*The two fraud cases*
*are an excerpt from the book:*

**“Accounting Fraud**
**Case Studies and Practical Implications”**
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Erich Schmidt Verlag,
Berlin 2010

# Case 23: Juergen Schneider (Germany, 1994)

Up to the year 1994, a number of scandals over mismanagement and fraud emerged in Germany, but the "Schneider case" was by far the biggest. The case is linked to an exceptional bank scandal. In the 1980's, Dr. Juergen Schneider managed to obtain credits for a number of inadequately secured projects. The banks were bluffed by his clever behaviour as a serious and important businessman. It also appeared that they were seduced into taking the risk by the promise of big profits. The scam ran for several years before collapsing and casting Schneider under the suspicion of credit fraud, fraudulent invocation of bankruptcy and tax evasion. He was therefore wanted by the police worldwide. The widespread deception by Juergen Schneider and his accomplices, as well as the scale of the collapse, caused a public outcry about the often cozy relations between big banks and big clients.

Schneider, who had started out as a bricklayer, rocketed to prominence by renovating old hotels and building chic new shopping and office complexes in Germany's trendiest areas. He built huge shopping malls across the newly reunified Germany in the early 1990's, e.g. in downtown Berlin, Frankfurt and the eastern city of Leipzig. Many of the sweeping glass-and-steel buildings, like the "Zeil-Gallery" in Frankfurt or a project in the Kurfuerstendamm area of Berlin are still busy landmarks for German shoppers.

The key to understanding how Schneider built his empire so quickly was the way he bought prestige properties at premium prices and financed them with bank loans from Deutsche Bank (his biggest creditor) and four dozen other institutions. What the banks did not know was that the valuations of some of his biggest properties were intentionally inflated by bribed outside advisers. For example, in the case of "Zeil-Gallery", Schneider submitted fake rental contracts in an application for a EUR 212 million loan from Deutsche Bank to finance the American-style shopping mall in downtown Frankfurt. Schneider not only exaggerated the expected income from the mall's future tenants, but he also lied about the amount of rental space available. According to the manipulated documents, the mall would offer 20,000 square meters of space for rent and bring in a rent of EUR 29 million a year. In fact, the rentable space was only 9,000 square meters and the real income only EUR 4 million a year. What remained unclear was how Deutsche Bank could fail to have verified something as basic as the size of the property it was lending on.

Schneider also appeared to have kept secret certain aspects of the contracts he had with many of his commercial tenants. These provisions allowed tenants to pay him reduced rent if business was going slow. Apparently, neither the auditors employed by the banks to gauge their credit risk nor the banks themselves ever asked explicitly whether there were any supplementary contracts.

Deutsche Bank claimed that it was the victim of systematic fraud. Hilmar Kopper, at the time Deutsche Bank's chief executive, said that "Centralboden Kreditbank" (Deutsche Bank's mortgage unit) had received falsified reports from publicly appointed official valuers and that manipulated tenancy agreements were used. However, an independent auditor's report commissioned by Deutsche Bank after the affair proved to be very embarrassing for the bank. The report from the auditors, Wollert-Ellmendorff, supported Deutsche Bank's argument that it had been criminally deceived. But it also made clear that there had been complacency in the dealings with the property tycoon. There were several major criticisms of the bank's procedures (see *Peachey* 2006, p. 27):

- The Schneider properties were fully financed by the bank on a regular basis without requiring any participation in the loan by Schneider himself.
- There was very little personal contact between Schneider and senior management of the bank.
- The documents presented as the basis for individual advances provided insufficient detail and were full of Schneider's optimistic expectations for the project.
- Official reports were based on the highest rent for the region and on the assumption that the whole property could be fully let. Nobody listened to third parties who pointed out the possibility of over-valuations.
- Checks were never carried out to ensure that it was technically possible to construct a particular building and that the building costs were in relation to what was required.
- All loan proposals for the Schneider group had been reviewed by the Head Office Advances Department of Deutsche Bank and were found to be "acceptable".

Deutsche Bank officials said they never had any reason to suspect Juergen Schneider of deception or being in financial difficulty until he asked for a "transitional loan" in a letter received on April 7, 1994. It was in the spring of this year that Schneider began to face a string of increasingly serious financial and image problems that caused him to lose track of what he was doing and panic. As business declined, so did Schneider's income, and he realized that he could not keep his creditors at bay much longer. Newspapers began reporting that he owed substantial amounts to contractors and craftsmen, causing repeated embarrassment. Bank creditors demanded detailed information on his projects, his assets, and his cash flow. Finally, a Frankfurt newspaper reported that Schneider had been the target of a long-running legal action. "There is always a fascination with people who seem to have everything going for them, and then all goes wrong," said one observer.

In late April 1994, Schneider disappeared without trace, leaving behind nearly EUR 3 billion of bank debt and Germany's biggest real estate bankruptcy. The debt included EUR 0.6 billion owing to Centralboden Kreditbank, the subsidiary of Deutsche Bank. Authorities' first order of business was "to ask how it is possible that one individual can collect such a volume of debt in such a short time." Schneider was arrested in Miami, Florida, in January 1995. When he was returned to Germany in February 1996, the mass-circulation newspapers made it the big story of the day. "Hello, Mr. Schneider, Your New Home," declared the banner headline of *Bild-Zeitung*, showing a picture of a jail cell. The disgraced real estate developer was finally sentenced by a Frankfurt court to six years and nine months in prison. Prosecutors said that Juergen Schneider, then 62 years old, had duped banks and creditors with fake invoices and fraudulent rental contracts to borrow money and that he transferred more than USD 150 million to a secret Swiss bank account just before it became impossible to stave off his creditors.

The German media portrayed Juergen Schneider as a sophisticated con artist. But interviews with Schneider's colleagues, aides and business associates suggested that he was less an evil genius and more "a fundamentally megalomaniacal and nouveau-riche" figure of the 1980's. The picture that emerged was that of an entrepreneur who started his company only ten years ago, and was ultimately unable to manage the business he had built. His abrupt departure in April 1994 was not a planned conspiracy, but a manifestation of human weakness in the face of failure.

Juergen Schneider had kept close control of his property holdings. Because the Schneider group was organized as a limited liability partnership, it was not required to disclose details of its finances at the time. Schneider never revealed his company's revenue, or profit or loss – he was not willing to share this information even with his own board. Schneider and his wife, Claudia, were the only authorized signatures for the entire group, which employed more than 2,000 people and was run by a staff of 40 at a castle in Koenigstein (a wealthy Frankfurt suburb). The two kept for themselves, shunning the opera, art galleries and the Frankfurt social scene. And, with only one exception in 1992, Schneider was unwilling to sell any properties. The tragedy, close colleagues said, is that Schneider might have been able to save his company and himself by selling just some of his properties and paying off contractors. Instead he chose to run away.

The reason for all the public interest in the "Schneider affair" went far beyond just the sheer magnitude of the scandal, although that alone was worth plenty of attention. The EUR 3 billion in unpaid debt that Schneider left was more than triple the losses incurred by the British trader Nicholas ("Nick") Leeson in the celebrated case of Barings P.L.C. in early 1995. The Schneider affair shook some of Germany's most prestigious financial institutions, and the demise of his real estate empire also ruined hundreds of ordinary German contractors and other small-business people.

While most Germans believed that Juergen Schneider was guilty, they also felt the banks bore a lot of the blame. Especially Deutsche Bank was being forced to defend itself against the charge that it failed to adequately scrutinize a major client. German Chancellor Helmut Kohl added his weight to the charge that some of the country's largest banks were responsible for the spectacular crash, too. He said that banks appeared to have exercised a double standard, lending millions with less caution than they would normally exercise on "a loan of 50,000 euros to a foreman." Ernst Welteke, finance minister of the state of Hesse, said: "People have a right to ask what's happening in a land where a normal citizen who wants a mortgage on his house has to do a song and dance act while someone like Mr. Schneider can collect a debt of billions of euros". A civil servant in Frankfurt said: "Schneider could not have done all this by himself. All his financial engineering was financed by the banks. I mean the negligence of the banks is fairly obvious." A bookkeeper in Wiesbaden added: "I think the banks have their share of the guilt in what happened with Schneider. But he is certainly a crook."

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## Case 32: Parmalat (Italy, 2003)

Parmalat, one of Italy's most significant commercial entities and one of the largest food-based companies in the world, carried out one of the biggest and most brazen accounting frauds in history, reportedly over the course of a decade. Many analysts took to calling Parmalat "Europe's Enron". Indeed, the scandal was so massive that it compares to Enron, WorldCom and the other high-profile U.S. corporate frauds in terms of scope, complexity and amount of money involved. In its 2002 group accounts, Parmalat claimed that its accounting principles were in line with established international accounting standards as well as Italian standards. Yet it appeared not to be so.

The roots of Parmalat can be traced back to 1961, when Calisto Tanzi inherited a food processing business that was started by his grandfather near the Parma train station. (Parma lies in the northern Italian region of Emilia Romagna, one of Europe's wealthiest areas. The region has boomed as the "food valley" of Italy, exporting mainly Parmasan cheese and tortellini). "Tanzi & Sons – Cold Cuts and Preserves" produced processed foods like seasoned ham, cured meat and tinned potatoes. Calisto Tanzi, who had a strong entrepreneurial streak, was not satisfied with simply running the family business, and decided to diversify. He ventured into dairy products and built a milk pasteurizing plant in Collecchio near the city of Parma. The milk produced at the plant was supplied to Parma and surrounding towns, mainly through door-to-door sales.

In 1963, the name "Parmalat" (meaning "milk from Parma") was given to the company. Parmalat produced the first branded milk in Italy. Tanzi also started packaging the milk in a tetrahedron pack, which came to be known as "Tetra Pak". The Tetra Pak was more hygienic than ordinary packaging and extended the shelf life of the milk by three days. Besides, Parmalat became a renowned leader in UHT (Ultra High Temperature) milk production. The originality and unique appeal of Parmalat milk soon made it very popular and business expanded to other parts of Italy. Parmalat tried to style itself as the "Coca-Cola of milk".

In 1990, Parmalat was listed on the Milan stock exchange – and Tanzi built it into an Italian powerhouse with operations in some 30 countries. Its product line grew – to encompass, among other things, fruit juices, yoghurt, vegetables and baked goods. In 2003, the company was Italy's eight largest industrial concern. With over 36,000 employees, 139 production sites in all five continents, revenues in excess of EUR 7.6 billion and EBIT of about EUR 600 million, Parmalat had become a global rival to Nestlé, Danone and Kraft. Few analysts doubted about the company's financial strength. And none could imagine the dimensions of the financial problems that would soon be discovered.

But as Tanzi's empire grew, so did the debts. Some of the best-known European and American bank institutions (including Morgan Stanley, J. P. Morgan Chase and Citigroup) were involved in helping the company raise debt to finance its expansion. Moreover, Tanzi did not bring much-needed high-level expertise into his management ranks by recruiting senior executives from other big global firms. Instead, he engaged family members and close friends from the Parma region who lacked the sophistication to manage a global enterprise. Financial controls were reportedly poor. The company's board was stacked with family members and friends, providing little in the way of independent oversight. Parmalat remained a family-owned business, with 51% of the shares under the control of Calisto Tanzi and his family. Some of the new markets that Parmalat entered through acquisitions – especially in South America – turned out to be riskier than expected. Besides, a lot of money was spent on marketing the Parmalat brands, e.g. through the ownership of the Parma “Seria A” soccer team and the plastering of the Parmalat name on sports events from World Cup skiing to Formula One car racing.

This is where trouble started. Losses occurred – and were covered up by a Byzantine (sometimes referred to as “labyrinthine”) network of offshore shell companies. Whereas at first, Parmalat did not conform to the usual profile of a risky enterprise, it now operated through a complex web of nearly 200 subsidiaries, some of which were domiciled in tax havens such as the Cayman Islands, the Dutch Antilles, Luxembourg, Curacao, the Isle of Man and Malta.

In early December 2003, analysts began to raise questions about Parmalat’s liquidity when the company let it be known that it could not access about EUR 500 million in supposedly liquid funds held in an obscure Cayman Islands-registered investment fund called “Epicurum”. Parmalat soon shocked financial markets when it revealed that it was having trouble coming up with the money to make a EUR 150 million bond repayment even though it supposedly had billions in cash and cash equivalents.

The scandal came to light with the revelation of a non-existent bank account linked to the Cayman Islands subsidiary known as “Bonlat”, which appeared to be at the heart of the fraud. The Bank of America revealed that a letter (dating March 6, 2003) attesting to the existence of a EUR 3.95 billion bank account was a forgery. As the story unfolded, Parmalat was forced to seek bankruptcy protection within days. At Christmas 2003, the company imploded almost instantly. 100,000 bondholders, 40,000 shareholders and 9,200 creditors all lost money heavily. The case sent shockwaves through Italy where Parmalat was a household name. The Berlusconi government reacted instantly by quickly passing a new emergency bankruptcy law. The Italian prime minister also stated that the government would intervene to bail out the company and to save the jobs.

Already on December 15, 2003, Calisto Tanzi had resigned under pressure from Italian banks. The management of the company went over to Enrico Bondi, a turnaround specialist well known in Italy. Bondi had been appointed as a consultant by Parmalat’s banks just a few days earlier, to help unravel the company’s complicated financial systems. In late December 2003, Parmalat went into controlled administration, and Tanzi was arrested by the authorities. Parmalat’s former CFO Fausto Tonna, a leading financial official and 20-year company veteran, Luciano Del Soldato, and two accountants were also among those arrested.

Three teams of forensic accountants combed through the company’s books and pieced together the key parts of the affair. It was revealed that Parmalat had been resorting to fraudulent accounting practices from the late 1980s. Parmalat borrowed money from global banks and justified those loans by inflating its revenues through fictitious sales. The core of the fraud was a system of double-billing to supermarkets and other retail customers. By billing twice for the same shipment of merchandise, Parmalat could create the impression that its revenues and accounts receivable were much larger than they really were. Moreover, Caribbean-based shell companies pretended to sell Parmalat products. Parmalat would send them fake invoices and charge fees to make the “sales” look legitimate. Then Parmalat would write out a credit note for the amount the subsidiaries supposedly owed it, and would take that to banks to raise money.

Finally, Parmalat moved some of its debt illegitimately off the consolidated financial statements. It did so through off-book special purpose entities, also based in offshore havens, to which the liabilities were transferred. An independent auditor later found that the company had EUR 14.3 billion in debt, eight times more than it claimed to owe. “They had to grow to hide the debt,” said the chief investigating magistrate in Parma. Investigators agreed that if Parmalat had not cooked its books, the company would have posted losses every year from 1990 to the end.

It was also revealed that the company had been in the habit of transferring large amounts of money from the Parmalat group to several companies owned by the Tanzi family. Investigators found that EUR 1.8 billion raised in bond issues between 1999 and 2003 failed to find their way to Parmalat’s operating divisions. For example, one amount of EUR 65 million found its way to AC Parma, the soccer team owned by the Tanzi family. “Parmalat concocted a financial house of mirrors designed to bewitch investors into pouring billions of dollars into what turned out to be a looting trough,” said one American journalist. In this sense, the case has reminded many observers of the Adelphia scandal, which also features a strong family patriarch who used assets of the company that he had built to benefit himself and his children.

Parmalat’s financial systems had eluded auditors’ and analysts’ understanding for a long time. The company had a large number of subsidiaries and bank accounts, most of them located in tax havens around the world, and it engaged in complicated bond and derivative deals. The fraud was certainly not of the blatant “take-the-money-and-run” variety: it was multi-faceted, involving offshore shell companies, inflated profits, fabricated assets and hidden debt. Yet, the Parmalat affair had echoes of several other recent scandals (see *Trueman* 2004, p. 4):

- The fraud appeared to have been incremental, growing in magnitude over a period of years.
- It was enabled through the cooperation of a number of high-level corporate officers – a tight circle of loyal lieutenants, drawn from the Parma region, who owed everything to Calisto Tanzi. The complexity of the corporate structure helped keep the secrets of the inner circle, with only the Tanzi family and close associates understanding the massive web of financial dealings.
- The CEO inspired confidence for a number of reasons. Above all, Calisto Tanzi had many friends in high places – in business, banking, sports, the arts and the church.
- The growth-by-acquisition strategy is one that had been adopted by a great many fraud companies in recent years.

Public commentary and debate about the potential liability of the auditors focused mainly on one issue: the suspicious shell company Bonlat and the forgery that was not spotted. Grant Thornton issued an auditors’ report on Bonlat’s 2002 financial statements, purportedly relying on the bank confirmation from Bank of America. However, the confirmation was forged and the bank account did not exist. A Parmalat employee had used a scanner to replicate the document displaying the Bank of America letterhead, had cut and pasted a signature on the document, and copied and faxed the confirmation in an effort to authenticate the document’s appearance. Critics say the forgery was crude and, further, that auditors should always use back-up methods such as personal contacts with key bank personnel to confirm the existence of large accounts. In addition, public reports indicated that the auditors sent their request for verification carelessly through Parmalat’s internal mail system instead of following the standard audit practice of sending the letter independently – thus allowing the request to be intercepted and the fraudulent reply sent.

As a consequence, Grant Thornton came under heavy criticism. Grant Thornton, in the second tier below the "Big Four", used to be the main Parmalat auditor. In 1999, Italian legislation requiring regular rotation of audit firms led to the appointment of Deloitte & Touche. Yet Grant Thornton continued to perform the audit of some Parmalat subsidiaries, including that of Bonlat on the Cayman Islands. In 1999, subsidiaries owning 22% of the Parmalat group assets were examined by Grant Thornton. By 2002, its share had risen to 49%. The growth had to stop there because Deloitte was required to verify at least 51% of Parmalat's assets in order to remain the chief auditor.

While the non-existent bank account belonged to Bonlat (and thus fell under Grant Thornton's watch), Deloitte was criticized for heavily relying on Grant Thornton and for not checking the suspicious bank account itself. Deloitte stated that it acted properly under Italian law, which allowed a company's main auditor to accept the findings of a secondary auditor. However, Grant Thornton auditors claimed to have officially raised concerns with Deloitte in regard to Bonlat. They also claimed that, while working with Deloitte on the preparation of Parmalat's 2002 group accounts, they drew Deloitte's attention to certain issues related to the obscure Cayman Islands-registered investment fund called Epicurum, in which Parmalat supposedly had about EUR 500 million. They say this placed an onus on Deloitte – as principal auditor for the group's consolidated accounts – to investigate further. Instead, Deloitte issued a favourable opinion on the accounts.

Thus, both Grant Thornton and Deloitte denied wrongdoing, insisting that they acted properly. Assuming that, as the auditors themselves proclaimed, they were victims of the fraud (and not participants in it), they still had to face allegations that they were negligent in picking up many red flags, for example (see *Trueman* 2004, p. 5):

- The fact that a company that appeared to have so much cash found it necessary to raise more cash with additional bond issues. (Parmalat reportedly told Italy's stock market regulator, CONSOB, that it needed large amounts of cash to finance its expansion policy.)
- Too much money allegedly being kept in cash and cash equivalents – earning too little interest. Auditors should have questioned why the money was not used to pay down debt to reduce interest owing. (Parmalat reported relative debt levels greater than its peers; the spread on the company's interest-earnings assets and interest-bearing liabilities was negative.)
- A British pension fund manager claimed that he had asked for an investigation into Parmalat's accounts a year before its collapse. He said he had raised the alert in a letter to Deloitte.
- Also a full year before the company collapsed, Joanna Speed, Merrill Lynch's food industry expert, became the first big bank analyst to issue a "sell" recommendation on Parmalat stock. She found the group accounts incomprehensible.
- One Parmalat subsidiary domiciled in the Cayman Islands reported a receivable from Cuba's government-run milk-importing company, Empresa Cubana, for the sale of 300,000 tons of powdered milk – reportedly enough to supply every person in Cuba with 55 gallons of milk for a year. Empresa Cubana reported that it purchased much smaller quantities.
- In 1999, Citigroup arranged a EUR 117 million loan to a Parmalat vehicle presciently named "Buconero" (the Italian for "black hole").

The first red flags had begun popping up by the end of the ‘90s. In 1999, a partner in the Buenos Aires office of Deloitte filed an internal “early warning report” expressing serious concerns about Parmalat’s Latin American operations. In early 2003, Deloitte’s Maltese office questioned a USD 7 billion intercompany transfer that is now known to have been fictitious. But the questions and objections were waived off. The Deloitte auditor in Brazil, who raised a similar stink to the Milan office, was eventually taken off the Parmalat account.

In view of the amount of money involved, it may be surprising that the auditors (and bankers) did not take the trouble to visit the towns of Parma and Collecchio to find out what Parmalat meant to the local population. Local milk producers had long since ceased supplying milk to Parmalat as they had become tired of Parmalat’s inability to pay their bills on time. None of the 900 milk farms in the local union of Parma farmers supplied Parmalat. “Farmers here won’t work with Parmalat. Tanzi never had a good reputation. We were always a bit amused that Tanzi couldn’t pay for his milk, but could buy companies around the world,” said one local official.

Shortly after the scandal broke, two Grant Thornton auditors were arrested by Italian authorities. Two partners of Deloitte’s Italian affiliate were placed under investigation. In civil legislation in which both audit firms were named among the defendants, plaintiffs alleged that the defendants concocted a massive scheme to help Parmalat raise more than USD 5 billion through the sale of securities while overstating its reported profits and assets. Grant Thornton stated in its defence that it maintained strict auditor independence in its dealings with Parmalat, doing no consulting work for the company (implying thereby that it had no reason to provide “soft audits” in order to secure or retain consulting contracts). However, both Grant Thornton and Deloitte were being removed by Parmalat’s new board. Commentators were complaining that the absence of genuinely global accounting firms underlies a growing corporate governance problem: global corporations are increasingly spread over many countries and it is not clear that any one accounting firm can grasp the whole picture. The “Big Four” were viewed as loose confederations that share a brand. Commentators felt they should be more than that.

As the investigation progressed, the spotlight moved also to the role of the banks that had raised funds for the Parmalat group. The feeling was that the banks did not have to have acted fraudulently; they could get into trouble simply for being negligent. (For example, Deutsche Bank was drawn into the Parmalat inquiry, too. The bank had led a EUR 350 million bond issue for Parmalat in September 2003, just two months before the scandal broke.) As in many other cases, the bankers appeared to have lent money solely on the figures Parmalat presented them, on the reputation of the company and on the basis that if so many other prestigious organizations were lending money then it must be all right. In other words, the herd instinct may have pushed aside what reservations a bank might have had. And Parmalat carefully nurtured the illusion that its company books were sound.

Just like the auditors, the banks denied wrongdoing, saying that like the investors who had bought Parmalat bonds and shares, they had not known that the dairy company was teetering near collapse and doctoring its results. UBS, e.g., said in a statement: “Parmalat was rated by independent agencies as a financially sound company. This position was confirmed by external auditors. UBS has absolutely no evidence that any of its employees were aware of the true state of Parmalat’s finances.” Nevertheless, Parmalat’s new management, led by Enrico Bondi, has been suing Italian and international banks over the company’s collapse. Bondi reached out-of-court-settlements with several banks as well as with Parmalat’s former auditor Deloitte.

Perhaps amazingly, the basic company “Parmalat Finanziaria S.p.A.” kept going successfully through bankruptcy, selling off non-performing businesses and restructuring its activities to concentrate on its original core business. The company was relisted on the Milan Stock Exchange in October 2005. In 2009, it was once again Italy’s biggest market-listed food group.

Calisto Tanzi is a broken man today. Until Parmalat collapsed, Tanzi was an almost legendary figure in Italy, viewed as a classic entrepreneur who built a world-class company from scratch. And he seemed modest about his achievements; as a pious catholic, his personal lifestyle was not flamboyant. But in January 2004, most pointed the finger at Calisto Tanzi as the mastermind of the fraud. Most saw the root of Parmalat’s tragic meltdown in the person of Tanzi, a headstrong patriarch who on the one hand wanted his company to grow into a global giant but on the other hand wanted it to remain under family control. A Milan Judge refused to release the fallen icon of Italian industry from jail, describing him as “dangerous for society”. In the trial, Tanzi asked investors to forgive him. He said that the banks led him astray and provided financing even when they knew the company was in dire financial condition. He particularly blamed Fausto Tonna, who served as finance director for 16 years and who was considered the “financial brain” behind Parmalat. Tanzi’s lawyer said that Mr. Tanzi was too far removed as head of the company to know what was exactly going on and to be responsible for the scandal. According to the lawyer, none of the diverted funds went directly into Mr. Tanzi’s pocket but were used to try to shore up struggling companies within the group. In December 2008, however, Tanzi was sentenced to 10 years in prison for fraud relating to the collapse of the dairy group.

The Parmalat case offered a contra-narrative to the U.S. corporate scandals. It shifted the spotlight to Italy, land of the Mafia and clownishly corrupt politicians. The case raised issues about risk in Italy, and more broadly in Europe, particularly in regard to family controlled firms with global ambitions. Early analysis of the scandal blamed the troubles on the corporate culture of Italy. As one of the last bastions of “family capitalism”, Italy has traditionally had a “closed” corporate culture, characterized by behind-the-scenes-deals and cozy relationships. Family companies are still prominent on the Italian business scene and the families in question tend to be old-style patriarchal families with centralized, secretive and authoritarian power structures. A niece of Calisto Tanzi who served on Parmalat’s board described Parmalat’s style of leadership in much this way.

The scandal has served to flag the risks inherent in family firms that grow into large global conglomerates while maintaining family-style management. However, Parmalat’s business model and financing strategies – rapid acquisitions, moves into risky markets, the financing of expansion through borrowing, and the management of debt through opaque special purpose entities in offshore tax havens – were not just characteristic of Parmalat, but increasingly common among European companies. In general, Europe had been slow to move towards regulatory reform. But the Italian scandal provoked a spate of criticism and serious calls for reform.

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