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Calisto Tanzi in 1960s.

He inherited his family business that was started by his grandfather, producing processed like seasoned ham, cured meat & tinned tomatoes.

Tanzi was not satisfied with simply running the family business & decided to explore new products & markets to grow his business. On a trip to Switzerland after noticing a carton of milk he decided that route to success was through milk He set up a pasteurization plant near Parma to produce milk & sell in the areas surrounding the town. In 1963, the name “ Parmalat” was given to the company & milk was also marketed under the same name. Parmalat meant “ milk from Parma”.

Parmalat was the First branded milk to be produced in Italy & became highly successful.

Over the years, the company expanded operations to other areas of Italy & Parmalat soon became a national Brand. The splashing milk drop logo of the company was one of the best recognized corporate symbols & the company stood for all that was healthy & good. Over the years, Parmalat diversified into a variety of other products like yoghurt, vegetable sauces, fruit juices, baking products, soups & mineral water.

But all the good reputation of the company was until the events of 2003 which proved that behind the facade of goodness & health was an unhealthy penchant for complicated financial structures that milked the publicly held Parmalat group to keep the tanzi family companies keep running. Accounting scandals has almost become a trend of the times. It all started withEnron, the American energy giant which broke down in 2001, following the revelations that the company’s huge success in a very short time had its roots in posting inflated profits and using complicated financial transactions to hide debts.

The Enron fiasco led to lifting the veil on another American company, WorldCom, which eventually acquired the dubious distinction of having the biggest bankruptcy ever witnessed in business. While US was still reeling with the shock of the bankruptcy of two of its bigger companies, Europe did not lag behind. So while the US got Enron, WorldCom and several other big names, Europe responded with Ahold and Vivendi. Parmalat, though a big blow to Italy, was just another company added to the already long list of fraudulent companies.

The problem started in 1990 when in order to raise money to support its rapid expansion, the Tanzi family gave up 49% of their stake in the Exchange. The problems, which hounded the company since the early 2000s, came to a head at the end of 2003, and Parmalat all but collapsed under the strain. For over a year before the sandal erupted, analysts had been expressing doubts about the inordinately high levels of debt the company raised from the market, despite showing high reserves of cash in its financial statements.

Analysts were also concerned about the pattern the company adopted in investing its surplus funds, often choosing little known overseas funds in which to invest surplus resources. The key issues which company continued to perplex the analysts was why the company continued to tap the market for relatively small, yet often quite complex debt issues.

The controversy developed with full force in December 2003 when Parmalat found itself unable to muster the resources to honor a €150 mn bond payment that had become due.

Considering the cash reserves the company claimed to have, €150 mn was a meager amount and it surprised analysts that it was not in a position to raise the amount. However, company officials announced that it was only a temporary liquidity problem that would blow over. Parmalat also announced that it was unable to withdraw funds from Epicurum, and hence the problem. It requested its banks to help it resolve the liquidity crisis.

Finally, Tanzi himself admitted that the accounts of parmalat group were not accurate ; the books were being cooked. Tanzi’s resignation worsened the situation.

As the investigations deepened it was found that complicated systems of accounting were created quite deliberately by company officials for last 15 years! The company used a complicated system of bond and derivative deals to transfer amounts between its different subsidiaries around the world to create a picture of financial health for the entire group. It was revealed that money went from Parmalat to other overseas subsidiaries that were operating poorly or to Tanzi family businesses. Tanzi himself issued directions that money should be sent through bank transfers to companies owned by him or his family.

Due to these transactions the come could not maintain liquidity ; created false accounts.

Unethical practices were the main key issues surrounding the company. The adjustment made in balance sheets to make sense of the group’s overall financial position was one of such unethical practices. Documents were forged regularly to help in creation of false accounts. Statements of transactions were often cooked ; the parties that supposedly bought tons of powdered milk from Parmalat, never actually had any business dealings. Surprisingly, the system of putting together false documents was done four times a year.

As a result of unethical practices Parmalat shares fell by over 65% and companies’ ratings were slashed. What further aggravated matters was that, not only was Parmalat guilty of deception, but also tried to obstruct justice and hamper the work of the investigators. As the news broke, it was reported that a “ top official” within Parmalat ordered that all the documents be destroyed so that investigators did not find evidence. It was said that one of the company’s employees smashed a computer with a hammer to destroy its hard disk. With such unethical practices the company was bound to face problems.