

Rethinking enterprise, reviving Europe



Today, European companies face complex challenges amid tariffs, geopolitical crises, and the redefinition of global value chains. Addressing these challenges requires patient capital, reshoring strategies, targeted industrial policies, and a business culture oriented toward growth. Three directions are key: genuine sustainability beyond compliance, greater scale to attract investment and talent, and openness to capital as a lever for development. A School of Management must support change by promoting purpose, collaboration, and a new entrepreneurial ambition. What's at stake is not just competitiveness, but the economic and social future of Europe itself.

SUSTAINABILITY//ESG//RESHORING//GROWTH//INNOVATION



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What choices are businesses facing today? How can we, as a School of Management, help businesses, entrepreneurs, and managers, during this unprecedented time? Five years after the pandemic and three years after the Russian invasion of Ukraine, companies are now contending with a storm of tariffs. These tariffs not only jeopardize revenues, but also the very way companies operate in the marketplace. While the Covid pandemic exposed the interdependence of production chains, leading to logistical gridlock, the tariff virus makes this reality even more evident. Illustrating this point, The Wall Street Journal recently published an image of an iPhone disassembled into all its hundreds of components, showing what tariff and counter-tariff each one may be affected by. From this example come two certainties: lower profits for the company and higher costs for consumers worldwide. In this situation, we once again find ourselves asking the same questions as five years ago: How long will it last? What can we do to protect businesses?

STARTING OVER FROM EUROPE

In the early days of the pandemic, the forecasts on how long it would last were often contradictory, ranging from a few months to a couple of years. And now,

as the spiral of tariffs and counter-tariffs begins, we're experiencing a similar scenario. The damage has been done, but there is still hope that backtracking and negotiation are still options given the strong reaction from the financial market. But one thing is still certain: we must protect businesses as engines of the labor market, and as such, of social welfare in the broadest sense. However, this is the second time in five years (or the third, if we count the conflict in Ukraine) that we find ourselves in a situation where the market environment requires strategies and organizational models capable of withstanding the shockwave of unpredictable events, such as the pandemic and the unreasonable shutdown of world trade.

This brings me to my first consideration: Without equity capital, firms cannot withstand volatility of this magnitude or unweighted risks. Years of near-zero interest rates have fueled the illusion that growing through debt is a reasonable way to prosper. However, the scenario ahead is quite different. Rates will not easily return to the extraordinary levels of the past, and uncertainty requires robustness that only large amounts of risk capital can provide. Regardless of company size (starting from the smallest businesses), increased capitalization is the basis for investment and offers impetus for cash management, providing greater flexibility and bargaining power when accessing bank credit. There are no more excuses on this point. Global pandemics, war-induced energy crises, and now the new trade barriers require robust capital injections. Each entrepreneur must assess this opportunity and seize it, deciding whether to use their own resources or open up capital. The only certainty is that a structural shift in wealth toward businesses is necessary and will require appropriate tax incentives designed to support smaller companies in particular.

The second consideration is the long-term rethinking of firms' geographic location. If recent events are leading anyone to consider relocating to the United States (and reshoring to that country is clearly one of the goals of this tariff offensive), the choice is a hard one. The reasons are the high current and prospective costs, as well as the limited availability of labor in a scenario where immigrants are being rejected or deported. This would only be offset if the dollar became so cheap that it put America up for sale, which is an implausible scenario, even considering the unpredictability of the times we're living in. A broader perspective is needed, and each country in the Union must pursue a European reshoring strategy with great determination, both with regard to the collective narrative (which can no longer be marginal or subdued) and in terms of industrial policies and individual company choices. At the same time, we must be willing to open up to systems that offer real potential for trade. This implies finding a balanced relationship with China, enhancing the Gulf platform, strengthening ties with India, and rediscovering the opportunities that Latin America and Africa offer. Moreover, European reshoring would capitalize on the many advantages created and efforts made in recent years, including the single currency, the absence of barriers and borders, common directives in many areas, an evolved sustainable development framework, a banking union, and, in the future, a capital union. Relocating to Europe would redistribute the benefits of

integration to everyone and create conditions that would attract talent to the continent.

The third reflection concerns growth and aggregations. A robust entrepreneurial ecosystem requires a variety of very large companies that can compete on a global scale and diversify their risks, as well as a foundation of small and medium-sized companies, which is extraordinarily strong in Italy and Europe. As I have written several times in *Economia & Management*, Italy (and Europe generally) doesn't have the large enterprises that the United States and China do. A pandemic, a war, and now a world fragmented by tariffs are more than enough reasons to push for alliances and integrations within the European Union – now or never. This applies first and foremost to banks, which are a platform for supporting economic development and trade, as well as to businesses. We must remember that challenges are won in the medium term by the quality of the ecosystem we build. This is, for all intents and purposes, the last chance. We can't afford to waste the resources we already have: a vast European market, solid institutions, and a geographic location that places us at the center of trade.

LESS COMPLIANCE, MORE PURPOSE

The topic of growth inevitably confronts us with a fundamental question: What kind of capitalism does Italy, and more broadly the European Union, need today? What kind of businesses? It's a battleground where entrenched positions clash, sometimes in defense of small and medium-sized enterprises and family businesses, and at other times in support of public or private enterprises. The absence of synthesis and a clear path forward is a defining feature of our country and our economic policy. Today, an overarching project is needed to answer this question, because what's at stake is not only the fate of Italy and the resilience of its productive apparatus in the face of new threats, but also this country's role in Europe.

During the pandemic, the public sector temporarily mitigated the fragility of the Italian business system, fragility caused by excessive fragmentation and, above all, low capitalization. However, considering the situation from 2022 to the present (first stagflation, then a sudden wave of inflation, and a radical redesign of production and distribution chains at the international level), deep reflection is required that goes far beyond unlimited state aid. Moreover, we will soon have to pay the bill for past intervention, with a debt-to-GDP ratio of over 150% and a search for new development paths. These challenges, which are both about survival and growth, highlight three characteristics that businesses (and, by extension, their owners) must have: sustainability, size, and openness. These three themes also serve as guidelines for the educational and research roles of a School of Management.

The first theme is sustainability, an unstoppable process driven by factors that protect and improve our ecosystem. However, in light of the US administration's change of course and the overseas race to dismantle offices dedicated to ESG issues

in a broad sense, we need to acknowledge that sustainability and ESG are facing a fundamental challenge and evolutionary shift. In this shift, the substance of actions, strategies, and production choices must prevail over the formal logic of compliance. In other words, organizations and companies must demonstrate a more substantive attitude toward sustainable value creation. This will be decisive for markets and financial investors, who must understand and evaluate how a company creates long-term value and impact to make their investment decisions. In a recent book, Lapucci and Lucchini (2024) provocatively suggest adding the letter H – for human – to the traditional ESG principles. This idea captures the need to move beyond the logic of compliance and focus on the substance of business choices. Given the trend lines we have described, the depth of motivation is what will guide investors' decisions; compliance with a set of rules will certainly count for less. In fact, we could say that the ESG system will no longer be a suit worn for convenience and tailored to fit, but rather a substantive choice that reflects the fundamental purpose of each company. More purpose, then, and less compliance.

The second theme is scale, a decisive yet sensitive issue for Italy, which has often made praise for small enterprises a question of ideology rather than fact. But why do we need scale and hunger for growth? There are at least four reasons:

1. *Impact*: A large enterprise can have a significant overall impact, especially in pursuing a serious sustainability policy (with all the costs and difficulties that entails), and in terms of employment and employee welfare. Sustainability and rigorous environmental policies require ambition, passion, goodwill, ethical rigor, and, above all, substantial financial resources, which can only be deployed by organizations above a certain size threshold.
2. *Investments*: A large size allows for substantial investments in innovation, research, and development. These investments are essential for strengthening the competitive advantage of companies and the country overall. At the same time, large companies become the center of gravity for supply and induced chains and open innovation processes that only materialize when size becomes the catalyst.
3. *Talents*: Thanks to their reputation, growth opportunities, and sometimes financial incentives, large companies can attract the best talent from universities, as well as the most qualified managers. Most importantly, big organizations allow talent to collaborate, unleashing potential that can have an impact far beyond that of a single individual.
4. *Risk management*: In light of recent crises (from the pandemic to the Russian invasion of Ukraine, from inflation to tariffs), we've learned that diversification in product portfolio and geographic location allows an enterprise to cope, beyond the specifics of its business, with extreme risk affecting turnover, profit and, above all, employment.

Sustainability and size are only possible if the enterprise opens up its capital and seizes the extraordinary power that venture capital offers for growing and

attracting talent. This leads us to the third theme: openness. Affirming the need for large enterprises does not mean being anti-SME, just as advocating for the importance of openness does not mean being against family businesses. Rather, openness means making room for venture capital, private equity, and the stock market, in addition to increasingly uncommon bank credit. In other words, we need a frank discussion about which shareholders can support the enterprise's overall development and enable it to take full advantage of opportunities. We welcome shareholders represented by a family or by the state or even by a private equity fund, as long as they don't hinder progress or cause missed opportunities. There shouldn't be good shareholders or not-so-good shareholders, depending on where they come from, but instead shareholders capable of measuring themselves in the field and being measured by results.

HUNGER FOR GROWTH

Where does Italy stand today with respect to sustainability, size and openness? If we look at the *Fortune Global 500* ranking, in 2024 this country was represented by only six companies, half of which were financial intermediaries (Assicurazioni Generali, Banca Intesa, and Unicredit) and the other half entities that developed within the public system (ENI, ENEL and Poste Italiane). In 2011 there were ten, in 2001 eight. These numbers are not only way off compared to the United States and China, but also the European countries we measure ourselves against: Germany had as many as 27 companies, France 26, and don't forget that Spain was also ahead of us with 9 companies.

If we look at the dynamics of the last two decades, in addition to the overwhelming growth of China and an inevitable adjustment of relative positions, only 50% of the companies in the global ranking in 2001 are still around today, and of these 90% have systematically resorted to M&As. Italy, on the other hand, has not only seen its companies slip in the ranking positions, but more importantly has failed to come up with newcomers or foster the creation of localized industrial clusters through targeted M&A activism. With one exception: financial intermediaries. Often the target of criticism, they should for once be a good example of how to grow and establish a position on an international scale.

As far as the pyramid of Italy's entrepreneurial ecosystem (with microenterprises and businesses at the base, SMEs in the middle and a small number of large and very large enterprises at the top), it's in danger of becoming ever wider at the base and ever narrower at the tip. A wasted opportunity, precisely because it is in this extraordinary base of micro businesses and small and medium-sized enterprises that the real strength of our country should lie. A reservoir (or a nursery?) for success stories and companies capable of becoming unicorns – and even slowly but surely entering the ranks of the *Fortune Global 500*. If we don't embrace these challenges, if we don't aim for a culture of growth, we risk finding ourselves in an economy devoid of dynamism, living on government

spending and new debt. Debt that, sooner or later, we'll pay off using the very large and liquid reserve of our savings.

At the industrial policy level, these choices must find a very solid foundation. There is a historic opportunity for tax policy to create the right structural incentives to stimulate these strategies. The few spaces for tax cuts should be used exclusively to encourage clear corporate choices: growth via M&As, investment in innovation, capitalization, creating conglomerates, attracting parent holding companies. The opportunity for Italy to take a giant leap is unique, and we must stand up and seize it. But we also need a healthy debate free of partisan positions and preconceived notions. Above all, we should never be tempted to say that small business is no good; let's avoid this recurring mistake. That said, what's not acceptable is the lack of passion for growth. Alongside our unparalleled system of SMEs, districts and supply chains, we must also find room for much larger companies and develop a real hunger for growth. Start-ups included. Otherwise we'll forever be losing ground on the decisive scores of innovation, sustainability, talent attraction, networking and, last but not least, our international political clout.

Today, as a School of Management, more than ever before we need to nurture this passion for growth, to break new ground. Always looking ahead, wondering whether it's right to defend the status quo or whether it's a choice dictated by fear or the desire to preserve an annuity. At the same time, we need a foundation of solidity and consistency – anchored by a sophisticated yet resilient guiding thread – one that allows us to follow with passion and care the truly central issues, beyond the ephemeral passion of fads, which easily spark enthusiasm and just as easily dissolve it. The questions we ask ourselves every day in our classrooms, together with entrepreneurs and managers, are these: How do we reconcile the paradigm of family businesses in a world of giants and companies that compete on size? What actions and models for managing and attracting talent are most effective in enabling companies to grow? What conditions and educational paths need to be put in place to engender new generations of entrepreneurs? What does it mean to pass on the wealth and heritage of relationships to future generations? The list could go on and on. But, above all, we must always think about the path that we may not yet be able to see. Because the beauty of challenges in business lies precisely in leaving the ending always open, without imagining a preordained conclusion, and in the possibility of being surprised by sometimes unhopd-for outcomes.



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