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RISK MANAGEMENT, AUDITING AND COMPLIANCE. A SUMMARY REPORT REGARDING ITALIAN SMEs

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How SMEs (small, medium enterprises) make decisions about their internal control system is a frequently raised question and the answer is always the same: all that is not required by law, is not necessary.
Moreover, this is the typical answer given by those who don't like to choose the best solutions for their business, but rather prefer to hide behind the truth concerning any organizational shortcomings, such as not admitting to the reasons for their defeat, and consequently suffering to such an extent as to close down all business activities irretrievably.
This framework aims to demonstrate how important it is to provide the company with some fundamental tools needed to help run the company efficiently, thereby consenting it to keep up with any management turnaround and competitive challenges, by keeping their own material resources undamaged, without adversely affecting the enterprise's image and without seeing their own reputational resources disappear.

1. Introduction

A major problem likely to be encountered when companies want to introduce a complete *compliance program* consists of the lack of an internal regulatory system and an internal audit system, which are often linked to a lack of formal powers assigned to different middle-managers and to the absence of a detailed job description, which is why the concept of compliance is not as widespread in Italy as it is in other economically advanced countries.

Compliance means to abide by the national laws, issued by the European Union, and international laws, wherever they are recognized.

At the same time, the term *compliance* means respect of formalized internal procedures as well as reflecting the operating processes developed within the organization, according to the best trade practices and the best standards of accountability and legality.

It is true that implementing the quality system ISO 9000 has represented a good opportunity to draft in new behavioural rules based on standard processes effectively performed by the organization's human resources into all enterprises.

Nevertheless, too often the QA (Quality Assurance) has ended up being only a pile of written paper left on a shelf, particularly in the case of Italian SMEs located in the south of the nation, which are primarily founded on strong family ties, consequently running a more unstructured business and, therefore, not accustomed to pursuing the scheme of quality, after obtaining the certification so desired.

In this circumstance, acquiring that type of certification is even more futile than not having it at all!

The general principle of every law system is that where rules are being written down, there must always be someone who is responsible for checking that they are obeyed.

The remittance of the latter seems to be the main aim of every entrepreneur who considers the business to be of his exclusive property, without needing to compare his company to the rest of the economic world in which he belongs.

The long tail of the economic crisis, in a weak economy as constitutes the Italian one, has not allowed to realise the definitive splitting between the interests of the enterprise and the interests of the shareholders.

In SMEs both of the two different interests are the same thing and have also the same subjects as main protagonists, therefore, there is nothing to check, as any progress conceived around the enterprise, stays in endowment in the sole interest of its owners.

This paper attempts to highlight the relevance of an internal control company system starting off from the actions of *auditing*, in order to draw up a *compliance* model geared to its organization.

We should also take into account that the aforementioned business culture is not often found in the business we are about to discuss. Thus, it is extremely important to approach the entire issue by considering a way to overcome the resistances that can be encountered when supporting an argument with the enterprise's board of directors.

2. The need for control

It is quite astounding and altogether disconcerting being made aware of the general disinterest of southern entrepreneurs, and even for many others located in the rest of the nation, towards whichever type of control concerning their own business activities.

Rarely, and only when necessary do, they allow a due diligence on their own enterprise. We are talking about mergers or other financial operations, such as takeovers, inputs into equity, private equity operations, inputs into existing companies with the contribution of stocks, credits, shares and real estate assets, undertakings or branches of them or networking enterprises.

In all the other circumstances, nobody is willing to recognize the *lack of organization* and its associated defects.

According to the majority of SME owners, their organization is always perfect and will gain absolutely nothing by implementing any changes or improvements.

There could be nothing worse than being conditioned by all these misleading considerations. It is sufficient to flick through a few pages of the best seller written in far 1962 by A.D. Chandler: *Strategy and structure: chapters in the history of the industrial enterprise*, to discover the deep interdependencies between the changing of strategy and the proactive adaptation of the organization[1].

[1] Chandler, *Strategy and structure: chapters in the history of the industrial enterprise*, Cambridge, M.I.T. Press, 1962.

The purpose is to hope that everyone can perceive *control* as a sort of *necessary evil* that helps enterprises drive towards change, to stay in contact with the surrounding world and to have self worth and even as an element of national progress in the safeguarding of employment.

Let us begin with making some considerations of a general scope. Business economics is a social science, which has not been thoroughly investigated and which has been continuously evolving. It includes a wide spectrum that ranges from the simple rules of running a family to the more complex management techniques which govern multinational enterprises.

However, there is one thing that joins them conclusively, and that is the need to get a strict grasp of the elements on which their dynamics are grounded.

Some types of dynamics turn out to be subjected to a sort of self-determination and self-control.

The references mentioned are to the outcomes of organizational learning, whereby the *organizational routines* are being refined continuously over time, even only due to the natural thirst of knowledge inherent in the human existence, through the experiences gained by the members of the organization in performing the tasks entrusted to them[2].

An example for better establishing the last statement can be pinpointed by reading the so-called *curve theory of experience*, further enriched with all the related empirical studies fulfilled by experts in the matter[3].

It informs the reader about the effects of organizational learning linked to business costs. The gist of the theory is that *accumulated volumes of production over time bring to a reduction of the unitary medium costs of the products*.

The individual learning of every employee results in collective learning through the capitalization of knowledge acquired by accomplishing every single activity within the company.

However, most of the business dynamics can only be scheduled, in a climate of widespread stochasticity.

This means that the forecasts relative to future operating performances might not occur, for reasons internal to the business or external to it.

We must underline that the enterprise relationships with the *boundary systems* are out of this analysis.

It is the classic *theory of risk*, distinguished by two principal meanings:

1. systematic risk-project (macroeconomic risk system);
2. specific risk-project (enterprise's microeconomic risk and systemic risk).

The first one mentioned is often unpredictable and imponderable, as it depends on factors scarcely manageable by economic operators.

Natural events, political systems, the state of the country's institutions, legal systems and the system of the laws, including fiscal systems, are never controlled or affected by the entrepreneurial world.

Basically, the systematic risk is almost always not diversifiable, unless it comes from multinational enterprises, that are able to move and settle to several countries

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[2] Argote and Mirror-Spektor, *Organizational learning: from experience to knowledge*, New Organization Science, Carnegie Mellon University, 2009, 6.

[3] Martin, Stalk, Scognamiglio Pasini, *BCG Classics Revisited: The Experience Curve*, The Boston Consulting Group, 2013, 1 ss.

where the political environment and the legal system appear more suitable to private investments and to the free market.

The second one has become object to attention in all the advanced economic countries by the academic and professional world, setting theories and tools of analysis as well as mathematical and accounting algorithms to help enterprises discover the best conditions of equilibrium and survival, within a competitive system which has long been globalized and strongly disrupted by unceasing technological changes and frequent reconfiguring of sectors deriving from the actions of the most aggressive competitors[4].

Subjects like Business Economics, Business Organization, Corporate Finance, Business Strategies, Marketing and Communication, offer a positive way forward to the studies and researches by solving a great deal of the problems and conflicts encountered[5].

Setting apart the two lines of investigation enables us to focus on the nodal points that supervise the institution of an internal control system, consistently compliant with the organizational and financial resources available in the single businesses.

Obviously, there is nothing better than give our trading and financial partners the impression of having all internal productive and functional processes under heavy guard, and guarantee that nothing illegal or fraudulent is being indulged or any illegal or fraudulent information will be released by the company.

Nowadays, these kinds of assurances are extremely vital in order to be competitive and reliable in the eyes of the purchasers or others customers of the enterprise's products and services.

3. A glance at the organization

Each organization with a minimum of structure and organizational framework must assign the management responsibilities in relation to the different activities conducted within groups of people who share tasks and goals.

They are joined together by relations that concern resources acquired by each one and the product delivered to the next phase of processes, geared towards the layout of installations and identified by the logistics of the activity, related to operating procedures which have been correctly formalized in the administrative field and further supported by documental evidence.

All this allows us to establish in every moment *who* is doing *what* and the resources used by each member of the organization in order to accomplish his own duty.

Informal relations between members of the organization are created during the working day and over time they represent an element of paramount importance for giving a more persuasive idea about the success which has been gained by the enterprise.

Nevertheless, without setting up formal relations among those ones, with their contents in terms of decision-making powers and their hierarchy, job description and tasks assigned to everyone, it is more likely that nobody will be able to conduct any type of investigation within the organization.

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[4] Aven, *Risk Analysis*, John Wiley & Son, Chichster, 2008, 30 s.

[5] Bhimani, *Risk Managment, corporate governance and management accounting: emerging interdipendencies*, in *Management Accounting Research*, n. 20, 2009, 1-84.

In the matter of decision-making powers, below is reported the thoughts of one the best consultant teams in the world, which is the BCG:

«(...) accountability, decision rights, and collaboration are constructed with thoughtful consideration. High-performance organizations have clearly defined roles that are carefully assembled to form an highly efficient organization. People understand what is expected and which decisions are theirs to make. When accountability is shared employees understand clearly when and with whom they need to collaborate. We help companies achieve this clarity through role charters, but what they are called is less important than they the need to have a path to achieve clear accountabilities, decision rights, and behavioral expectation, Clear roles remove the ambiguity that slows decision making and improve the performance potential and employee engagement of modern organization (...)[6]».

De-bureaucratising the organization through the compression of the hierarchical lines, for best solving internal conflicts and managing in the best way the responses to the environmental and market changes, does not mean to give up on having general controls on all the company's activities.

Building a de-bureaucratized organizational structure is synonymous of flexibility but alongside it must not be forgotten that the leading structural element of every social system comes from its history and its traditions.

According to experts of business economics and social systems, change is a *must* that has to necessarily be pursued in an era of heightened economic and financial turbulence, which is the modern one.

Nevertheless, modifying everything inside the hierarchical structure completely and abruptly and with regards the communicational system, by getting away from the organizational DNA, without a progressive and gradual path and without waiting for the reactions of employees, as well as of the commercial and financial partners, is equally misleading and deceiving.

The debate is structured around the concept that is it more advantageous to formalize the organization or is it more useful to proceed to its partial or total dismantling, seen from the perspective of realizing the innovations and meeting all the stakeholder's satisfaction.

Two different visions are as follows:

a) the first one gives a negative perspective and states that the bureaucratic form of organization stifles creativity, fosters dissatisfaction and demotivates the employees;
b) the second one affirms, in a more positive manner, that bureaucracy provides needed guidance and clarifies responsibility, thereby easing the assumption of roles, cutting down their emotive stress and by helping people to be and feel more effective/efficient.

Both of them are justifiable enough. Obviously, we do not want to dwell on these topics, as it is possible to fall into a literature without no limits and consequently lose the main point of the discussion.

Notwithstanding, we must pay great attention to some attempts of reconciliation of the second affirmation.

In this vision there is also the overcoming of the dicotomy between the *coercitive* conception of bureaucracy and the one *enabling*, which is the permissive aspect of it.

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[6] Bcg, *High-Performance Organization – The Secret of Their Success*, 2011, September, 6 s., available in *www.bcg.com*.

Adler and Boys so argue:

«(...) Distinguishing between enabling and coercive types of formalization seems potentially fruitful as a way to theorize the difference between good and bad procedures as experienced by employees. They are likely to have different features, and these features are more likely to emerge through different design processes. To preserve and augment their enabling or coercive potential, they need to be implemented in different organizational contexts. The enabling versus coercive distinction suggests that we can characterize organizations along two dimensions: type and degree of formalization. The type of formalization can be conceptualized in the terms we have just identified. The degree of formalization can be conceptualized in the nowconventional terms as the extent of formalized rules governing work behavior and the extent to which they are enforced. This two-dimensional framework implies that formalization's attitudinal outcomes depend both on the fit of the degree of formalization with the routineness of the task, as argued in contingency theory, and on the type of formalization. Positive attitudinal outcomes, we submit, can be expected in organizations with a high or low degree of (technically required) formalization as long as the type of formalization is enabling. Negative outcomes are to be expected in organizations with a high or low degree of (technically required) formalization whenever the type of formalization is coercive (...)[7]».

It has also been reported that the co-existence and integration between traditional and new forms of organization is increasingly salient[8], as well as there being more and more frequent episodes of cases in which it is the new supplementing the old rather than supplant to it[9].

Moreover, it is noteworthy that similar observations have been made by many researchers who have analyzed the issue by providing a cluster of solutions, each of them highlighting some dissatisfaction with the assumption of mutual exclusivity in sorting out the best organizational formula suitable to every type of enterprise.

The evidence of reality has many times revealed that dualities represent a perspective inherent within an alternative organizational change paradigm that views different organizational methods as complementary rather than contradictory.

This observation suggests,

«(...) an evolutionary synthesis has occurred between traditional (mechanistic and bureaucratic with structural orientation) and new (organic and flexible with a process orientation) form of organization (...) The coalesce in the dual concern for structure and process issues found in recent empirical data concerning the organizational form being used by large companies (...) that viewed through the theoretical prism of dualities a concept designed to embrace the tension and counter-veiling principles inherent in marriage of the traditional and new (...)[10]».

To sum up this short passage on the enterprise's organizing, we can quietly sustain that the identified coordinates in the holistic range *efficiency-flexibility* are always different in every socio-economic system.

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[7] Adler and Boys, *Two type of bureaucracy: Enabling and coercitive*, in *Administrative Science Quarterly*, 1996, March, 41, 1, 77 s.

[8] Palmer, Dunford, Rura-Polley, Baker, *Changing form of organizing: dualities in using remote collaboration technologies in film production*, in *Journal of Organizational Change Management*, 2001, 14(2), 190-212.

[9] Pettigrew, Fenton, *The innovative organization*, Sage Publication, 2000, September, 279-300.

[10] Graetz, Smith, *Critical perspective on the evolution of new form of organizing*, in *International Journal of Strategic Change Management*, 2006, Vol. 1, Nos. 1/2, 127-129.

These events are more and more linked to the degree of technology of the investments in *intangible assets*, the level of *Information Technology* existing in all the communication systems, and the nature of processes carried out in every activity center.

It is not possible to have a productive structure without any type of hierarchical structure, as well as it is not possible to have a productive structure lacking of every form of flexibility and adaptability to environment change.

Too rigid are the structures based on the concept of Taylorism (scientific management system), the more they don't fit in with the turbulence and speed of modern times.

At the same time, a completely *heterarchical* founded organization with only one exclusive horizontal level of responsibility, appears most probably similar to an anarchical group without any leader and lacking in any decision-making bodies, where everyone does what he wants and feels like doing.

Naturally, the truth includes a little bit of both elements! An organizational model based on *hadocracy* does not necessarily collide harshly with the vertical decentralization of skills required by processes[11].

Whatever is the degree of independence reached by the decision-makers (corporate top management, senior management, middle management), it must always coexist in a sort of general oversight in order to ensure that the behaviors and the processes are addressed to accomplish the planned aims, in the most absolute legality and by abiding by the roles and the rules[12].

DASHBOARD OF CONTROL
Chart 1

	Organizational structure	**Processes and rules**	**Communication systems**	**Finance**	**Sensitive and contingency analysis**
Internal environment (organizational framework)	- organizational architecture	- decision-making processes	- individual and collective learning	- programming systems	- chain of value, value constellation
	- management system and accountability levels	- operational processes and procedures	- information tecnology	- budgeting analysis	- critical factors for successful
	- dimension of skills	- Internal auditing and compliance	- routines and know-how	- cash-flow analysis	- strategic planning
External environment (boundary systems)	- political systems	- customer loyalty program	- marketing analysis	- financial markets and banking systems	- sectoral analysis
	- state of institutions	- supply agreements	- advertising systems	- private equity funds	- sector's profitability
	- nature of markets	- legal systems	- company image	- LBO operations	- concurrency and networking
	- structure of sectors	- fiscal policies	- reputational resources	- corporate finance transactions	- integrations and diversifications

[11] Lunenburg, *Organizational Structure: Mintzberg's framework*, in *Intenational Journal of Scholarly, Academic, Intellectual Diversiti*, Vol. 14, Number 1, 2012, 1-7.

[12] Dolan, *Revisiting adhocracy: from rhetorical revisionism to smart mobs*, Journal of Future Studies, 2010, November, 15(2), 33-50.

4. The paradigms of control

Comprehending an organization, by detecting its weaknesses, as well by highlighting its capabilities of improvement, is the first step for building up a powerful garrison of control.

In *chart 1* the elements of the construction are shown, subdivided into five critical aspects on horizontal axis and two observation points on the vertical axis.

By comparing an organization with all the thirty-five elements of the *rectangular matrix*, it is possible to establish the perilous *moments* in which the organization seems to be weaker and the relative moments in which it appears more efficient.

The real logic of control systems is not to bask on the best things, by thinking inadvertently that the business will go ahead in the same way, but readily wake up from the comfort and suggestions of the old successes and try to remove the inefficiencies that could be the causes of the next potential failure.

Obviously each element of the matrix should be called into question according to proportionality criteria. It is very difficult, if not impossible, to give positive responses to all of them.

Instead, it is much more important to start undertaking a useful comparison, leaving out what is too high for the enterprise at that time and focusing on those elements which are easier to complete, by taking advantage of the resources available.

As the enterprise grows it will always be able to introduce more sophisticated tools of control, until it is able to achieve an excellent equilibrium in its *balanced scorecard*[13].

Here is a simple notation, that should be an acquired knowledge by the enterprise's corporate management. On reflection, I wonder if a way exists of not being exposed to the *risks*. Naturally, I refer to checkable risks, better known as *specific risks-project*.

Such an issue is, actually, *undetermined* and it always misses at least one stochastic variable, often more than one, in order to find a solution to this puzzle.

For example, might we ever forecast the reactions of our competitors to our price reduction policy of products?

Would we be able to comprehend the time of change of our target customer's consumption habits?

Would it be possible, for a new innovative entrepreneur, to change the rules of competition, step by step gnawing at our market share and become, after a short while, the industry leader?

Which consequences could descend from an arraignment of one customer for a malfunctioning of our product or for having compromised or damaged in an irreversible way his health? And which effects of these events might entail on our trustee resources and the business image?

Again, what would happen if during some investigations, even if unintentionally, a trade fraud or a manager's misconduct towards a public power or in relation with a public administration, obtaining an unjust earning for the enterprise, had been detected?

And in such cases, what might be our response? And, above all, could we rely on our organization to respond effectively to challenges so as to maintain intact the competitive advantage achieved?

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[13] Kaplan, Norton, *Transforming balanced scorecard from performance measurement to strategic management, Part 1*, in *Harvard University Accounting Horizons*, Vol. 15, Issue I, 2001, March, 87-104.

Simple examples give us certainty about why, at best, the risks can be merely lowered or mitigated, until minimizing their influence, but they cannot be wiped out altogether. No economic theory, no mathematical formula and no pragmatic approach to the risks have succeeded in getting rid of all dangers linked to its managing.

Every enterprise has to choose its own *risk appetite* and consequently, its own *exposure to the risk*, after having carried out investigations about all its components and assessed the impact of their harmful effect on corporate assets and its own reputational resources.

It is quite clear that not all the risks can be kept under strict oversight. This would require too high a commitment of organizational and financial resources compared with the expected benefits.

First of all, there is always a *residual risk* for which it is not worth keeping busy resources and wasting time. The hazard exists, but it is low enough to such an extent that it can be left out.

Secondly, among the *primary risks* you have to detect those ones that show up with major probability of occurrence. Regarding these, it needs to pay particular attention the way in which they could be paired with the corporate event management and development of related operations.

Alongside, a careful *risk assessment analysis* must be conducted in order to determine all the necessary measures able to prevent and avoid any potential damage to the company.

We are referring to the activity of *risk management*, based on the model E.R.M. (Enterprise Risk Management), the first time proposed in the U.S.A during the year 1992 by the *Committee Of Sponsoring Organizations of the Treadway Commission*, and its subsequent developments and applications[14].

In order to satisfy the scopes of this paper, by taking account of the doctrinal contributions on the argument, we would hereby report briefly the basic assumption of the model. An activity of risk assessment involves:

a) identifying risk factors which the enterprise is submitted to;
b) figuring out which of them are to be considered such as *inherent* (primary) and those one that are to be considered *residual* (low consistency) for the organizing;
c) appreciating the likelihood for exposure to *risk*;
d) evaluating the potential consequences of exposure;
e) weighing up the capability of safeguard of the business assets and reputational resources;
f) communicating to employees the frame of controls and providing information that allow them to carry out their duties.

The key issue is to set up, internally the structure, a group of people specifically dedicated to the activities mentioned in the points that go from a) to f).

According to the enterprise's size, the manifestation of the company's critical functions, the levels of responsibility and middle-management which assemble the structure, the learning and communication system (individual and collective) engineered, there are several organizational solutions available that can better fit with the whole organizational design.

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[14] Moeller, *COSO Enterprise Risk Managhement: Understanding the new integrated ERM framework*, John Wiley & Sons, INC, 2007.

Usually the *team* is composed of a combination of some or one of not-executive administrators together with external experts in matters of legal and accounting revision.

It is even possible to foreshadow a *monocratic* organ of check, as long as it provides high professional skills and absolute independence from the board of directors.

A mixed team, nevertheless, would enable to avert the proliferations of monitoring bodies, by getting cost reductions and interesting improvements in working out exceptions and conflicts coming from the organizational structure.

In fact, the *risk management* and the *internal auditing* could be brought forward by the same qualified people, of whom at least one without ties of belonging to the company, that should have been able to internalize both logic of the general checking of the risks than the logic of the control of every human behavior inside of the organization.

Here are some contributions offered by academics and doctrines:

Nagy and Cenker so allege,

«(...) by migrating towards a consulting role within the organization, internal audit departments may lose the safety net of being labeled as a necessary evil and may now have to justify the value of their activities to top management on a continuous basis. By reaching an understanding with management of what makes an internal audit service value-added, internal auditors ensure that their service will be fully utilized and that their recommendation will be respected (...)[15]».

In the same way, even if with reference to qualitative aspect of relationships, Sarens and De Beelde write «(...) a professional internal audit activity will supplement senior management's actions, by providing independent and objective assurance on the effectiveness of the organization's governance processes, how well it manages all kinds of risk and whether internal control processes are operating, as required, to manage risks to an acceptable level. In other words , the CEO receives an independent and objective assurance on the quality of internal control from someone others than the CFO or line managers, and/or the CFO receives independent and objective assurance the quality of internal control from someone other than the line managers and decentralized finance staff ... Internal auditors also support management by providing consulting services, which contribute to the establishment of sound risk management processes, by facilitating management's efforts to improve the system of internal control, and by giving advice on the implications of organizational change to the system[16]».

And last, but not least, Spira and Page so refer, and have already done so since the end of the 1990s, «(...) a survey of senior executives and senior internal auditors carried out by KPMG in the USA indicated that a higher percentage of internal auditors than senior executives expected internal audit to have a developing role in identify and evaluating risk. Twice as many internal auditors as senior executives viewed risk management as the means by which internal audit added value (...) Internal auditors had a stronger perception of their current ability to assist in risk

[15] Nagy, Cenker, *An assessment of the newly defined internal audit function*, in *Managerial Audit Journal*, 2002, 17/3, 132-133.

[16] Sarens, De Beelde, *The relationship between internal auditing and senior management: a qualitative analysis of expectations and perceptions*, in *International Journal of Auditing*, 2006, 10, 222.

management activity than senior executives did; but senior executives expressed a strong wish for this area to be developed (...)[17]».

Other examples could be quoted, but it is not our intention to weigh down the argument too much.

An important clarification is provided by the Italian regulatory directive issued both by BANKITALIA and CONSOB in matters of governance organization of financial intermediaries and banks, that naturally can be considered as a simplification to be made available to all enterprises,

«Article 44

(Control functions and principle of proportionality)

1. In accordance with the principle of proportionality and if it is constantly ensured the adequacy and effectiveness of the control system:

a) the functions of risk management and compliance monitoring can be centralized in a single function;

b) the internal audit function cannot be established;

2. The operators subthreshold can centralize in a single control function, permanent and independent, the functions referred to in paragraph 1 (...)[18]».

As is easily detected, managing the *control* does not seem to be an item that necessitates a large amount of financial resources and a strongly structured organizational size.

Certainly, it is necessary to make a small investment in organization, but the benefits you can reap are much more consistent than the costs which have been sustained for obtaining them.

5. Assessing most harmful risks

Abiding by the content of this document and considering the message it wants to suggest, the most dangerous risks an enterprise must face up to are the following:

- operational risks;
- legal risks;
- compliance risks;
- reputational risks.

We will now give a brief description of the aforementioned risks, without delving into an analysis of their motivations, by considering the enormous contribution that has been offered by the experts until now.

The *operational risk* is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Generally, it comes about a result of:

- human error, such as several distractions when carrying out activities, forgetfulness of deadlines, inadvertent destruction of documents, errors in processing transactions, and so on;

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[17] Spira, Page, *Risk management – The reinvention of internal control and the changing role of internal audit*, in *Accounting, Auditing & Accountability Journal*, 2003, Vol 16, No. 4, 656.

[18] *Regulation for the organization and procedures of intermediaries providing investment services or collective asset management (Adopted by the Bank of Italy and by Consob on 2007, 29 October and subsequently amended by acts joint Bank of Italy/Consob on 2012*, 9 May and 25 July and 2015, 19 January.

- the failure to adhere to internal policies;
- the failure to abide by internal procedures;
- fraudulent utilization of log-in information management software and database;
- computer hacking;
- malfunctioning of software, general and sensitive data losses, breakdowns of plant, server and personal computers;
- acts of sabotage or vandalism from employees;
- external fraud;
- catastrophic natural events, such as hurricanes, earthquakes, fires and electrical blackouts.

The *legal risk*, often included in the first one, comes from a contract or financial transaction that cannot be fulfilled because it breaks the law or there is a regulatory conflict.

Other legal risks include documentation or contractual problems.

The *compliance risk* is linked to legal sanctions and is represented from material financial loss that the enterprise may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of good practice.

The *reputational risk* is the resultant vector of the joint action of all the risk first announced. It is unpredictable and not-measurable and for this reason it shows up like the absolute worst.

When the enterprise gets full consciousness of its manifestation, it is probably too late to make up for the negative effects produced on the entire assets and it is also very likely that its competitive position has been already questioned by its own trade partners and customers.

Hence, one has to wonder how to avoid of incurring in those risks, or better still, how to act for having on them an adequate mastery in order to succeed in averting the unavoidable.

We know, from what has been established up to now, that there is no need to put in place a complex and multiform *geometry of controls*.

Extending the accountability levels, the division into sections of the inspective body and the plotting of the activities to be conducted upon procedures stiffly fixed, not always ensures a good management of risks and the solidity of the organization in front of the change and the *turnaround* management.

It is necessary to find and try out a suitable methodology in order to learn to reduce those risk and to set a *range of tools* that would consent towards the realization of this aim.

A simple route to deal with the argument is to proceed in small steps until reaching a model that better fits with the dimension of managed activities and with the financial and human resources available.

Let us describe how doing, without claiming to be absolutely complete, but only to present an easy model as an example to be made available for SMEs.

6. First step – Preparing the organization

When moving from an uncontrolled productive system to a structured order of analysis and control of risks internally within the organizing, a factor of extreme importance for bringing to an end the operation is the full involvement of employees.

An agenda of meetings among the enterprise's governance, the auditors and the employees should be set out for debating the organizational change ongoing and the new *frontiers* of collaboration which every employee is called to abide by.

No one who runs the company can take for granted that employees have the ability to understand the scope of innovation, without first arranging for training sessions.

Having a QMS (Quality Management System) certification, as the standards of UNI EN ISO 9001, or owing a QTM (Quality Total Management) System which the company is proud of, especially in the domestic environment, more and more often has represented only a formal event to highlight in official documents and nothing else.

If on the one hand, the procedures foreseen in those systems can really leave track an address of best behavioural practices for all the people involved in the organizing, on the other hand there should always be someone who is responsible for checking that all the employees have internalized the culture of the control.

The absence of any presidium of *risk assessment* and *auditing* in the majority of Italian SMEs, is the main cause of failure of the aforementioned systems and, more frequently, also the source of disruption of the enterprise's competitive advantage conquered as early as starting from the second post-war period until the end of the 1970s.

The formal aspect of each management and control system, should it be reasonable to assume exists, but it is not certain, has always replaced the perception of the real and substantial implication of the events taking place around the organization. Where there is plenty of useless documentation, which no-one really reads and puts into practice, you can probably view an Italian enterprise!

The truth is that from the first economic crisis of the 1990s, until the most recent economic crisis which began in the year 2007, the Italian courthouses have been swamped by failures and minor insolvency matters, the first not even for macro reasons, and no laws have been capable of stopping these disasters.

It is possibly also the fault of a too mature Italian macroeconomic system, since the existing enterprises hadn't learnt how to interpret and deal with the changes that were coming in the early 1980s, primarily by not investing sufficiently into the organization and the intangible resources that should have been generated by sustainable scientific and economic research.

The economic crisis of the western hemisphere also started for reasons not linked to the real economy, such as the *financial bubble* which burst in the USA during 2007. However, there is no explanation why that crisis could have been allowed to go ahead continuously in any country without the presence of structural motivations, both in terms of macro and micro, which essentially constitute the greatest weakness in that country.

Modern times require skills in planning, information technology, knowledge of markets and their dynamics.

Therefore, it is highly unlikely that enterprises will be able to survive facing up to the international competition in a globalized economic world without first and foremost having implemented, within their own infrastructure, systems and tools capable of making appropriate and coherent forecasts and at the same time managing to mitigate the impact and the effects of all types of business risks.

7. Second step – Identifying a clear framework of accountabilities

Regardless of the organizational structure chosen and its managerial hierarchies, the decision-makers must always be detected with extreme accuracy.

They need to take charge of both the successes and unsuccesses of the business, they need to inform the owners or shareholders about the *organizational shortcomings* that they had failed to remove during their term of office.

At first sight it might seem an unnecessary clarification. Nevertheless, delving deeply into the core of the Italian SMEs, it emerges that all members of the board of directors are ready to praise themselves for any successful business within the company, however none of them is willing to take responsibility for any failures. It does not exist, between Italian managers, the locution *blame it all on me*. It is always fault of the others!

It is not a question of strength of power practiced or grade of authority towards the employees, but it comes from the *brainstorming* methodology that governs the enterprise, the way and the style in which it is applied for every key moment of its life by those who have the task of decision making for the satisfaction of the owners, employees, vendors, buyers, lenders and the other stakeholders.

The first responsibility of every body of governance is to eliminate the obstacles that do not enable the company to get the resources and tools necessary to have an efficient and correct administration, taking into account the size of the business and the financial resources made available by the owners.

If it is so difficult to associate the decisions to who has adopted them, ordered them and materially executed them, then it is practically impossible to pursue the function of the control in whatever enterprise.

Occasionally, certain decisions need more permissions and in these cases, each decision-maker needs to shoulder the responsibility in full adherence with his position in the enterprise's hierarchical and functional structure.

All this is very important in order to comprehend if they are about to occur some ripples in the business communication system, so as to avoid having to bear the weight of the inefficiencies that might come to light, with the inevitable onset of downtime that exacerbates uselessly the reaction times of the enterprise.

8. Third step – Job description

I would hereby report a quotation from the Howard University web site and go on to explain, briefly, the meaning of this important constitutive element of the organization,

«All employees like to know what is expected of them and how they will be evaluated. Job descriptions can also be a great value to employers. Creating a job description often results in a thought process that helps determine how critical the job is, how this particular job relates to others and identify the characteristics needed by a new employee filling the role. A job description typically outlines the necessary skills, training and education needed by a potential employee. It will spell out duties and responsibilities of the job. Once a job description is prepared, it can serve a basis for interviewing candidates, orienting a new employee and finally in the evaluation of job performance. Using job descriptions is part of good management.

Using job descriptions will help an organization better understand the experience and skill base needed to enhance the success of the company. They help in the hiring, evaluation and potentially terminating of employees. All too often, there is a misunderstanding of what a position entails and a well-prepared job description can help both sides share a common understanding[19]».

It is quite clear that the job description not only underlines expectations as to what a job entails for prospective and existing employees, but it also contains the specific standards for making comparisons with the actual work performance, and it gives a legitimate justification for taking disciplinary action when the work that has been carried out is not in line with the prefixed standard.

9. Fourth step – Writing the procedures

A *procedure* is a document that provides step-by-step information on how to perform a specific task.

It is considered to be an explanation of the methodological and organizational detail and is used to clarify how, within different functions, employees should operate, according to well-specified information.

The procedures also define the best practices for developing functional and operational processes and in this way they have the not less important task of preventing undesirable events, and describing how the organization will be able to cope and recover from such events should they occur.

However, not everything needs a procedure, therefore it is not necessary to create procedures for basic tasks and elementary operations, in fact, it is highly likely that they will be ignored by employees.

A written procedure is only necessary if the issue is sufficiently important or if it will result in a significant benefit from clarifying a process.

Before writing a procedure, it is very important to first decide if it is associated to a key process concerning the organizational structure and its communication systems.

It is also important to gather the necessary information on the process used in order to make a procedure. In fact, business processes, in which procedures are being formalized, are usually shared with more of one function and only a few processes are to be run under the same function.

To design a procedure, is not enough list the kind of activity that must be performed and the numbers of elementary operations that constitute it, but you also need to know and follow certain rules, by taking into account that every activity absorbs resources and delivers a product that could be an *input* for another activity and, for this reason, such rules have to obey to specific instructions and laws that make possible the operative functionality of the firm.

Having formalised processes and procedures for your business can save you time and money by increasing efficiency.

If they are written in the right way, clearly and correctly, they can help systems and people function more efficiently. If the employees know what to do, when to do

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[19] *The Importance of Job Descriptions*, Howard University, available on *www.financialwisdom.com*.

it, how to do it, and how not to get it wrong, you can reduce frustration and save a large amount of money, time and effort.

Another relevant factor to be considered when drawing up procedures, is the appropriate assistance of the employees.

It is common knowledge that extremely rigid procedures and barriers to communication towards superiors or managers, diminish the autonomy and creativity of workers significantly, by entailing, in the meantime, the reduction of the motivation to accomplish their tasks[20].

According to his/her skills, each employee should be called for to participate actively in the development of procedures, so that he/she can suggest ideas for proceeding to their actual issue and thereby making up for his/her reduced freedom in task execution[21].

This is also the meaning of what has already been referred to in the first step *preparing the organization* when we mentioned the training of the employees.

10. Fifth step – Verifying the application

Here we will approach the field of control and the arguments dealt with in the first part of this paper.

Based on the type and size of organization, there are three *stations of control*, that can be activated by the board of directors:
1. Risk Management System;
2. Internal Auditing System;
3. Compliance System.

In large enterprises and in companies quoted in the stock exchange, these *teams* are being organized in an independent way and are sustained by a substantial amount of financial resources.

Their tasks are well defined, the first belonging to the risk assessment activities, the second referring to respect of technical regulations and internal procedures and the third regards the compliance control to every law and every other regulation having the force of law.

Much of the information is shared between them, despite their strong independence, by helping to avoid incurring harmful events, by preventing violations of rules and by hindering not-compliant employee behaviour.

The inspective process managed by each often requires a lot of time, intercepts more than one function and intersects all levels of responsibility, producing the same documentary evidences, which in different occasions are shared.

The so-called *working papers* of every team, thus, constitute common heritage available for making the necessary *findings transverse*, between the different bodies of the control, concerning the enterprise's activities subjected to analysis, even with the use of sampling techniques.

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[20] Thomas, Velthouse, *Cognitive elements of empowerment: an interpretative model of intrinsic task motivation*, in *Academy of Management Review*, 1990, 15:4, 666-681.

[21] De Treville, Antonakis, Edelson, *Can Standard Operation Procedures be motivating? Reconciling process variability issues and behavioural outcomes*, in *Total Quality Management*, 2005, March, Vol. 16, No 2, 231-241.

That is why these companies show greater ability to adapt to environmental changes and higher managing skills that seem to be indispensable to the maintenance and consolidation over time of their effective competitive advantage.

They pick up higher yields because through their management systems they succeed in discovering the environmental dynamics, by absorbing the weight of the intrinsic hazards, and also have a severe control of internal activities which is definitely sorted out more efficiently than other companies which are not structured so well.

In the SMEs, other medium-sized enterprises and smaller businesses, the logic is equal, but the tools and the organization of the control protagonists changes.

Reflecting on their nature, it seems that SMEs should have greater ability to adapt to changing economic conditions in the markets and technologies, due to their inherent structural flexibility, than the bloated organizational structures of large businesses and transnational companies.

However, this is not exactly how things are, precisely so that these small enterprises very often lack efficient monitoring systems, such as sentinels that could warn them whenever *external dystonias* are detected, by respecting the programs adopted or whenever internal organizational conflicts are generated, there is a reduction in labor productivity, a waste of resources and frauds against them committed by workers and by third parties contractualized[22].

Certainly, they are more focused on marketing issues. Therefore, it is more likely that the board of directors can introduce into the management systems several elements of market analysis, such as *Ansoff's matrix*, to identify their own target market and planning the extension of the offer and the model of the *product life cycle*, in order to foresee, with a sufficient reliability degree, the beginning of the period of maturity.

In other cases or circumstances, the governance of SMEs is more concerned about the activities of financial control, especially in companies that are not able to self-generate the monetary funds in the right amount for ensuring the production processes continuity[23].

Withal, it is very difficult that a stable organizational segment for the assessment of all the risks related to the actions of the competitors can exist, to the effects of rapid technological changes and for better understanding the modifications of the tastes of the consumers inducted by advertising media.

Unfortunately, it does not exist, in smaller business, the idea of using the same organizational segments to monitor the kind of risks we have already mentioned as the most harmful to the enterprise.

In truth, notwithstanding the natural generational change to the direction of the SMEs and family enterprises after the Second World War, it still lingers the old mentality for which *all will be well, just have the strength to produce*, that had accompanied the entrepreneurial world in the age of the rebuilding.

They don't seem to notice that we have had, *at the end of the 1970s – early 1980s*, the great and deep revolution of information technology, which has introduced new

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[22] Linjie Jiang, Xuedong Li, *Discussions on the Improvement of the Internal Control in SME*, in *International Journal of Business and Management*, 2010, September, Vol 5, No. 9, 214-216.

[23] Missuara, *Risk management and other internal control component in the SME sector: qualitative analysis*, in *Journal of Business and Economics*, 2014, June, Vol. 5, n. 6, 838-850.

ways of making business through *internet* and the *e-commerce*, as well as some of the greatest examples of *reconfigurations sectoral*, accomplished by brands known as RANK XEROX, PANASONIC and SONY in the 1970s and first half of the 1980s, and by CANON, APPLE, MICROSOFT, IBM, GOOGLE, SAMSUNG, McDONALDS, IKEA and BENETTON, *in the last thirty years*.

The latter have succeeded in shifting the competition, regarding their respective sector, from the traditional factors of success, as reduction of costs due to improvements of internal efficiency and the conquered share market, to other factors until then nearly unknown, as the *quality of products*, the alternative *canals of distribution*, the *times of delivery* and the *after-sale services*, becoming within a few years leaders of industry, thereby creating serious problems of survival to all major competitors.

The economic equilibrium of the world is no longer stable in its dynamics, and the weight of the IT and ICT *(information technology and information communication technology)* has become more and more important in the development of the enterprise's strategy at least as much as the innovations tried out in research establishments.

Furthermore, in the last three decades, new countries have appeared on the international scene, such as Japan, China, South Korea, Taiwan, Russia and India, starting to threaten the mature economies of olden Europe, such the Italian one.

In this *mare magnum of turbulence*, only the enterprises that offer management control systems and mostly capable of planning their activities have managed to go on doing their best, by pursuing their goals and by reducing the gaps endured against the competitors, now distributed worldwide.

At the end of this chapter, I would like to refer you to a paper written by *Theodore Levitt* in the 1960s, entitled «MARKETING MYOPIA[24]», as testimony to the beginning of a *new era* in the way of conceiving the enterprise and its rules of managing and direction.

Here are three of the best quotes:

« Kodak sells film, but they don't advertise film; they advertise memories»

« Organizations exist to enable ordinary people to do extraordinary things»

« The true purpose of a business is to create and keep a customer, not to make you money»

11. The *compliance* system

The term *compliance*, in its general understanding, means *abiding by the rules*, whatever be the source that issued them and with relation to several legal and conventional aims for which they are being disposed.

Complying to the rules is a task that belongs to the enterprise's governance, and it must ensure that stakeholders have absolute transparency in its management in accordance with the best practices in matters of corporate social accountability.

A good company governance must provide information systems which are aimed at ensuring adequate identification and monitoring of the main business risks.

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[24] Levitt, *Marketing Myopia*, in *Harvard Business School*, July-August 1960, 45-56.

One of the most important categories of risks is the compliance risk which occurs whenever employee behavior isn’t geared towards compliance with laws, procedures and internal regulations.

As a matter of fact, in the Italian SME contest, there is not an exact perception of the latter, as well as the other categories of perilous and contingent risks that we have already afore mentioned, unless the question does not concern the observance of the obligatory standards included in Decree n. 81/2008 on the safety of workplace.

Aureli and Salvatori refer to the results of recent studies and researches on the state of risk management in Italian SMEs, obviously conducted on a sample basis, «(...) Based on case study analysis, this research investigated the current state of the art of risk management practices in Italian SMEs (...) Results indicate that Italian SMEs perceive the importance of different kinds of risk (not just financial risks but also ones related to IT breakdown and exogenous events) to which they seem to be exposed. Despite that, no specific risk figure is appointed and risk management processes are usually not formalized and structured as suggested by the previous literature. The risk identification and assessment activities are quite rudimentary and informal. Also, the risk responses are often limited to compliance with regulations and international standards as well as to risk transfer (...) Half of the companies behave and think fatalistically and coherently will identify only very specific risks (that are highly likely and are expected to have a significant impact on the company), which will be transferred to third parties (...) Compared to risk management in large companies, SMEs are evidently less advanced. The ones in the sample that seem to have more sophisticated risk management practices (in relative terms) do not adopt formalized risk management systems or risk management international standards. Neither have they developed ad hoc formalized risk management systems, tailored to their specific needs and resources. Just one company developed an in-house software for risk assessment (...)[25]».

The major risks that are being perceived by domestic enterprises concern external events, such as the losses arising from the bankruptcy or insolvency of customers, the market risk linked to competitor activities, and IT frauds.

Even in such situations, however, the risk approach is always holistic-virtual, based more on intuition and experience of the owners of the enterprise rather than on a scientific and systematic analysis of its determinants.

Therefore, it is never formalized, and neither is it ever entrusted to an established team of people or even to a single person responsible for the process.

The operating risks, the legal risks, the compliance risks and the reputational risk are not considered to be factors that engrave harshly on the enterprise’s assets.

Perhaps, and it is highly likely, that the idea of risk exists in Italian SMEs, but it isn’t considered as a form of *culture*. It is a vague purpose, too often tied to financial elements of managing and nothing else.

It is also no longer acceptable to hear that the small size of enterprises and the few available financial resources do not allow to face risk management.

The core of the problem lies in thoroughly understanding all aspects so well that you can grow and produce *value* for all the stakeholders without implementing an

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[25] Aureli, Salvatori, *The current state of risk management in Italian small and medium-size enterprises*, Proceedings of the 8th International Conference – Accounting and Management Information System, Bucharest, ASE Editura, 2013, June 12-13, 33-34.

adequate *framework of controls* into the business that goes well beyond the simple analysis of the financial and market risk.

When dealing with micro enterprises, which come about by investing small family resources, where the owner's working contribution is the key to the success of the business, there is no need for any control.

Generally, the extension of affairs doesn't overcome the local and regional demand, the customers are very reliable, and the financial requirement is ensured by an operating cash-flow and the help of a short-term bank loan.

Furthermore, staff recruited hardly ever exceed fifteen employees, and represent the strength of the business and simultaneously its high degree of elasticity, and the turnover is in the region of about a few million euros.

There is never a well-defined organizational plan, there isn't a functional division of the job, there is no job description and there are no formalized operational procedures, hence there is no control, and all the activities performed within the business are under the strict supervision of the owners.

The development of this type of economic business is fairly stable over time. The complexities of daily operations are, more than anything else, represented as a kind of permanent *service* furnished to the local customers, rather than as a range of highly competitive products, with standardized qualitative characteristics.

Whole generations are more likely needed in order to change old strategies and enter into new market frameworks, with a view to offering a wider and stronger competition.

However, when considering *capital-intensive* enterprises, when it comes to giving a right and consistent organizational set-up to the several components of the organization, when the structure follow the strategies, and when management of external exceptions and internal conflicts requires much more than the simple *supervision of the master*, scheduling a complete and integrated information system constitutes a *key factor* of development and survival of the enterprise.

In these cases the enterprises, more often than not, have trade relations with public governing powers as well as with decentralized public administration. Moreover, they have a great environmental impact, so that they need to internalize a *CSR* system *(Corporate Social Responsibility)* to better respond to all the regulatory requirements that nowadays are imposed by national and international laws in environmental matters and to avoid frauds against the collectivity.

Broadly defined, CSR is a company's activities and status related to its perceived societal or stakeholder obligations[26].

In other terms the *CRS* system concerns the relationship between the enterprise, its stakeholders, the government of the country, the citizens, and local society.

It is a sort of *social contract* between an enterprise and the external environment made up of people, communities and public powers, which run *district resources* and *natural resources*.

According to the UE Commission,

«(...) the CRS is a concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on

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[26] Xueming Luo, Bhattacharya, *Corporate Social Responsibility, Customer Satisfaction, and Market Value*, in *Journal of Marketing*, Vol. 70, n. 4, 2006, October, 1.

a voluntary basis The main function of an enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation. However, new social and market pressures are gradually leading to a change in the values and in the horizon of business activity. There is today a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short term profits, but instead through market-oriented yet responsible behavior. Companies are aware that they can contribute to sustainable development by managing their operations in such a way as to enhance economic growth and increase competitiveness whilst ensuring environmental protection and promoting social responsibility, including consumer interests (...)[27]».

It has been stated, and so far is held up by an empirical analysis, that there is a link between the adoption of CSR and the competitive performance in SMEs belonging to the fashion industry localized in Italy and France. The statement is as follows: «(...) CSR can lead to innovation through activating drivers that can create new ways of working, innovative products, services, processes and new market opportunities. Our analysis highlighted that innovation performance is the most direct and effective competitive implication originating from CSR initiatives. A positive relationship emerges, in particular, between environment-related CSR practices and innovation, for which higher correlation coefficients were noted. In fact, environmental tools, such as audits, monitoring systems or training, as well as the adoption of formal EMS, tend to lead to an accumulation of know-how and increase the technical capacity within the company, thus inducing a higher innovation rate. The more an organization invests in environmental innovation, the more it becomes capable of developing new technologies and organizational solutions in this area, and of effectively managing them, thereby improving its competitive factors based on innovation (...) CSR tools aimed at stimulating relationships with external partners (both of a non-profit and commercial nature) yield competitive benefits, particularly in terms of improving what we have defined as intangible performance. We found a positive correlation, especially with the two competitiveness variables: relations with stakeholders, and relations with credit organizations (...)[28]».

There is also evidence to suggest that there is an addiction between the business performance expressed in economic and financial terms and the CRS System. This is the thinking of Adeneye and Ahmed, also based on empirical analyzes conducted on a sample of companies, «(...) A detailed analysis of 500 UK companies was performed with regard to determinants of corporate social responsibility. We have measured corporate social responsibility using CSR Index. Company performance was measured using market to book value (MBV), Size (represented using total assets), and return on capital employed (ROCE). Based on the quantitative analysis carried out on the relevant data of the sample companies, the following findings were revealed:

[27] Commission Of The European Communities, *Corporate Social Responsibility: A business contribution to Sustainable Development*, Bruxelles, 2002, 347 final, 5.

[28] Battaglia, Testa Bianchi, Iraldo, Frey, *Corporate Social Responsibility and Competitiveness within SMEs of the Fashion Industry: Evidence from Italy and France*, in *Sustainability*, 2014, 6, 882-885.

1. 46.8% of the 500 observations in UK were manufacturing firms. This means that of the different categories of firms, manufacturing firms represent on average the firms that carry out corporate social responsibility.

2. All the variables of measurement are normally distributed.

3. There is a strong and significant positive relationship between market to book value and corporate social responsibility (R = 0.710; Sig. = 0.000).

4. There is no significant relationship between SIZE, Industry and corporate social responsibility. This means the value of a company's total assets does not determine the engagement of such firm in the practices of CSR.

5. There is a significant positive relationship between return on capital employed (ROCE) and corporate social responsibility (R = 0.586; Sig. = 0.000). However, the degree of their relationship is not as strong as MBV.

6. As a corporate performance, both MBV and ROCE are influenced by corporate social responsibility in UK while CSR does not affect SIZE and nature of industry.

It is therefore recommended that for an increased ROCE and MBV, UK firms should intensify more efforts in carrying out their corporate social responsibilities which can serve as a source of competitive advantage (...)[29]».

Globalization, internationalization, new technologies, knowledge sharing, progressive consolidation of democracy in the countries open to the market, affirmation of cybernetics, environmental protection, defence of natural resources, respect for the rules established by democratic countries, respect of man and his prerogatives regardless of race and religion, since about three decades have been requiring that companies adopt CSR and Compliance Systems.

A *CSR* system shows up as a natural complement of a complete Compliance System, and both come with the creation of a *management risk function*, without which every speech or argument dealt with about the company's social accountabilities loses in efficiency and actuality[30].

The more the compliance system is articulated and integrated inside the organization, the better will be the set-up of any other management control system of the business activities.

Compliance is a concept that embraces both legal standards and management technical regulations.

This means that, on the one hand, each enterprise can establish a major or minor framework of technical rules to be followed by managers and employees, according to the state of the organization and on the basis of proportionality criteria and, on the other hand, the same enterprise must accept and incorporate the standards and special laws issued by State of belonging in matters of legal compliance.

Naturally, as it has been noticed, «(...) Heterogeneity between business practices in different organizations makes it difficult to develop a single, *de facto* implementation of standards and regulations to achieve compliance. Consequently, auditors and external reviewers must certify that a set of business practices comply with a set of standards or regulations at a specific point in time: a process called *certification*. In addition, auditors must acquire real world evidence demonstrating that business

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[29] Adeneye, Ahmed, *Corporate social responsibility and company performance*, in *Journal of Business Studies Quarterly*, Vol. 7, Number 1, 2015, 162.

[30] Fontaine, *Corporate Social Responsibility and sustainability: the new bottom line?*, in *International Journal of Business and Social Science*, Vol. 4, n. 4, 2013, April, 112-115.

practices continue to comply, either through random or continuous sampling of appropriate data: this acquisition is called an audit, and is performed as a form of compliance monitoring (...)[31]».

The achievers who run the great companies, know very well what the control tools are capable of monitoring and measuring the performance reached by the enterprise, in all its various forms and facets.

The *DU PONT* model (*ratio* analysis and cash-flow), as well as sensitivity analysis, competitiveness analysis, budgeting, balanced scorecard, financial planning, matrices of portfolio and so on, is being exploited for addressing the firm's activities, planning numbers and giving feedback, by verifying their correspondence with prefixed quantitative standards.

The same men also know that none of the deductions will provide reliable results, if they are not accompanied by a careful analysis of all corporate risks.

But when considering SMEs, certainties disappear abruptly, and most of the time it's possible to discover only a partial utilization of the above mentioned tools, which are hardly ever associated to any formalized risk analysis.

The Italian production system is 99% composed of SMEs with a widespread presence of sole proprietorships.

By observing the CERVED data, you can understand why the Italian production system does not have a genuine corporate culture and lacks a culture of risk.

This is the 2014 CERVED SMEs REPORT, «(...) Italy, with 5.3 million active companies as at 31 December 2013, is the country boasting the highest number of micro enterprises and SMEs in the European Union, far exceeding even countries with bigger populations like Germany and France. The bulk of companies active in Italy have a legal form well suited to family firms or companies which are tiny in size: in fact, there are 3.3 million sole proprietorships and more than 900 thousand partnerships active. By contrast, there are a little over 1 million companies with perfect asset autonomy (shareholders' assets are separated from company assets) and greater disclosure obligations, including the obligation to file financial statements at the Chamber of Commerce (...)».

Basically, the *sole proprietorships* are only worried about a loss of liquidity and they sometimes worry about the competition, especially when it is in close proximity.

With this kind of enterprise, comprising of mainly craft activities and small business merchants or services, it is unthinkable to even consider *compliance* as they do not even know the meaning of the word.

Moreover, there is currently a strong feeling of instability, with companies closing down due to the fall in domestic demand and the credit crunch, and start-ups which are finding it increasingly difficult to take off.

Again from the CERVED REPORT, «(...) The intensity and persistence of the crisis, combined with the credit squeeze, represented a lethal one-two punch for the Italian SME system. The indicators taken from Cerved's archives relating to financial statements, company demographics and insolvency risk analysed in the Report highlight the deep wounds caused by this combination of factors on the Italian productive fabric. The exit rate of companies from the market has risen from 2008

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[31] Breaux, Anton, Spafford, *A distributed requirements management framework for legal compliance and accountability*, in *Computers & Security*, 2008, 5.

onwards, with serious consequences for SMEs. Between 2008 and the first half of 2014, 13 thousand SMEs went bankrupt, over 5 thousand commenced non bankruptcy insolvency proceedings and 23 thousand went into voluntary liquidation: overall, a fifth of SMEs active in 2007 was involved in at least one of these proceedings. The majority of companies leaving the market after 2007 were already in difficulty before the crisis. For them, the crisis merely accelerated a selection process already in progress. However, there are also companies that, prior to the crisis, exuded signs of vitality and which in all likelihood were expelled from the market more as a result of liquidity problems than economic sustainability. The crisis also had significant effects on business start-ups. The number of start-ups fell and, among businesses launched, there was a reduced presence of companies able to establish a foothold in the market and survive their first three years, grow and structure themselves in a way to reach SME dimensions. Reduced financial support from banks did not help: only 5 thousand among the 2012 start-ups began operations with bank loans, almost half compared to 2007 start-ups (...)[32]».

The numbers mentioned make it abundantly clear how much our economy has weakened, how hard it is to defeat the endemic inability of making investments in innovations and into the organization, so that they are not overwhelmed by a crises that has lasted for over seven years.

What until a short time ago was recognized as our typical factors of success, thanks to the large variety of small businesses able to react rapidly to slight environmental changes, it turns out to be, in more recent times, as the largest of our weakness in the face of the last epochal changes of markets and technologies.

Our businesses, particularly in the south, had always been accustomed to relying on state aids, before the coming of the euro, and therefore they weren't able to develop the *exegesis of control*, thinking it would have always been up to someone else to solve their problems, from the banks to public institutions.

These years of crisis have taught us that there is no use thinking of the past.

For the emerging entrepreneurs and for those that have the strength to keep competing, the right way to be successful and survive in a highly perturbed environment is by internalizing the culture of risk, with all its tools of control.

Notwithstanding, the Compliance Legal Italian System is not obligatory for private SMEs, contrary to what has recently been laid down for the owned companies, even only partially, by the public administrations[33], we are firmly convinced that its adoption and implementation can strongly help the medium-sized entrepreneur to better comprehend his own organization and efficiently drive the management of risk.

It is possible to build a *compliance vision*, as part of the daily life of an enterprise and a positive Culture of Compliance which includes strategic vision and relates to larger strategic goals, which are:

- established by top management;
- embedded in activities such as learning and education;
- integral to the information systems;
- inseparable from the organization's structure, processes, and management;

[32] 2014 CERVED SMEs REPORT, 7-12.

[33] A.N.A.C., ANTICORRUPTION NATIONAL AUTHORITY, *Guidelines for the implementation of legislation on the prevention of corruption and transparency on the part of companies and entities of private law controlled and shared by governments and government-owned businesses*, disposition no. 8, 2015, June, 17.

- given force through the punishment of transgressors.

A positive Culture of Compliance also:

- encompasses the enterprise risk management;
- addresses the risks that arise in each strategic area;
- establishes control points for the risk elements;
- ensures controls are well documented for internal and external purposes;
- identifies the specific people responsible for managing each compliance element.

The key element in all this is determined by pulling down the *organizing barriers* and carrying out the prolific step for growing and improving the performance needs to overcome those barriers.

Even should we think that our company will not be subjected to attacks of any kind, thanks to the competitive advantage achieved, it should be understood that history does not admit exceptions. Dialectical materialism makes no exceptions. And also the laws of physics are not opposed to this assumption: nothing is created, nothing is lost, everything is transformed.

Moreover, in times of decline, when selective cuts need to be made to the business and defensive strategies for preserving the core business must be retracted into a niche market, or by entering into a network of enterprises not as the main contractor, but as a simple element of the value constellation, it is necessary to execute an organizational restructuring.

The moment it is decided to make investments in order to introduce innovative elements of management into the business and so consolidate the aforementioned advantage, is the moment the owners must establish what is necessary to knock down the *barriers* of the organization and proceed with its restructuring.

Strategic changes that are not accompanied by organizational changes, most likely will turn out to be a resounding flop or in the best of cases, will supply very disappointing outcomes.

In some situations it may mean getting rid of the old management and replacing it with staff who are more motivated and more oriented towards the *stakeholder satisfaction* and the *value of the company*, rather than the *short-term results*.

There is no doubt that, all the above-mentioned situations require the presence of a high performance information system, and probably the first changing aimed at deleting the *organizational barriers* is through the introduction of a risk management function, in SMEs which are well represented by a *complete, effective and efficient compliance system*.

I will hereby briefly illustrate the main features of the compliance system adopted by the Italian legislation, and the way this system can be best exploited by Italian SMEs.

A large number of criminal activities *contra personam*, to the detriment of the environment, committed against social, political and territorial authorities, aiming to somehow destabilize the banking systems and the international financial circuit, in violation of national laws on economics and firm rights, relations with public administrations, right to free competition, transparency, fairness and accessibility of information useful to investors to plot their own choices, transpire within social organizations as possible *considerations*, although undesirable, to the specific business activity by the same organizations exercised.

Acting upon the evidence, the European Community issued, between the years 1995 and 1997, a series of provisions whereby for the first time in the history of the economies of member countries of the Community Treaty, the assumption of responsibility was suggested not only referring to the administrative side of the organizations which are legal entities, with the exception of the sovereign states and public entities that exercise public powers, but also for criminal events that arose in the context of their economic and social activities.

The Italian legal system recognized these supra-national orientations with the Enabling Act No. 300 of 29 September 2000.

With the implementation of the enabling act, the Italian government promulgated, in June 2001, the Legislative Decree No. 231, containing a list of relevant offenses involving the entity's penal responsibility, if committed by the human component of the organization, to the benefit or even only in the interest of the institution represented.

Experts noticed that,

«(...) the law aims to encourage companies to adopt corporate governance structures and risk prevention systems to stop managers, executives, employees and external collaborators from committing crimes. In fact, only the adoption of an adequate organisational, management and control structure can exonerate a company from the severe liability which is provided by Lgs. Decree no. 231/2001. The failure to adopt such structure in a timely fashion has resulted in many Italian and foreign companies being held liable under Lgs. Decree no. 231/2001. Since its introduction in 2001, the Italian legislator has constantly widened the scope of application of Lgs. Decree no. 231/2001 by extending the list of relevant crimes, a new list of crimes is currently in the pipeline. It is also becoming a frequent requirement in public procurement tenders that applicants must have adopted an organisational, management and control scheme in compliance with Lgs. Decree no. 231/2001. In 2008, an Italian region (Calabria) has for the first time declared it obligatory for any company operating within the Region to implement such a scheme (...)[34]».

Other Italian regions have followed this last route, including Abruzzo, Lombardy and Lazio, the first one for the same motive as Calabria, the second in the field of vocational training, and the third towards the vast sector of private healthcare.

Legislative Decree No. 231/2001, has always been object of modifying, and the hypothesis of crime has been extending more extensively, so that there are currently over 180 criminal incidents that might involve the entity's accountability, with heavy convictions that range from simple monetary punishment, from a few thousand to over one million euros, until the closing down of the business, in the most severe offences.

Below are listed the principal categories of crimes that currently identify sources of penalties: *Crimes to the detriment of the State or public bodies, Corruption and misappropriation of public funds, Falsifications or counterfeiting of money, public credit cards and tax impositions, Crimes against trade and copyright, Money laundering and Self-Money laundering, Corporate crimes, Market abuse, Crimes pertaining to terrorism and subversion of the democratic order, Mutilation of female genitals, Crimes against persons, IT crimes and illegal data treatment, Homicide and*

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[34] McDermot, Will, Emery, *Italian Law No. 231/2001: Avoiding Liability for Crimes Committed by a Company's Representatives*, in *www.mwe.com*, 2.

serious injuries through violation of the rules on safety in the workplace, Cross-border crimes, Crime against the environment.

How the enterprise can attempt to not be involved in crimes committed by its managers, directors, employees and consultants, is is the result of the measures adopted in the compliance model.

The decree provides a tool of not compliance risk management, called the *organizational model*, that has to be implemented in the enterprise and managed by a staff of control, named *Supervisory Body*.

The pillars of the model strictly emerge from reading art. 6 of the Decree:

a) identification of activities where offences may be committed;

b) provision of specific protocols aimed at planning the formation and implementation of decisions to prevent offences;

c) identifying ways of managing financial resources in order to prevent the commission of crimes;

d) provision of information obligations to the body responsible for supervising the functioning and compliance with the models;

e) introduction of a disciplinary system to punish *non-compliance* with the measures indicated in the model.

In this list it's possible to discover a real business risk management, as far as concern the range of *non-compliant* behaviours under analysis and monitoring.

In fact, succeeding in assessing the *compliance risk*, before rather than after any eventual crimes are committed, it means:

1. supervising the organizational structure;
2. identify powers and responsibilities;
3, valuing the internal control system;
4. identify the state of formalization of the procedures;
5. ascertain the level of functional segregation between who orders and who executes the operations;
6. assessing risks, through:
   - analysis activities at risk of crime,
   - delimitation area of acquiescence of tolerable risks,
   - identification area of risks unsustainable,
   - localization of the activity centers (decision-making and operational) to higher risk of crime,
   - listing of indicators of critical behaviours considered non-compliant,
   - probability of occurrence of events associated to the unsustainable risks,
   - estimated impact of the events illicit on wealth of the enterprise and on its general economy;
7. drawing up the operational procedures and the decisional protocols geared towards the prevention of crimes;
8. drafting the code of ethics and self-regulation of the business.

The supervisory body has the task of ensuring the correct and effective functioning of the model and its effectiveness over time, and to report any anomalies found in the same pattern and the occurrence of circumstances which can potentially be considered at risk of crime.

Moreover, this important organ also undertakes the revision of the model, with proposals to update in relation to the organizational changes that the institution prepare for strategic and competitive purposes.

This *station of control* can either be organized as a team, with also external, independent and skilled members, or with the contribution of non-executive members of the board of directors or both with one or more members of legal auditors.

In the case of small businesses, it is possible to appoint a single external and independent expert or even one only member of legal auditors.

The person or people who are called to carry out this monitoring in companies with limited financial resources, are able to unify together either the function of risk management than control function of the compliance risk, so avoiding useless and expensive duplication.

It is easy to see that the model comes to light as a stable, formal and substantial paradigm, to ensure that laws are abided in all their manifestations because to be called into question are criminal laws both of economic and social origin, having the structure typical of the *crimes*, but also with the less astringent structure of the fines.

So much so that, for its particular role within the organization, it is likely that we can observe a sort of *stem cell*, as a starting point to stimulate a further analysis and more extensive monitoring of all the firm's activities.

12. This is the central point of this paper, and the message that I wish to send to experts and Italian SMEs

The organizational model pursuant to Legislative Decree 231/2001, over time, from a simple system of legal compliance, which consists of a list of crimes and a list of behavioural protocols for the prevention of crime, has turned into a model of *management risk*, not only to prevent illicit or frauds, but first and foremost, in order to identify and remove all the *shortcomings of organization* that constitute a powerful restraint to the development of the firm's energies and the realization of its mission.

These defects or deficiencies act as part of the aforementioned *barriers to the organization*, which actually end up impeding the perceiving of the external environment and of its continue metamorphosis.

Evidence of this interpretation is also retrievable in the Italian case law, either of merit than legitimacy[35].

Ultimately, SMEs can equip themselves with a powerful management control system that ensures business management with a seal of legality and the monitoring of the specific risks of the project, by investing in organizational and intangible resources a limited amount of financial resources, nevertheless acquiring huge benefits in terms of legality, social responsibility and competitiveness.

13. Conclusion

In the final part of this paper, I would like to devote some space to the illustration of data available, on sample basis, however significant, concerning the approach to

[35] Court of Milan, Investigating Judge, dott. D'Arcangelo, January 3, 2011 (hearing of 2010, November, 3); The Supreme Court of Cassation (fifth section), judgment no. 3307 of December 18, 2013, filed on 30 January 2014; The Supreme Court of Cassation (sixth section), judgment no. 27735 of July 16, 2010.

risk management by the Italian entrepreneurial world, as already emphasized and disclosed at the beginning of the previous chapter.

The outcome of the research underline, unequivocally, the deep differences existing between companies quoted on the stock exchange and SMEs.

In the first instance, risk management is appreciated as a critical function of the organization, taking on *superstructural* characteristics, and is foreordained to every type of control. In SMEs, practically and except in very rare cases, this function is never present.

With stock exchange quoted companies the approach to risk is of a systemic, proactive and iterative type, assuring to the board of directors a continuous flow of prominent information to address the strategic and programmatic choices.

In SMEs, such an approach is a more intuitive, fortuitous and adaptive type, absolutely not considered of primary importance in setting-up the enterprise's information system, mostly made up uniquely of accounting systems which are compulsory by law.

Alfiero e Secinario describe a research conducted on a sample of 282 holding companies, through questionnaires and interviews, about the adoption of a compliance model inside the groups of enterprises for risk management.

From the questionnaire it emerged that 71% of the companies belonging to the single group examined, had adopted the organizational model codified by Legislative Decree 231/2001.

The research also confirmed the need to adopt specific techniques and tools for identifying and analysing all risks that could concern the group of companies[36].

It emerges in fact that large Italian companies invest in systems to monitor performance and compliance, trying an integrated approach at group level.

«(...) The objective is in fact the transversal and exhaustive nature of risk evaluation that leads to models of group organization that are efficient and effective. Efficient, in such a way that the costs of managing the system are less than the benefits obtained in terms of risk coverage; effective in as much the organizational models integrated at group level increase the protection of the administrative and criminal accountability of the entire company group (...)[37]».

Another survey conducted in 2014 by PwC (PricewaterhouseCoopers), with a sample of 250 listed companies, reports that about the 97% of interviewed companies had already adopted the compliance model codified by Legislative Decree no. 231/2001[38].

Moving onto the more extended research conducted recently by the Polytechnic of Milan on Italian SMEs[39].

Also in this case, the researchers used the instrument of the questionnaire, very well constructed and enriched with pertinent queries. It was sent to eight thousand small and medium-sized companies operating in several sectors, distributed

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[36] Alfiero, Secinaro, *The adopting of the compliance program in Italian groups quoted at Italian stock exchange*, in *Global Economy and Financial Journal*, Vol. 3, no. 2, 2010 September, 231, 235.

[37] Alfiero, Secinaro., *The implication of adopting the compliance program in Italian holding companies*, in *International Review of Business Research Paper*, Vol. 5, no. 4, 2009, June, 455.

[38] PwC – PricewaterhouseCoopers, *Legislative decree no. 231/2001. Survey on listed companies*, in *www.pwc.com*, 9.

[39] Fornara, Radaelli, *Risk Management in Italian SMEs: from the current scenario to an empirical model*, Polytechnic Of Milan, Faculty of Engineering, Master of Science in Management Engineering.

throughout the peninsula, to obtain answers about the management of risk and the importance of the compliance system.

The study dates back to the year 2012 and was written in Italian, therefore we are going to translate and illustrate it in English. It also sums up the preceding surveys, which all reach the same conclusions, with only a few differences – e.g. ICAEW in 2005, ICMIF in 2011, KPMG-SDA BOCCONI in 2012.

These were the thresholds of classification taken into account for SMEs:
- Micro: employees below 10, turnover and assets within the 2 million of euro;
- Small: employees below 50, turnover and assets within 10 million of euro;
- Medium: employees less than 250, turnover by 50 million, total assets by 43 million of euro.

Out of a total of 8,000 companies, carefully selected in the most important sectors of our national economy, a sample of observation of 427 businesses located on the entire peninsula was collected, formed of 11% micro enterprises, 69% small firms and 20% medium sized enterprises.

The researchers asserted that the sample was statistically significant, considering the objectives of the survey and the presence of a large number of small companies, who were more sensitive towards the internal control problems.

Obviously, as was expected most responses came from the North, with over 60% of those released by only four Regions (Lombardy, Piedmont, Veneto, Emilia Romagna). The only one with *zero* responses was the Molise Region.

The work of extraction, classification and processing of data made available, was extremely laborious and complex, in terms of numbers, graphs, charts and indicators, however enlightening in its findings.

By summarizing the salient aspects, it emerges that the small and medium-sized Italian companies are conscious of the fact that risks can also represent opportunities and, as such, they would require appropriate management.

Taken this awareness for granted, however, conflicting data emerge, which do think the risk culture and practices for its management are still in a state of low maturity in Italian SMEs.

The skills developed were found to be inadequate and firms perceived the development of a risk management function against the forecasted benefits as too expensive.

The monitoring and control of risk turned out to be absolutely not formalized. Very few companies said they had processes of risk analysis regulated by written procedures, within a dedicated function. However, even in these cases, the focus was almost entirely on financial risk management.

Ultimately, if in some ways the Italian SMEs have shown sensitiveness on risk management issues, when compared to the small size of most of the companies analysed, on the other hand, despite their good intentions, it hasn't been encountered at the same time some adequacy of the systems and risk management practices adopted by companies to cope with environmental changes, today much more extended, frequent and complex, in which they are finding to operate.

The *compliance risk* has been found, in small enterprises, to be absolutely irrelevant, and is not observed as an important component of the operational, strategic and reputational risks.

If in terms of security, Legislative Decree No. 231 enables SMEs a characteristic of internal control systems and risk management which are substantially more efficient than ever, it is equally true that it leads to a regulation of its functioning of a more formal, precise and punctual type, forcing them to a much stricter and imperative comparison with the boundary systems, and therefore obliging them to face up to organizational and managerial problems which had never been under consideration.

Since there has never been a strict legal compulsory for the adoption of the compliance system, codified with extreme clearness by law, the enterprises sampled preferred not to spend even limited funds and human resources to implement it, in spite of the simplified formula elicited in the guidelines of CONFINDUSTRIA.

Not allowing for the innovation and improvement of their information systems, effectively, represents a harmful form of resistance to change. All this is a demonstration of our initial assumptions.

Therefore, the model of development of the Italian SMEs that springs from the analysis, it shows up obsolete, loser internationally, and dislocated from the historical context that is characterizing the Western world, as transformed by the not too recent access of the Oriental world.

That development model belonged to an economic era that has finished its cycle at the *end of the 1970s – first half of the 1980s*, and now it exhibits, especially in the central and southern regions, a legacy of rural type, rather than the more industrial solid roots.

It had been going on continuously for the three decades following the end of World War II, and was the main engine of the so-called *Italian miracle*.

But in the second half of the 1980s, the competitive scenarios have gone progressively changing, both at home and internationally, by shattering the economic stability that had characterized the period of rebuilding.

What was the fundamental factor of growth of our enterprises in the years of the *economic boom*, have today taken over the hidden role of the major cause of business failures declared by Italian courts in the last three decades.

We have used the term *hidden* because this peculiar element of economic crisis of the Italian system, is not easily visible and recognisable in the eyes of non experts.

The incoming stage of maturity of our key sectors of the economy, the absolute lack of investment in research by national governments and the enterprises themselves, the fierce international competition from oriental countries, the disadvantage of having lost the monetary authority in favour of Europe, were the true solvent of our economic well-being, painstakingly held up until the end of the 1970s.

The great economic crisis that started in 2007, has only highlighted the structural weakness of our economy, which for years had founded its exports relying mainly on monetary policy operations by the competent national authorities, e.g. the devaluation of the national currency, as well as the creation of new enterprises relying on the financial and fiscal aid of State, especially in the center and south of the peninsula.

It's clear that this pattern of economy couldn't have lasted too long, entering in Europe, and couldn't have worked without comprehending the importance of *management control systems*.

What future we can expect from Italian SMEs is hard to say. If they are able to take a step forward, changing their mindset and if they succeed in moving away from an old way of doing business, they will probably be able to face international competition and survive, in the middle of infinite difficulties. The challenge is ongoing.

At the same time, you should ask the Italian government to be more sensitive towards the *thematics of research* – Italy is persistently lagging behind other advanced countries, in the fields of medical and pharmacological research, economic research and electronics and information technology, to name but a few.

Italy presently devotes slightly over *1%* of its *GDP* to financing research, half the European average, about one-third respects to Sweden, Denmark and Germany, among the last places of the G20.

More expense in research would enable Italy to avoid the loss of many of the brightest young Italian researchers who are obliged to seek employment abroad and, over time, with the increasing GDP, would allow the shrinking of the *fiscal drag* effect caused by heavy taxation on the firm's incomes, which hinders investments.

In addition, the excess of red tape, the elevated degree of corruption in politics and public administration, the infrastructure deficiencies, especially in the south, and a banking system still too founded on real estate collateral, all discourage the creation of new businesses, and what might have been a successful idea, ends up being just a dream to be accomplished abroad, where there is less corruption, the administrative procedures are much easier and faster, and the potential economic value of the projects, rather than solely the guarantees offered, are considered.

The state officials, the territorial managerial classes, and governments, should immediately abandon the path of corruption, and prepare, as soon as possible, effective developments for modernising the country and therefore allow a greater empowerment and emancipation of local people towards a management of correct and efficient business.

Should none of this happen, in the next decade our courts will continue to itemize failures, the local people and the entire nation will become increasingly poor, and our country might bring up the rear of Europe. And this we consider to be the worst risk!

The Prosperity Index, released by *Legatum Institute of London* in 2014, on the basis of *Gallup World Poll* surveys, places Italy out of the *G20*. The report describes an Italy in disarray, that in just five years has lost 11 positions in the world prosperity ranking, of which 5 positions were lost only in 2014. According to this opinion, Italy is now 37th, behind Costa Rica, Slovakia and Kuwait[40].

We should keep in mind that the decline in industrial activities – or *de-industrialization* – began some time ago, especially in the labour intensive industries, with companies that have dismantled the production facilities in our country and have gone to reinstall them in developing countries, where labour costs are much lower and the taxation of incomes is more sustainable.

This is the undesirable effect of the so-called *globalization*. Despite this, we firmly believe that the time has come to stop this trend and return to being a more attractive country also for foreign investment.

Not many recipes, hence, but essential: *eliminating corruption, research funding, infrastructure construction, limiting the bureaucracy to a minimum, reducing taxation, giving space to deserving individuals, improving the timing of justice*.

In addition to these measures, we believe it would be better to forsake the idea of industrializing Southern Italy, at the same time by promoting tourism management

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[40] Capozzi, *Italy out of the G20 wellness*, in *IlFattoQuotidiano.it*, November 3, 2014.

and the associated facilities and services, along with the development of farms, all this in accordance with its DNA.

Certainly, in a long term vision, these last economic activities would be able to generate the best general well-being of local people compared to a failed industrialization.

If not, once again, there will be no future for Italy in the empyrean of the most economically advanced countries in the world. And we think it to be an *even worse risk!*

A sincere thanks to all those who have enjoyed reading this short essay.

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