

After the Parmalat Storm

The "Italian Enron Case" and How the Authorities Are Trying to Rebuild Trust in Italy

by Laura Naka Antonelli

What's going to happen to Italian capitalism? This question has been asked a thousand times, since the Parmalat bubble burst at the beginning of the year. Until then, for the American people, Italy was synonymous with good food and wine, great lifestyle, and an amazing fashion industry. Suddenly, this country also turned out to be a country of bribery, greed, and fraud. "The largest corporate fraud in Europe," *The Wall Street Journal* reported, after the news hit the entire world. "Italy's Enron," experts of corporate governance said. Indeed, Parmalat did exactly what the American energy giant Enron did two years ago: the Italian dairy company, one of the most important in the world, covered up heavy losses with the help of the banks. Without knowing anything, investors kept buying its corporate bonds, which now the ex-giant is unable to refund. In the last years, the company accumulated debts totaling 10 billion euros. The Securities and Exchange Commission in New York called the scandal "one of the largest and most brazen corporate financial frauds in history."

But for most Italian people, Parmalat was just the result of a wrong way of practicing capitalism, of "Business all in the Family" typical of Italian culture, as an article of *USA Today* wrote. The most worrisome fact is that the real problem is not Parmalat, but Italian capitalism itself, which sociologists define with a symbolic word: dynastic capitalism. Family business may reveal itself a good deal since the beginning: everybody, from the chief operating officer to the simplest dependent, feels there is trust and willingness to grow together, to build something new and unique.

Then the company decides to hit the stock market by offering its shares to the public through the so-called IPO (Initial Public Offerings). At this point, things should change, and the company should focus on investors' interests, giving up its family style of doing business. But in Italy it doesn't work this way. "In Italy the government is weak, there is no sense of state, public services are bad and social services are weak. The family is so strong because it is the only institution that doesn't let you down" – says Franco Ferrarotti, professor of sociology, in an interview with *USA Today* – "this country has used the family to create a new kind of capitalism and has become industrialized without losing its family orientation."

The most visible example is the Prime Minister, Silvio Berlusconi, the symbol of dynastic capitalism, blamed by different groups for pursuing interests of his own media company, Fininvest, and for breaking the antitrust law. Every time there is an attempt to defend public interests, Berlusconi wages a new battle, accusing Italy of being anti-competitive and against the free-market. The real problem is that everyone tries to preserve his own power, exploiting the deep connection between the economy and politics. Will Hutton of *The Observer* writes, referring to Calisto Tanzi, former chairman and C.E.O of Parmalat: "Tanzi pulled some political favors to build the core of Parmalat, and then exploited Italy's weak regulatory environment, supported by the ideology that business must be free, to cover his tracks."



Former Parmalat Chairman and CEO, Calisto Tanzi, in jail (Ap)

And with the latest confessions of Mr. Tanzi, the strong connection between the Italian industrial system and politics is finally coming out. "I think I have been one of the first people to explain what Parmalat is. It is a political company, which sustained the workings of a political system. It was a capital company, which didn't actually have capital, which had access to banking financing in an unlimited way, and this because the management of the banking system was (and it is) run by political influence (...)" This is an extract of what Piero Ostellino, one of the most renowned journalists in Italy, wrote in an article published by "*Corriere della Sera*."

But while entrepreneurs and politicians were exchanging favors, what were the authorities of regulation doing? Giulio Tremonti, the Italian minister of Finance, accused the authorities of supervision, Consob and the Bank of Italy, blaming them for not preventing such a scandal.

The supervision of Italian companies is in the hands of Consob (National Commission for companies and the stock market). This is a public authority, which is responsible for regulating the Italian securities market. In the official Consob web site, we read: "Consob is the competent authority for ensuring:

- 1) Transparency and correct behavior by securities market participants;
- 2) Disclosure of complete and accurate information to the investing public by listed companies;
- 3) Accuracy of the facts represented in the prospectuses related to offerings of transferable securities to the investing public;

4) Compliance with regulations by auditors entered in the Special Register."

It can be said that Consob is the Italian Securities and Exchange Commission, whose task is to defend the interest of investors, by requiring public companies, listed on the markets, to disclose their financial information to the public, allowing investors to understand well each company's financial stability and balance sheet. In the official site of S.E.C., we read: "only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions." At this point, it is important to say that S.E.C. also failed to assure the safety of million of investors.

Consob operates along with the Bank of Italy, which controls the stability of the Italian banking system. As we read in the official site of the Bank of Italy, "the objectives of its supervision activity are the sound and prudent management of the intermediaries, the overall stability, efficiency, and competitiveness of the system and compliance with the rules and regulations governing credit." The crack of Parmalat has led Tremonti to blame the activity of the Bank of Italy, "which didn't do enough to guarantee the value of the bonds issued by the Tanzi group." For Tremonti, the Bank of Italy has underestimated the problem of corporate bonds in the Parmalat case. The Berlusconi government is now thinking about giving birth to a new institution, whose task will be to protect savings and whose name will be the Authority of Savings. More power will be given to Consob, whose new name will be SuperConsob, and whose task will be to protect savings. A permanent commission will be

set up. Its objective will be a better exchange of financial information between the Bank of Italy, the Authority of Savings, the Antitrust, and then the authorities for insurance companies, Isvap, and Covip, which are responsible for monitoring the activity and transparency of pension funds. But a new system requires a new mentality, too. And everybody knows that Italian entrepreneurs are often straddling politics and business. So, Italy has finally decided to strengthen the power of supervisors, following the same path the United States already adopted. US Congress has indeed created a new regulatory body, The Public Company Accounting Oversight Board, chaired by William McDonough. The aim is tightening accounting rules, after a lot of companies "cooked their books" to inflate their revenues.

Nevertheless it must be said that for Italy a lot of work must be done. There are also other issues, since one problem leads to another. A system, which lacks flexibility is not competitive either, and Italian companies are now struggling in the international environment, filled with companies whose strategies are getting more aggressive each day. The latest economic data released are not promising: in the month of January, the total revenues of Italian industries fell 6.5%, versus a gain of +1.3% during the same period a year ago. The orders of goods and services plunged 6.1%, while industrial production decreased 2.8%. And international exports fell 4.4% in the year 2003. In a recent interview in the daily *La Repubblica*, Vittorio Rossi, chairman and chief operating officer of Siemes Italia, said: "Italy has gained an image, which is worse than the one it really deserves. That's why foreign investments in our country are falling. Italian people have a genetic lack of organization. They create, but they are not able to operate in a big environment. This is why large Italian companies have almost disappeared."

But not everything is so bad in the economy of Italy. Italian people are among the most creative in the entire world, and foreigners are always interested in Italian products. Even if exports decreased in the last year, commercial trade continues to do well in some countries. As it is written in the site of the Italian Embassy, the bilateral relationship with the U.S. is strong and growing. During 2003, the United States imported about \$25 billion in Italian goods, while exporting about 10 billion in U.S. goods to Italy. Now, everything will depend on how Italian companies are going to reposition themselves in a global market, and how they will try to squeeze their costs. But according to the experts, Italy has a lot to give to the world, thanks to its creativity, which is traditional and unique in a lot of its aspects. More companies have already understood the importance of growing in such vital markets, as in the U.S. The latest example has been brought to New York by Geox, a leader of shoes in Italy, which has recently opened its first store in Manhattan. And it seems that other companies are planning to do the same. They are trying to convince the world that Italy is not just Parmalat and scandals, but it's a dynamic market destined to expand itself in the future, rejecting the old habit of straddling economics and politics. The commitment to doing better is just beginning to be unveiled.

Berlusconi Against "Bridges"

The Italian Prime Minister Silvio Berlusconi has been criticized for suggesting that some National Festivities, such as January 6 and November 1, should be cancelled. After the initial complaints he corrected himself and clarified that "I was only talking about the 'bridges'," meaning the long weekends that Italians are known to always take. They are able to stay out of the office for almost a week but only use one of their vacation days! Statistics speak clearly, in Italy one week of work equals 0,4% of the total Gdp. If the Italians would work only two weeks more a year the Gdp will increase considerably. Berlusconi said that a recent study proved that in Europe 5 out of 10 citizens work. In the U.S. 6 out of 10 work...and in Italy? Only 4 out of 10!