

Parma Scam

Epic, Enron-style fraud brought Calisto Tanzi, the founder of international dairy foods giant Parmalat, to his knees in one of the biggest corporate scandals in European history. Sue Russell asks what caused the souring of Italy's global dairy empire

Calisto Tanzi had it all. His Italian food empire Parmalat had made the former cheese and sausage shop owner immensely wealthy. Yet his image was that of a rather pious family man. The Tanzis were undoubtedly Parma's uncrowned royal family, but they happily rejected the glitzy lives enjoyed by many of their peers. They didn't share the social cachet of Italy's more glamorous clans like the Agnellis of Fiat and the Barillas of Barilla pasta, never mind Donatella Versace. They were so understated that they weren't in the gossip columnists' sights. Not until December 2003.

That's when Calisto Tanzi was arrested, accused of siphoning perhaps billions of US dollars from Parmalat to family-owned subsidiaries, causing shareholders to lose their savings, and jeopardizing around 36,000 jobs worldwide. The alleged crimes included fake accounting and share price manipulation. As much as US\$12 billion could be missing in "Enron a la Parmigiana." And trading of Parmalat stocks and bonds on the Milan stock market only resumed less than six months ago after a suspension of almost two years.

"The Tanzis are not Versace-style people," says Ettore Livini, a reporter for Italy's *La Repubblica* newspaper. "They're not one of the Italian dynasties who have worked in the industry for hundreds of years. Calisto Tanzi actually started from scratch. They did not go on holidays where Italy's glamour people went. They were low-profile."

The dairy emperor had some toys – like two antique yachts, one a 100-foot schooner worth \$10 million, and a \$45 million corporate jet. He also had his famed "God's Helicopter," so nicknamed because the devout Catholic often loaned it to high-level clergy.

But Tanzi, now 68, drove a Lexus and had no chauffeur. The family villa was rather nondescript, tucked behind a clutch of citrus trees outside Parma, Giuseppe Verdi's birthplace and the home of parma ham and parmesan cheese. There were no opulent villas in Sardinia or St Moritz. Staying close to his humble roots, Tanzi's social high point was hosting an annual Swordfish Luncheon at their villa.

All this makes his fall from grace even harder to comprehend. There are clues, though, to another, more complicated side. Where some saw a kind, hardworking, generous fellow, others saw an aggressive risk-taker. Tanzi's philanthropic reputation was also questioned and even

his old friend, Parma's Mayor Ubaldi, was soon calling him a Jekyll and Hyde.

Tanzi did sponsor the restoration of Parma's 11th century basilica and gave \$30,000 to restore the church organ. Reportedly, he also financed programmes for AIDS patients, drug addicts and the poor. Just how much his largesse really cost him isn't clear.

The Parmalat scandal came at a time when Italy's billionaire media-mogul Prime Minister, Silvio Berlusconi changed legislation to reduce rather than increase the penalties for fake accounting, only furthering the image of Italy as having a rigged economy.

Yet friends, colleagues and workers alike reeled when Tanzi was carted away in handcuffs. During his brief stay behind bars, a lawyer called him "a broken man" and he reportedly alternated between weeping and wailing over having lost everything and getting down on his knees to pray. Meanwhile, the arrests of family members and company executives were piling up.

"I said, 'Oh, this is really big trouble!'" Parmalat's export manager Angelo Peracchi recalls. "I was shocked. I couldn't imagine it. For food and dairy products, Parmalat was number one in Italy." Unfortunately, Peracchi had just purchased some Parmalat bonds. But his most pressing fear



Above: Up to US\$12 billion is allegedly missing in Enron a la Parmigiana
Opposite page: When Calisto Tanzi held his son's wedding reception at the Palladian-style Villa Bertozzi, near Collecchio, the owners asked to be paid up front. Apparently, they had tired of getting paid late for the milk they sold to Parmalat's factory a kilometre away



US\$12 billion could be missing in "Enron a la Parmigiana." The sheer scope of the fraud was breathtaking

was losing his job of 19 years. "Everyone was shocked, it was incredible," he says.

That reaction reverberated through Italy and the international business community. It began to look as though an ignoble end to Calisto Tanzi's success story was inevitable. Tanzi was 22 when in 1961, he dumped college after his father's death to run the family's sausage and cheese shop. Making his mark by creating Parmalat's signature Long Life milk, he diversified, producing yoghurts, ice cream, pasta sauce and biscuits. Parmalat's products now sell under numerous names worldwide. In the US, Black Diamond cheese and Mother's Cookies prevail.

Parmalat underwent an enormous growth spurt after going public in 1990 – the Tanzis kept 51 percent of the company. Investigators believe it was in dire financial straits by 1993. Yet each year, it hid its financial losses and posted profits instead. It kept on expanding globally, taking its camouflaged financial mess along with it. Myriad frauds kept this huge deception going. One of the scams involved billing one shipment of merchandise both to

the grocery store and the distributor to falsely inflate the accounts receivable figures.

A tangle of offshore companies with fake assets and phoney profits was set up to offset Parmalat's exploding debts. The company's apparent fiscal health was a complete façade.

One version of events is that Calisto Tanzi ordered former CFOs Fausto Tonna and Luciana del Soldato to set up the shell companies. Tanzi claims Fausto Tonna concocted the scams. Either way, things spiralled out of control. The fictitious assets of one offshore subsidiary, Bonlat Financing, grew to \$8 billion.

What tipped off authorities? Various threads unravelled simultaneously with one real whopper. When Parmalat needed \$180 million to redeem a bonds issue, a Bank of America account it had claimed held \$4.9 billion turned out not to exist. Disgraced CFO Fausto Tonna has since admitted to mocking up a letter to support the phony assets claim. In a staggeringly primitive cut and paste job, Bank of America letterhead was cobbled together with assorted signatures. As authorities closed in, people at Parmalat also

shredded documents and smashed computers.

Tanzi and his brother Giovanni resigned and company stock plummeted to cents a share. The government sent corporate bailout whizz Enrico Bondi riding in on a white horse to salvage Parmalat.

On December 29, 2003, the US Securities and Exchange Commission sued the bankrupt firm for fraud (US investors bought over \$1.5 billion worth of bonds and securities.) Tanzi, who has admitted to siphoning \$630 million from Parmalat to a family-owned subsidiary, wound up under house arrest. He's blamed the company's financial woes both on the collapse of Latin American economies and exchange rates, and on the impending bankruptcy of Parmatour, the debt-ridden private tourism company headed by his daughter Francesca.

More family firms dominate Italy than any other country in Western Europe and they often escape the close scrutiny that theoretically tracks a public corporation's every move. If regulation had been tighter, Parmalat couldn't have quietly spread its escalating debt across



Companies can stand trial in Italy.

Exactly how much responsibility do firms like Grant Thornton have? Accounting reviews are limited because of cost, notes Hank Boerner: "So there is a high degree of trust in the corporate statements and the words of the CEO and others." And layers of protection are missing. In the US, unlike Italy, accountants work strictly for a company's shareholders. "They are, under law, the protectors of the truth in terms of the financials of a company," says Boerner.

Calisto Tanzi's arrest was just the beginning of his family's ordeal. Wife Anita was also investigated for allegedly transferring \$850,000 between accounts. As the scandal broke, Fabio Belloni, one of Tanzi's lawyers, confirmed to the *New York Times* that there were "very real and strong tensions within the family." Supposedly, the patriarch's children didn't visit him in jail and his son Stefano and brother Giovanni stopped speaking to him. Yet it's not clear if the family rift was

250 offshoot companies. The sheer scope of the fraud was breathtaking.

Investigators believe that Parmalat's intricate scams went undiscovered for more than a decade. As Hank Boerner, a New York issues and crisis management consultant specialising in governance and accountability, explains: "Corporate fraud is not always easy to detect. What can hide the bad news (and fraud) is the constant expansion of a company – acquisitions and mergers bring more money, more operations, more countries for operations, more profits (or the claims of profits), etc. That helps paper over the bad spots."

Soon, auditing firms Grant Thornton and DeLoitte and Touche were dragged into the mess. And various international banks which funded Parmalat at different times stand accused of harming the company and its shareholders by ignoring obvious signs that Parmalat was overstretched. DeLoitte denies any wrongdoing, saying its executives' concerns were brushed aside by Parmalat executives.

Grant Thornton seems to have got down in the murk, however. Due to lose Parmalat's business because a law demands firms change their outside auditors every nine years, GT's Italian Unit concocted a scheme with Parmalat to spin off parts of the business which they could then keep as clients. Allegedly, these Grant Thornton

executives also participated in the flagrant cooking of books. Two executives were arrested.

Banks and auditing firms alike are adamant that they were completely duped by Parmalat's scams. Interestingly, lawsuits are flying in both directions. Parmalat is being sued by Bank of America, for instance, but Enrico Bondi (recently appointed Parmalat's new CEO) is also on the offensive, filing his own lawsuits.

At the time of press, a March court hearing was expected to determine whether four global banks – Citigroup, Morgan Stanley, Deutsche Bank and Switzerland's UBS – and 13 bank executives should stand trial for helping Parmalat's former management mislead their investors.

Opposite page: Calisto Tanzi (second right), and his lawyers, Filippo Sgubbi (left) and Fabio Belloni (second left) talk strategy at Milan's courthouse
Opposite inset: An undated photograph of Calisto Tanzi, his wife Anita Chiesi, and son Stefano in Modena
Above: After the scandal, Stefano Tanzi fought desperately to keep his presidency of the football club Parma AC, but failed
Right: Calisto Tanzi and his daughter Francesca





genuine or concocted to try to distance Calisto from his family to protect them.

A fog certainly hovers over Stefano's and Francesca's roles. Laura, the youngest sibling, didn't work for Parmalat. Stefano fought desperately to keep his prestigious presidency of the football club Parma AC, Parma's pride and joy, but failed. It was a money loser but the ultimate feather in the Tanzi and Parmalat caps. It had climbed to the country's Series A league, and won various Italian and European cups.

As for Parmatour, Calisto Tanzi admitted to investigators that he'd diverted \$638 million of Parmalat's money into it but dismissed his daughter's role as "marginal." Others say she ran the firm. Whatever her culpability, Francesca's life came crashing down and she and Stefano were both arrested.

Were the siblings paying for the sins of their father? Or were they, as prosecutors contend, very aware of what was going on? Stefano, now a consultant for a small, local powdered milk company, was said to feel very betrayed, but neither he nor Francesca is talking.

As for former CFO Fausto Tonna, he has admitted to falsifying accounts but still claims he was just following Tanzi's orders. Yet some do believe Tanzi's claim that Tonna was the mastermind. Then, Tonna is so unpopular, he makes an appealing target. Meeting journalists after the scandal broke, he memorably snarled, "I wish you and your families a slow and painful death!"

His famously extravagant and uppity wife, Donatella Tonna, the so-called Czarina of Parmalat, is no more popular. Known for her \$2.5 million Tuscan farmhouse and champagne parties, it didn't help that she swanned around town in her finery while locals faced

losing their jobs and savings. Angry cries of "Thief!" followed her as she shopped. The day her husband was arrested, Donatella tried to cash \$1 million in cheques. She too was arrested, accused of money-laundering.

It's confounding that anyone as wealthy as Calisto Tanzi would risk his fortune and personal freedom for greed, or a gruesomely misguided attempt to save face and preserve the family's good name. Psychologist Carl Robinson, principal of Advanced Leadership Consulting and co-founder of the Jungian Psychotherapist Association, cites an age-old problem – psychological inflation. "Recall Icarus who flew too high and close to the sun, plunging to his death when his wax-held feathers melted," he says. "Power intoxicates and powerful people forget they are human

and the rules that govern all of us other mortals then no longer apply to them...they think."

"Corporate fraud is a simple matter of narcissism run wild in a culture which creates the belief that 'the boss can do no wrong,'" says clinical psychologist Patricia A Farrell. "Or, if he does, the folks in accounting will clean it up for him or her."

Jack Gilbert, president of New Page Consulting Inc, an organisational ethics expert, says trouble starts when someone is not only privileged but isolated in an ivory tower away from normal life and values.

"Many of these individuals – such as Ken Lay of Enron and Hank Greenburg of AIG (American International Group) – have," he notes, "been celebrated in magazines and newspapers, paid incredible sums. They have lived in the rare air of the very best life has to offer. Some then buy into the story that they are a breed apart and develop a sense of entitlement unconstrained by common values or respect for the law. They become convinced that the rules do not apply to them.

"How else can we explain how an 80-year-old man, John Rigas of Adelphia cable TV, who has everything he could ever want materially, has incurred what is virtually a death sentence through massive fraud?" Rigas was sentenced to 15 years in prison. "Or," Gilbert continues, "Thomas Coughlin, former vice-chairman of Wal-Mart who once said that thieving employees should be shot, and left after being accused of misappropri-

Photography AFP: A-Link/Sipa Press; Landov

ating \$500,000 from the same company."

"Do they want to be caught?" asks Patricia Farrell. "Probably not. Do they believe they will be? Maybe. But they believe they'll manage to handle that when and if the time comes."

That kind of arrogance and delusion was surely at work with Calisto Tanzi and his cohorts.

Many believe that Italy's system desperately needs an overhaul: More transparency and accountability, less cronyism at the expense of shareholders. Tanzi generally hired his favoured hometown buddies rather than reaching out internationally for talent for overseas expansion. At least two of his associates headed local banks. It's all a little too cozy.

But tiny changes are happening. Consob, Italy's notoriously toothless stock regulator, will have the power to move in where they suspect wrongdoing. Last December, a new law to curtail the Bank of Italy's powers and increase investor protection was given final approval just four days after the disgraced Fazio finally resigned.

However, Hank Boerner predicts that reforms will be very slow indeed. "Even the Bondi-inspired lawsuits, you'll notice," he says, "are directed at multinationals: Bank of America, nine others outside Italy as well as 36 Italian lenders."

Yet the US's Securities and Exchanges Commission sued Parmalat and criminal charges may yet be brought by the US Department of Justice. That should serve as a strong warning to all foreign issuers of corporate equity or debt who seek capital in US markets.

With the passage of time, some of Parmalat's wounded parties seem ready to move on. Angelo Peracchi, for one, isn't crying over spilt yoghurt. After several months in limbo, he learned his job was safe and he soon put his lost investments in perspective. "It is not a catastrophe," he says cheerfully. "We must go on. Earthquake, tornado, tsunami, you lose the house or your life. So you lost \$20,000, \$30,000? It's okay."

Despite everything, many loyal locals still speak with affection of the Tanzi family, especially all those Calisto Tanzi had helped out by giving them jobs or loans. "Sometimes he said yes with the money of the other people!" Peracchi concedes with a wry chuckle. "If people see Mr Tanzi in town they say, 'Hello, how are you?' They're maybe more angry with Tonna because he was very arrogant."

Ettore Livini thinks that any seeming willingness to forgive is more likely lingering gratitude for all they did for Parma and

Collechio, the small village nearby which now houses Parmalat's modern headquarters.

"Probably the most important public relations tool they used to be remembered in the city was buying the Parma football team," says Livini. "Of course they gave a lot of jobs to people in the area, too. They used to hire mostly local people."

If people were shocked initially, that's all changed. "They felt that everything was going to go to hell," Livini explains, "instead, Mr Bondi saved the jobs and the firm. They are a little bit more forgiving now because they remember that for 10 years, about everybody in the Collechio area was out of work. They're still very attached to Parmalat."

Il Manifesto reporter Andrea Rocco believes the limits on damage that can be done to individuals in this situation in Italy also greases the wheels of forgiveness. "Some people lost their savings because they'd bought Parmalat bonds," he concedes, "Of course, people who lost money are enraged. But families are not being ruined. I think that having social protections in place in Italy – stability of workplace, pensions and healthcare for everybody – is an important factor in why they're not as enraged with the family."

It's just as well, because in the ongoing legal actions, there's a strong chance that the key culprits will be allowed to plead guilty in return for reduced sentences. Billions of dollars are likely gone forever, and they could even get off with nothing more punishing than the brief time already served. □

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Above: Italy's Prime Minister Silvio Berlusconi implemented policies that helped fraud to flourish
Right: Financier Sergio Cragnotti with his wife Flora Pizzicheni
Opposite page: Former Parmalat finance manager Fausto Tonna is escorted by police guards as he arrives at the prosecutors' headquarters at Parma's Law Court