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Hirschman's theory in business management practice

Participating in the work of this Conference on *Hirschman's Legacy* gives me great joy for several reasons:

- it gives me the opportunity to share a cultural experience with friends who to some extent have a cultural background similar to mine;
- it gives me the opportunity to publicly thank Luca Meldolesi, Hirschman and the other intellectuals who have influenced and guided my education. I have thought many times how lucky I am to have had these encounters;
- it gives me the opportunity to tell you, in the brief time this conference allows, of an experience that is fully a part of *Hirschman's Legacy*.

Beginning with the title of the conference: *First Conference on Hirschman's Legacy: Theory and Practice*, and considering that the *Theory* is very well and authoritatively attended to, I will go immediately to the area of *Practice*, where I easily find my comfort zone.

Just the mere reading of *Come complicare l'economia*¹ produces an immediate feeling of understanding between Hirschman and a reader whose daily life is spent running a business. After all, in the Italian language the word "Impresa" itself evokes something complicated, difficult, exhausting...

All the economic and managerial theories that start by simplifying their premises for the ease of argumentation, lead to theorems and schools of thought that potentially cause enormous damage. We move from a virtual world, posited as simple, rational and one-dimensional, into a real world that enjoys making life complicated (making it beautiful!) and in doing so takes on the task of demonstrating the fragility of preconceived models when they are tested in the real world.

Almost all economic and managerial theories start with the paradigm of an individual motivated solely by decisions based on economic judgments, whose behavior is implemented after a calculation of costs and expected benefits. Theories based on this assumption claim to explain to us how our clients, competitors, suppliers, company employees, etc. will behave. Fortunately, Hirschman devoted a lot of his energy to taking this paradigm apart and I was lucky enough to come across his teachings in time. If in my business experience I had based some of my strategic business decisions on these theories I would have caused considerable damage, as I have seen other economic operators do. Strengthened by a motto we have in the company, *never assume*, and comforted by reading Hirschman and Meldolesi, who helped me not feel completely crazy (this was very important to me) I was able to make decisions that went against the grain, to the dismay of the stakeholders and the financial world.

This is what happened when, in 2005 when all our competitors outsourced production to countries with lower labor costs, I made the decision to open a second plant in Italy, located in the north in one of the most expensive areas in terms of production factors. The same intellectual

¹ Albert O. Hirschman, *Come complicare l'economia*, ed. by L. Meldolesi, Il Mulino, 1989

arsenal allowed me to make another courageous decision: to open a branch in England rather than in Asia in 2006. The same applies to the policy of internalizing production processes, which we implemented starting in 2000 and which was considered pure heresy in Europe and in Italy in particular, especially after the 2008 crisis.

The natural empathy with Hirschman's thinking that one feels reading *Come complicare l'economia* is sublimated, for myself on a personal level, when I read the splendid pages in which he judges the preparation of development projects as unnecessary and sometimes downright damaging. How can we avoid making the comparison with the Business Plans that take up so much of a company's energy? I think business plans, along with quality plans and the most imaginative certification procedures, all products of recent managerial practices, are what constitute the real danger for the survival of the Amazon forest.

Personally, I have always cultivated a strong aversion for strategic business plans and related evaluation plans in support of decisions based essentially on discounting from cash flow. There are many reasons for this aversion, but the most important is precisely the observation taken from Hirschman on the damage caused by simplification in the construction of economic models.

These models give immeasurable importance to all the evaluative features that can be turned into numbers, such as for example labor costs, while all those features not easily transformed into a number and thus not "discountable" are overlooked and therefore only marginally influence the decision-making process. One only need consider the impact on the image of a product or company when the production site is a low-cost country, or the demotivation of the staff when they see lost job opportunities and begin to think of the future as uncertain thanks to a policy of outsourcing.

But there are many other elements that can be transferred from Hirschman's teachings to business practices that the context of today's Conference prevents from being fully examined and which will surely be the focus of specific in-depth examination. I will just cite a few.

For over twenty years I have been the full-time manager of the family business founded by my father. I would divide my experience into two phases. A first phase was dedicated to the development of the original company, which produces electric generators. It began in the early nineties, first with a strong drive toward internal growth and later with a strategy of targeted acquisitions that allowed us to grow internationally.

A second phase began in 2013, when we started sector diversification with a series of investments in companies operating in the automotive components and heating sectors. These were investments in companies that were in trouble, in some cases on the verge of bankruptcy, and the goal was to relaunch their businesses.

In both these experiences I had the opportunity to put into practice a Hirschmanian and Meldolesian approach in the management of these businesses. After all, managing the growth of a business that in 10 years has increased its turnover five fold means in a broad sense managing development. It affords the opportunity of verifying in the field, for example, the principle of unbalanced development. I am essentially a "serial unbalancer" of company functions as a means of reaching a new balance at a higher level, only to immediately put this into question in such a way that the process will continue.

In a continually growing environment like the one I manage there is constant tension between the commercial and production sectors. The former argue that you cannot increase sales without first increasing productive capacity. The latter claim that it makes no sense to invest in productive capacity without certainty about sales... For more than twenty years now I have continued to create imbalances using phases in which I make sure that the level of sales grows so as to justify increased investment in productive capacity. When these investments are made, I see to it that they are large enough to create an imbalance in the other direction putting pressure on the sales department to fill plant capacity until the imbalance goes the other way. If you observe my company on the time axis it looks like a seesaw. Highly entertaining.

In the same way it is possible to apply other Hirschmanian mechanisms to managerial practices, from cognitive dissonance to self-subversion and so on.

But it is in managing a troubled company in order to relaunch it on the market that there is a real possibility and need to deploy the entire range of Hirschman's teachings: from the principle of the hiding hand, to *fracasomania* (the failure complex) and upstream connections. In a company in crisis there is always a high level of hidden energy that needs to be unearthed and set free. Action must be taken at the organizational level, but especially at the level of motivation and of fully leveraging internal resources to subdue the *fracasomania* complex, which has taken root precisely because we are talking about a company in crisis.

Time does not permit me to dwell further on these issues, but I would like to conclude with a consideration of Hirschman's work and of the possibilism that pervades his theory and practice. In our working group we have always considered the Colornian and Hirschmanian approach applicable to all the company's components because it instills the principle of taking responsibility for behavior that tends to increase the common good. Among these components, entrepreneurs surely have no more right than anyone else to award themselves a prize for managing the public interest, but perhaps they have a greater inclination to embrace the possibilism that permeates the work of Colorni and Hirschman. This is due to the fact that if you are not possibilist to the core you cannot be an entrepreneur. Biologists can have a view of the world that is not possibilist and still pursue their profession. An entrepreneur who is not possibilist just isn't an entrepreneur!

How can an entrepreneur not love those who have made possibilism a mental habit? Possibilism is a precondition of business activity and this means that it is among entrepreneurs that there will be fertile ground for spreading the ideas that are dear to us and can bring so much benefit to society. It will then be the mechanisms through which different realities influence each other that do the rest of the job.