They realize that good ethics is good business too. The survey suggested the following five steps to develop Ethical Corporation.

- Appoint an ethics officer- preferably a respected senior executive who has recently retired from your organization.
- Involve employees in developing a mission statement if you already have one, recheck if you need to add ‘ethics’ to it.
- Evolve a code of conduct and ensure every employee knows exactly how your company likes to conduct business.

• Facilitate upstream communication from employees- by investing in a grievance cell or a hotline or an ombudsman
• Build an ethical culture by personal example- CEO should stand for Chief Ethics Officer in your company

It is worth important to note that all organizations seed to produce a profit for stakeholders. Others are more interested in the social welfare of citizens across the world.\textsuperscript{17}. Code of Ethics has been

**Need for Ethics in Business**

Ethical considerations are as important in management as in any other occupation. In the field of morality, personal life is not separate from business life. Business ethics is currently a very prominent business topic, and the debates and dilemmas surrounding business ethics have tended to attract an enormous amount of attention from various sections. Since the business exists and operates within the society and is a part of subsystem of society, its functioning must contribute to the welfare of the society. To survive in the society a business must earn the social sanction of the society. Without social sanction, a business cannot earn loyal customers. George A. Steiner, in ‘Business and Society’\textsuperscript{18},

\textit{“The managers of the biggest companies know that as a business gets larger, the public takes more interest in it because it has a greater impact on the community. The antennae of these managers are tuned to public opinion and they react to it. They seek to}

\textsuperscript{17} Bornstein, D. \textit{How to Change the World: Social entrepreneurs and the power of new ideas}. Oxford: Oxford University Press.

maintain a proper image of their company in the public mind. This leads to the assumption of greater social responsibilities.”

The survival of any business requires two things. On the one hand it must be go in line with profit maximization and on the other hand it must satisfy the stakeholders. Within the parameters of stakeholders society can be considered one important among them. Ethical considerations are as important in the modern business practices. In the field of morality, personal life is not separate from business life. The social dimensions of business ethics cannot be overlooked because many problems arise from the relationship of business to the broader society. Business needs to remain ethical for its own good. Unethical actions and decisions may yield results only in the very short run. For surviving long term businesses require to conduct it ethically and to do its business on ethical lines.

The need for improvement of ethical behavior has become clear by way of some widely publicized cases. We have had a number of scam in India like 2G Spectrum scam, Commonwealth Games Scam, Telgi Scam, Satyam Scam, Bofors Scam, The Hawala Scandal, IPL Scam, Harshad Mehta & Ketan Parekh Stock Market Scam etc. So, can we live a scam-free life in India for a while now? Who will give the answer? Therefore the ethics become very necessary to implement in the business activities. Not only the business organization but each and every individual should have the ethical behavior. At the present time there is not any alternative but to implement the ethical behavior.

**Ethical aspects and challenges of the current business practices**

Ethical issues in business have existed as long as business itself. However, there exists today a growing “business ethics movement” which started from the US and has spread from there to
other parts of the world.\textsuperscript{19} If we really want to change the world for the better, all of us, the business community, politician, workers, men and women, young and old, must truly become better ourselves.\textsuperscript{20} Human being, the land, air and water, natural resources and the environment, these all are god’s gift. In modern times business practices include all these resources for its own good irrespective of the social as well as environmental aspects. All these resources should be used for the good of all and not abused. The ten principles of the UN Global Compact as mentioned in Business Ethics Study\textsuperscript{21}

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption:

Human rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labor Standards


Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and


Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environment friendly technologies.

Anti-corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as the founding editor of the Journal of Business Ethics has suggested (Michalos 1988), ‘to improve the human condition’.22

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Collins (1994)’s study is very readable and provides a good overview of the challenges facing business ethics. It goes on to identify a route forward that emphasizes the importance of managers building trust and creating value. The article of Stark (1994) suggests that where business ethics as a subject may be going wrong and how it can become more relevant and meaningful for practicing managers.

In this globalized economy the businesses are doing their activities in a competitive manner. They almost forgot the obligations towards the society in which it is operating. Implementation of ethical decision is become rare in the current practice. This becomes the challenging factor nowadays.

Making decisions in business ethics

Ethics does not have any structured format or framework. It is abstract in concept. Therefore, it has not any universal acceptance. As the concept of ethics deals with the human being only, because only human being can do anything according to their choice and free will. Ethical decision is one of the result occurred due to the choice. Each and every person has the different viewpoint. Ethical practices of people are also different. Therefore, the ethical decisions differ with the individual perspective of different person. Ethical decision is not uniform it may vary from person to person and situation to situation. For example, in case of a construction project, the company loses Rs. 3 lakh per day, if the construction is stopped. Being a labor intensive project, a number of persons are engaged in the project. One day during work, it is found that a worker is missing at the site. Work will definitely be stopped to search for the missing man.

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However, if the man is not found within a day or two how long should work be stopped, in spite of the losses to the company, will depend upon the value system of the Manager and what, according to him, is the ethical thing to do. The ethical decision regarding the situation may be different to the different manager. Decision making in a business is one of the important task of the concern. It is the base on which the goal can be achieved properly. Decision made in the business should be ethical. Ethical decisions are concerned with a judgment about right and wrong. But as Morris (2004) suggests, by using the language of right and wrong, we have already identified that a situation is moral in nature. So, there is an important process of identification that goes before this whereby we examine situations and determine whether they are characterized by such considerations in the first place. For a business ethical decision should be such that it must be beneficial for the interested parties as well as the society. There are numbers of factors influencing the ethical decision making. An ethical decision is not limited only to them, but affects a wide range of other situations as well. Similarly, unethical decisions do not end in themselves, but have widespread ramification. Ethical decisions are voluntary human actions. Hence, all ethical or unethical actions are supposed to result from voluntary human actions and not from situations beyond their control.

**Role of Companies towards society**

Businesses are at work, be they small, medium or large, and national or international in their scope. They reflect the views, social realities and rules of the wider communities in which they operate. In recent years, the way profits are made and the way business is conducted have come

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under increased scrutiny. Those member of the society that come together to form a business do so for specific purpose; to create goods and services to sell to their community and may be beyond and, by doing so, to make a profit within obligations set for them by society. This profit is crucial to a business. In India only a few giant corporations are fulfilling their social responsibilities effectively like TATAs, Birlas, NTPC, etc. According to Birla Group-

“to actively contribute to the social and economic development of the communities

in which we operate. In so doing, build a better sustainable way of society and raise

the country’s human development index.”

Companies nowadays are expected to budget their financial plans taking into cognizance the social commitment and social responsibility initiatives to be taken in next few years. These initiatives differ from normal business practices. Corporate Social Responsibility (CSR) is one the ethical aspects of the business practices. The chart gives a bird’s eye view of social responsibility initiatives taken by some of the India’s leading business corporate.

Table: 1 about Here

We know that the business has enormous power. This power means that every action the business takes could affect the quality of human life for individuals, for communities and for the entire globe. This obligation is often referred to as ethical responsibility. All societies are now

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affected by business activities. Adding social responsibility to business means making it much more powerful.  

Though still largely voluntary, several companies in the public sector as well as in the private sector have come forward with their CSR initiatives on different focus areas to implement various actions and programs for the welfare and well-being of the people, community and society. Some large companies like Reliance, Infosys, HPCL etc. are used to spending up to certain percentage of their pre-tax profits towards social upliftment and community development.

**Table: 2 about Here**

One survey of the *Fortune* 500 firms showed that 456 companies (91.2%) have made social responsibility disclosures in their annual reports.  

**Social and Economic Responsibilities of Business**

Business organizations today, apart from being economic entities, are also considered to be social institutions, primarily for two reasons. Firstly, since business organizations exist and operate within a social structure, they must earn social acceptance, without which they will collapse. Secondly and more importantly, since business organizations exercise a definite and extensive influence on our social lifestyle, they must discharge social responsibilities. Corporate Social Responsibility (CSR) is one of the implementation used to carry out the reputation and

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goodwill as well as the existence of the business house becomes transparent, through the implementation of CSR. It is introduced to harmonize the business effectively in the society.

Business today no longer exists only to maximize profits. They exist and operate for a number of reasons one of which should be the welfare of the society in which they operate and grow. As the business has the irreversible impact on the society, hence the business should be socially responsible, socially conscious and they should carefully consider the social and ethical implications of their decisions. If the motive of the business is to earn profit only then profits can be earned in various ways even the profit can be earned in a dishonest manner e.g. black-marketing, hoarding, adulteration etc. But these type of acts degenerate business into misleading the public. Hence, profit motive of business must go in line with the service motive, to fulfill social obligations for social welfare. As early as in 1963, Peter F. Drucker, the renowned management guru, in his book titled- “The Practice of Management”, stated that the relationship between business and society “is like the relationship between a ship and the sea which engirds it and carries it, which threatens it with storm and shipwreck, which has to be crossed but which is yet alien and distant, the enterprise. Even the most private of private enterprises is an organ of society and serves a social function”.

In a seminar sponsored by the India International Centre, New Delhi, titled ‘Social Responsibility of Business’, in 1966, our late Prime Minister Lal Bahadur Shastri said in his inaugural speech-

“To often the community views the businessmen’s aims as selfish gain rather than

advancement of the general welfare. That impression can be removed only if business is fully alive to its social responsibilities and helps our society to function in harmony as one organic whole”.

In the era of globalization, public expectation from business rising day by day. Many business organizations are incorporating social responsibility into their mission statements. As an organ of the society, business activities have a great impact on the social scenario for economical growth and stability, orderly functioning. But along with its survival, businesses also have the responsibility to grow and develop. Businesses are wealth creating and wealth producing organs of the society. Keeping these organic functions intact, businesses must, at the same time, strive to improve the well-being of the society. The Committee for Economic Development, New York, in its report ‘Social Responsibilities of Business Corporations’, 1971 reported-

“It is in the enlightened self-interest of corporations to promote the public welfare in a positive way. Indeed, the corporate interest broadly defined by management can support involvement in helping to solve virtually any social problem, because people who have good environment, education and opportunity make better employees, customers and neighbors for business than those who are poor, ignorant and oppressed’.

Views of Various Committees and Officials regarding Social Responsibility

In the development of corporate ethics, we have reached a stage where the question of the social responsibility of business to community can no longer be taken lightly. In the environment of modern economic development, the corporate sector no longer functions in isolation. If the plea of the companies that they are performing a social purpose in the development of the country is
to be accepted, it can only be judged by the test of social responsiveness shown to the needs of the community by the companies. The company must behave and function as a responsible member of society, like any other individual. It cannot be escaped from moral values nor can it ignore actual compulsions. The real need is for some focus of accountability on the part of the management which is not limited to shareholders alone. In modern times, the objective of business has to be the proper utilization of resources for the benefit of other. A profit is still a necessary part of the total picture, but it is not the primary purpose. This implies that the claims of various interests will have to be balanced, not on the narrow ground of what is best for the shareholders alone but from the point of view of what is best for the community at large. The company must accept its obligation to be socially responsible and work for the larger benefit of the community.\textsuperscript{31}

**Birla Committee Report**

The report of the Committee on Corporate Governance, set up by the SEBI under the Chairmanship of Kumar Mangalam Birla, is the first formal and comprehensive attempt to evolve a code of Corporate Governance; in the content of prevailing conditions of governance in Indian companies as well as the state of capital markets. As per the report it is recommended that companies will also be required to disclose separately in their annual reports. Some of the recommendations were mandatory in nature. For the non-mandatory recommendations, the Committee hopes that companies would voluntarily implement these. The Committee, however, felt that under Indian conditions a statutory rather than a voluntary code would be far more

purposive and meaningful. The Committee has identified the three key constituents of corporate governance as the shareholders, the Board of Directors and the Management, their roles and responsibilities in the context of good corporate governance.

**Sachar Committee**

This Committee was formed by Government of India (1978) to consider and report on the changes that are necessary in the form and structure of the legislation. It was observed that the company must accept its obligations to be socially responsible and to work for the larger benefit of the community. The Committee further recommended the disclosure of social activities undertaken by the company on yearly basis and its future plans regarding same.

**Cadbury Committee**

The Committee was set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession to address the financial aspects of corporate governance. The Committee laid down guidelines regarding the structure of Boards and code of best practice relating to it.

**Conclusion and Suggestions**

India has always been borrowing management styles and systems from foreign lands, instead of developing her own management styles in consonance with her own cultural ethos; and drawing from her rich heritage and tradition as well as her ancient value-based culture. In Indian philosophy customers are considered as God himself. Serving the customer is equated with serving God. We the individuals are the creator of the nation and at the same time destroyer of the same. Therefore, to change the society first we should change ourselves. Business
Organization is established by the People, for the People, of the People. But this is not the situation in practical. As Mahatma Gandhi has rightfully said, “we are not doing the customer a favour by serving him, rather the customer is doing us a favour by giving us opportunity to serve him”. In all cases the individuals stay at the forefront. If the people as employee of the organization want to do some welfare of the society, he has to set his mind influenced by the Code of Ethics. For ethical codes to be effective, provisions must be made for their enforcement. Unethical managers should be held responsible for their actions. This means that privileges and benefits should be withdrawn and sections should be applied. Although the enforcement of ethical codes may not be easy, the mere existence of such codes can increase ethical behavior by clarifying expectations. Effective code enforcement requires consistent ethical behavior and support from top management.

The most categorical pronouncement of the principle of good governance, Kautilya says in the XIX Chapter of Book I:

“In the happiness of his people lies his happiness; in their welfare his welfare

whatever pleases himself he shall not consider as good, but whatever pleases

his people he shall consider as good.”

From the above discussion it can be suggested that:

✓ Professional bodies should make some initiatives in this regard to ensure disclosure of ethical information to the community at large.

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✓ Step taken towards the social responsibility should be standard.

✓ Decisions taken by the organization’s authority should be evaluated ethically and for this purpose an expert should be appointed.

✓ Organization should focus not on the results rather than on the process of achieving that result.

✓ Everyone in the organization should participate in the formulation of mission statements.

✓ Rethink Recheck and Reapply process should be adopted for any unethical decision.

✓ Each and every modern business organization should have their own Code of Ethics

The Indian tradition and heritage, its culture and philosophy, its ethos and values is like an ocean. If we can apply even a few drop of water from the ocean to the management of the modern organization, we will be able to do great service, not only for ourselves, or for organizations, but also for our future generations.
Bibliography


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Source: Compiled from published data on companies websites
### Table: 2

Money spent on CSR

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*Source: The Economic Times, Nov 3, 2007*
LETTER OF AUTHORISATION

To
Dr. Ajay Kr. Singh
The Editor-in-Chief
Delhi Business Review
Society for Human Transformation & Research

Dear Sir,

I am hereby authorizing you that if my article will be selected for publication then you can edit my article if necessary before publication.

Thanking You

Yours Sincerely
Ranjit Kumar Paswan