

WORLD NEWS

In Europe, Aging Corporate Moguls Weigh Futures

By ERIC SYLVERS

MANZANO, Italy—The generation of entrepreneurs that built Europe's modern economy has clung to control. How those baby boomers proceed could affect how it performs for years to come.

Business owners become more risk-averse as they age, as compared with younger entrepreneurs, according to researchers at the Bank of Italy. They are likely to shun mergers, outside investors, nonfamily managers and nonbank financing to fund expansion, all things correlated with stronger growth. A wave of restructuring and consolidation brought on by baby boomers, some older than 70, could provide a jolt to legions of companies that are skilled at surviving without innovating, investing or growing.

Every year, more of Europe's older entrepreneurs face the decision of whether to stay at the helm or hand over the reins through a sale or merger or by bringing in outside investors. If aging owners opt for change, it could help boost productivity in Europe's small-business sector, which has weighed on Europe's overall economic growth in the past 30 years.

In the European Union, 94% of people employed work for

firms with fewer than 10 people, according to the bloc's statistics agency.

In Italy, a quarter of the heads of Italian family-owned firms are older than 70, up from 17% a decade ago, and the number younger than 50 is declining, according to research from Guido Corbetta, a professor of strategy and entrepreneurship at Milan's Bocconi University. The same pattern appears across Germany, France and other European advanced economies, though with the average age lower than in Italy.

By avoiding mergers and outside investors, baby boomers have tended to keep their companies smaller and less equipped to compete in global trade, where being small often means having fewer resources to invest and innovate. Smaller firms sometimes excel at developing new products and processes, but many struggle with the increasing complexity of technologies and conquering new markets, according to a study the Organization for Economic Cooperation and Development published this year.

Spurning new management has kept elderly entrepreneurs from gaining fresh perspectives, including on how to get financing beyond the traditional method of bank loans, including through private equity, initial share sales and bonds. "Companies that only had bank financing were more vulnerable and more prone to go bust during and immediately after the financial crisis [in 2008-09]," said Kris Boschmans, a policy analyst at the OECD. "Many small and medium companies in Europe rely on one bank, and if the bank gets into trouble, they can have difficulty getting funding."

Alessandro Calligaris, 74 years old, last year faced up to



Alessandro Calligaris, below, last year sold 80% of Calligaris, a furniture maker his grandfather founded in 1923, to a private-equity firm that installed Stefano Uliana, above, as chief executive.



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his advancing age, his family's lack of interest in running the Italian furniture maker founded by his grandfather in 1923, and the need to make big investments to confront increased competition.

He sold 80% of Calligaris SpA to Alpha Group, a private-equity firm that immediately installed a new chief executive who came up with a five-year plan, invested in expanding the company's retail footprint and started looking for potential acquisition tar-

gets. Chief Executive Stefano Uliana closed on his first acquisition in October.

"I'm not getting any younger, and something had to be done," Mr. Calligaris said at company headquarters in the small northeastern Italian town of Manzano. "Calligaris needs to expand faster than I could manage on my own."

The number of mergers and acquisitions in Italy among businesses valued at between €50 million and €250 million (\$55.6 million to \$278 million)

rose 55% in the four years to 2018 to almost 1,000, according to a KPMG report. "The question of succession and increased international competition is fueling mergers and acquisitions among medium and small firms in Europe," said Massimiliano Nitti, the head of the M&A practice at law firm Chiomenti.

Jesús Prieto founded CT Engineering Group, an Airbus supplier, in 1988 in his native Spain. Early on, his four employees worked out of his cramped apartment, and had

Financial Factors Resonate in Region

Succession decisions are confronting entrepreneurs throughout Europe, where boom times in the 1950s and 1960s turbocharged existing family-owned firms and gave the impetus for the founding of tens of thousands of others.

The need to decide is dovetailing with record-low interest rates and an abundance of cash banks, private-equity firms and other investors are looking to deploy.

"Across Europe, as we speak, all the baby boomers are having exactly the same discussion with their advisers: 'What should I do with my asset,'" Olivier Khayat, co-CEO of Western Europe at Italian bank UniCredit SpA, said in an interview.

Facing the steep costs of responding to changes in her industry, Nelly Kostadinova, 64, is looking for a partner for Lingua-World, the translation and interpretation business she founded in Cologne, Germany, in 1997.

She has 50 employees—and employs thousands of freelance translators—in offices in Germany and abroad.

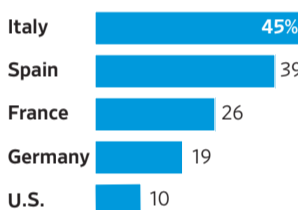
She is facing heavy investments as her industry adapts to computer-led translations. "We grew organically until now, but it's time to find a partner," Ms. Kostadinova said.

to leave when he met clients. But contracts with Airbus and acquisitions in Spain, France and the U.K. have boosted his staff to 1,650.

Now 68, Mr. Prieto is considering bringing in outside investors to help expand. His family still owns 85% of the company. Lawyers in the U.K. and Spain are advising on succession. If another acquisition opportunity presents itself, "that could be the time to sell a stake. That's something we are exploring," he said.

Where Small Is Big

Percentage of workers employed by companies with fewer than 10 employees



Note: 2017 data except Germany, U.S. (2016)
Sources: Eurostat; Census Bureau



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