

BOOK REVIEW

CORPORATION 2020

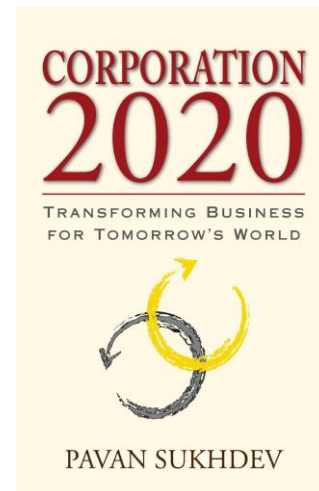
Transforming Business for Tomorrow's World

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Book	: Corporation 2020 Transforming Business for Tomorrow's World
Author	: Pavan Sukhdev
Publisher	: Penguin Group, New Delhi 2012
Year of publication	: 2012
ISBN	: 9780670086535
Price	: ₹ 699
Pages	: 275
Binding	: Hard Cover



Corporation 2020 is endorsed by leading business houses and discusses means and steps for a corporation model towards a greener and more sustainable economy. It is written by Pavan Sukhdev who is the Founder-CEO of GIST Advisory, a specialist consulting firm which helps governments and corporations discover, measure, value, and manage their impacts on natural and human capital. In the book the author lays out a comprehensive new vision for tomorrow's corporation, one that will increase human well being and social equity, decrease environmental risks and ecological losses, and still generate profit.

Corporation 2020 discusses various examples ranging from Infosys' creation of human capital to Citibank's having to change its project finance policy due to rainforest destruction to drive home the point. From its insightful look into the history of the corporation to the thoughtful discussion of the steps needed to craft a better corporate model, Corporation 2020

offers a hopeful vision for the role of business in shaping a more equitable, sustainable future.

Corporation 2020 is a movement that calls for new ways for corporations to operate in a new regulatory landscape. According to the author, what is required is healthy followership along with good leadership, wherein policy makers and regulators are required to facilitate a change. He also states that the only things that companies are asked to measure and report are financial profits for shareholders, which is a very tiny part of its performance. A major change which is required is measurement and disclosure of the impacts of the company. He emphasizes that “do not just report shareholder’s profits, also disclose impact of the stakeholder”.

The author says that the modern corporation has four distorting characteristics i.e. size, leverage, advertising and lobbying. The number of large corporations has grown from under 20 in 1970 to over 120 in 2010. Being large allows corporations to reduce transaction costs rather than trading with other corporations; a corporation can simply redistribute resources internally. Sukhdev calls the modern corporation a “price arbitrageur par excellence” because it obtains labor, capital and resources wherever they are cheapest to be sold wherever demand is highest.

Leverage talks about taking on debt allow a corporation to grow. Debt is available to larger corporations at a cheaper price creating an advantage for large corporations while squeezing out smaller ones. When corporations with lots of debt become very large, they can be “too big to fail” because they pose a systematic risk to the economy.

Author states that the third characteristics Advertising converts wants into needs, sometimes creating new needs that are nothing more than brand desires, with no functionality. Even though advertising makes up a relatively small part of global spending, it has an enormous impact on creating demand for consumer products.

The last characteristics corporate lobbyists persuade government to create preferential laws, regulations, taxes and public investments and the goal is to realign public institutions to benefit private interest. The author gives an example of, when the Waxman-Markey “cap-and-trade” climate change bill was being considered by Congress, energy-intensive industries spent over \$100 million on public relations and hired 2,340 registered lobbyists to protect the fossil-fuel industry. A watered down version of the bill was able to pass the House, but not the Senate.

In the book the author states that as a corporation grows and grows, in most of the cases but not all it has larger and larger negative externalities. The legal structure of the modern corporation and the tools it has to make profits are incompatible with addressing environmental crises. An important that the author gives through this book is how and why corporations voluntarily reduce the negative externalities associated with their business.

The book showcases an example of PUMA a shoe company, which in 2011 measured their supply chain’s impact on water, land-use change, air pollution and climate change. These negative externalities were valued at \$188 million and were concentrated early in the company’s supply chain. PUMA says it will use this information to reach its goal of reducing its impact across its supply chain by 25% by 2015. Author says that measuring externalities is the first step for companies to reduce them.

Author gives a number of solutions like (a) Ending subsidies for companies that do environmental harm is a first step towards leveling the playing field, (b) Taxing goods according to the damage they do to society would discourage harmful economic activities and (c) The structure and objective of a corporation needs to be completely reformed. Increased regulation and creative taxation can help to reduce corporations' impact on the environment, but he argues that current corporate model is fundamentally incompatible with sustainability.

The book talks of, if there is money to be made by acting more responsibly and from environmentally sustainable activities then why companies haven't picked up on those –why aren't they already doing it? How companies can correctly price the resources so that there is value-add and not a value-subtract from the economy? How can advertisers, who are no better than telemarketers in terms of ethics and honesty, be held accountable for mass manipulation? How can companies not become too big to fail by limiting their financial leverage? And how resource taxation can help end brown economy?

The answers to the above lie in the four strands of a New DNA of Corporation 2020 that the author talks about i.e. Goals aligned with those of society, viewing a corporation as a capital factory, corporation's role as a community and corporation as an institute of learning. Once these strands begin to tie into the fabric of a 1920 mindset, the resulting change will be the breakthrough model of capitalism giving birth to the new Corporation 2020.