Why It Has to Change

*by Maurizio Dallocchio**

Scholars in this field have a clear perception that in the real world finance is perceived as a privilege for few and a cause of harm for many; that it is centered on the exchange of virtual objects that are ultimately harmful for the real economy and society; and that it is dominated by sophisticated software programs and mathematical/statistical black boxes that have nothing to do with all of our lives.

In reality, in its original meaning and in the interpretation of its most genuine representatives, corporate finance, that deals with the ordinary management of resource flows or concentrates on extraordinary initiatives, is distinguished by two characteristics: it is oriented towards value and it is the handmaid of business economics. It in fact represents the main support for the other functions, starting with production and sales in industrial companies.

More than forty years ago, in his innovative *Treatise on Corporate Finance*, Giorgio Pivato clearly stated that finance would never be able to become a profit center in an industrial company, and that banks – in particular in continental European countries – were the center of collection and distribution of financial resources. It was the passage of an entity with a surplus to one with a deficit, that with its competence and experience had to provide targeted support to cash management and risk containment, assisting enterprises with money and consulting in extraordinary operations, from simple acquisitions to access to regulated markets.

If we look back and try to watch the film of the first two decades of the new century, we immediately realize that reality has completed distorted, if not entirely ignored, Pivato's lucid thinking.

How many experts in financial or statistical mathematics, micro or macroeconomics, and even econometrics, have defined themselves as scholars and teachers of "corporate finance." And how many models, formulas, and sophisticated algorithms have they delivered to a fascinated audience of students who were delight-

* ***Maurizio Dallocchio*** *is Professor of Corporate Finance at SDA Bocconi and Bocconi University.*

ed for two reasons: because the models almost always offer safe harbors, certainties that comfort and satisfy those lacking experience. And because the knowledge of the models allowed them to access highly sought-after positions in merchant banks, organizations that, before the outbreak of the great systemic crisis of 2007-2008, would guarantee salaries far beyond those of their colleagues in industrial, commercial or service companies or the public/institutional world.

This finance is fascinating and dangerous because through suitable hardware and software it provides certainties and allows – essentially thanks to training – the generation of very generous profits; but always being based on principles and activities that are further and further from the real economy, the needs of businesses, families and institutions, and produces the disease that the whole world has been frantically and painfully attempting to cure: the unsustainability generated by unforeseen and thus uncontrolled risk.

If the scalpel passes from the hands of the surgeon to those of the biotechnologists, there can be much very serious harm.

There is a clear and urgent need to rethink the underpinnings of the subject, to bring the attention of the academic world, but above all of students and businesses at various various levels, toward the center of gravity of corporate finance and the market. We have to bring everyone's attention back to true finance, "our finance." Our finance is value and sustainability. It is a discipline that serves businesses, banks, families, and government and non-profit organizations, for which it must ensure equilibrium and long-term prospects. Our finance deals with the collection and investment of resources, cash flow forecasts and risk management, crisis prevention and management, and also growth, whether through internal lines or extraordinary operations (M&A). Our finance is respect and sharing, transparency and responsibility. Our finance is a strict relative of the good, and is inspired by values of responsibility, patience, and reliability; with an English acronym: REPAiR, i.e. finance that is Responsible, Patient, and Reliable.

In fact, if we search on the sites of the most important international universities with strong and famous finance departments (such as LBS, NYU-Stern, Wharton, Chicago Booth, and Stanford), we do not find research centers, laboratories, specific projects, or even series of books or papers focused on the principles underlying REPAiR finance. At an initial examination, there are not even training initiatives centered on these themes. Naturally, we can find numerous projects dedicated to sustainability in general, to ESG themes and related investments, to green bonds and their performance, but nothing about responsible, patient, and reliable finance.

REPAIR FINANCE IS BASED ON THREE PILLARS

It is responsible: it is not focused on itself. It looks to the long term and rejects profitability that penalizes sustainability and squeezes organizations. It supports profit and cash generation as necessary conditions for enterprise and responsibly defends respect for the rules and the rights of the legitimate stakeholders of economic and social systems. It advocates and defends a fair return for individuals and organizations. REPAiR finance is not afraid to tackle deep-rooted paradigms to support and responsibly propose the values in which it believes and that it transparently affirms.

It is patient: it is not in a hurry. The generation of monetary benefits, in search of strong rates of return, cannot constitute a threat for the growth and solidity of prospects for individuals and organizations. REPAiR finance seeks equilibrium and respect for the conditions that favor its attainment. It includes and defends the interests of investors and financial intermediaries, that are central and irreplaceable actors in economic and social systems. At the same time, it encourages responsibility and sensitivity, together with the proper respect for the recipients of their resources. And it urges them to reconcile the proper search for returns with the need to advocate and defend values linked to ESG factors.

It is reliable: it is solid, credible, rigorous, and friendly. REPAiR finance is at the service of the real economy and all of its protagonists: from businesses to families, from banks to the public administration, from governments to care and non-profit organizations. It helps each of these protagonists analyze and plan the present and the future; to collect and use resources; to consciously manage risks; to grow in a balanced and organic way or through aggregations; to responsibly face crises and reorganizations. Of all the protagonists of the real economy, it is a friendly travel companion, but also a firm guide towards respect for the legitimate rights of everyone and of long-term sustainability.

SDA Bocconi has thus once again given concrete form to an intuition, conceiving and launching REPAiR Lab, a center of research and innovation destined to study, decline, and spread the principles of responsible, patient, and reliable finance.

In the next articles of this focus of *Economia&Management*, some colleagues from the REPAiR Lab present studies and analyses developed in the context of this new laboratory, on the future of finance.