Fabio Accardi

RISK AND CONTROL GOVERNANCE

A value-creation perspective

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To Lucio and Vittorio

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Series Editor's Preface
A lesson from the Council of Nine

Luigi Maria Sicca

Siena. Piazza del Campo, home to the competition (the *Palio*) between the seventeen historical subdivisions (*contrade*) of the city within the medieval walls. Right there, in the heart of Italy, today and yesterday, stands the Palazzo Pubblico. Both the building and the square, by an ancient convention, do not belong to any *contrada*: it is a space that belongs to everyone, but this does not entail that it belongs to no one.

In the Palazzo Pubblico, *The Allegory of Good and Bad Government* (Carlotti, 2010) is located: a series of three fresco panels by Ambrogio Lorenzetti,[1] whose aesthetics is based on a renewed conceptualization of humanity and Humanism *in nuce*, which produces an echo strong enough to resonate far beyond the days when Lorenzetti lived.

The Allegory of Good and Bad Government was painted between 1338 and 1339, and it was conceived as a form of inspiration to both governors and citizens alike. Four scenes arranged along the upper register of three walls of a rectangular room,

[1] Ambrogio Lorenzetti (Siena, 1290 – Siena, 1348) was an Italian painter. He was one of the masters of the Fourteenth century Sienese school. Ambrogio was the younger brother of Pietro Lorenzetti, and he was active from 1319 to 1348, distinguishing himself especially for the strong allegorical component and complex symbolism of his mature works and the profound humanity of the subjects represented and their relationships.

called the Sala dei Nove (Salon of Nine), or Hall of Peace. The Council of Nine comprised (in discontinuity with the prevalent political tradition at the time) a large and on the rise social group: a middle class made up of merchants and craftsmen, people of good sense and characterized by what we now call 'entrepreneurship'.

* * *

This book deals with Internal Audit and Compliance, contributing to the widespread culture of risk, through concrete reference to the experience gained in this field, and through the use of case studies. This contribution is rooted in organizational practices and, thus, it does not offer mere theoretical speculations, which are usually found in basic research. A contribution filtered through the lens of a group of practitioners under the supervision of Fabio Accardi, an experienced manager, who is also involved in several research and teaching programs in primary universities and professional associations.

The whole team of authors converge on a common *Weltanschauung*: in order to adequately fulfil its mission, Internal Audit should be able to frame the controls in the overall context of risks and corporate strategy. Audit plans must balance the need to conduct detailed examinations of the verification areas, without losing sight of the bigger picture. Overview and rigor of details: just like losing yourself and your gaze in the maze of Lorenzetti's fresco series, where allegories allow a synchronous vision of a concrete image, 'the right behaviors', and a vision of something more abstract, 'beauty'. This is the rhetorical meaning of the allegory that creates a summary not only of meanings but, above all, of sense-making. This is the dimension of the 'humanistic' Internal Audit, the distinctive feature of this new puntOorg project that confirms, once again and in line with the tradition of our international research network, the importance for com-

panies to re-establish the centrality of the individual in order to understand the true meaning of corporate strategies: in this case, those of risk and control governance.

* * *

Lorenzetti's fresco series offer a comparison between *The Good Government*, on the eastern wall, and *The Bad Government*, on the western wall. Accompanying them are two landscapes of the city of Siena, with the *effects* of good government, where citizens live in order and harmony (on the right side of the wall) and the *effects* of bad government (on the left side of the wall), where a city in ruins is displayed. It is one of the first works of complete secular character in the history of art.

That ambitious project and polemical tone conveys a strong political message. 'Political' because it insists on what underlies the possible ways, never predictable nor *a priori*, of being together.[2] Up to thematizing the concept of 'public', that is, what in the opening to this Series Editor's preface I have defined as "a space that belongs to everyone, but this does not mean that it belongs to no one" with reference to the Piazza del Campo and the Palace that holds the fresco series.

The 'Public' (in the name of the Palazzo Pubblico) or, in accordance with another tradition, the 'Common Good' represents the core of the compliance concept: before being a 'fact', this is a 'category', which refers to the ability of individuals and communities to adopt attitudes of compliance with regulations, rules or standards.

Attitudes that have to respond to the ethical premises that are at the origins of the concept of 'cooperative action', introduced by Chester Barnard (1938), at the dawn of modern organization

[2] This is one of the main characteristics of the puntOorg experience. Further information can be found online at http://www.puntoorg.net/en/.

studies. Attitudes that then become the point around which, in my opinion, runs the great debate in the history of economic thought on 'The nature of the Firm' (Coase, 1937) and the debate on the economy of transaction costs (Williamson, 1975, 1980, 1981). It is from ethical premises that, in modern companies oriented towards forms of internal audit, behaviors of organizational citizenship (Organ, 1988; Meyer and Herscovitch, 2001) and the affirmation of shared codes of conduct arise.

Witnessing, yet again, how the economy and, therefore, the management *latu sensu* are an offshoot of ethics: not only because many economists possess a widespread theoretical background, but also because, at the top of strategic management (namely, the one that covers the entire chain of command, from top to bottom; Sicca, 2013), there are no laws of nature, but the subjectivity of the decision-making process; then, the implied arbitrariness in defining objectives, which associate the instrumentality of the means to be leveraged through plural interpretation practices that reveal the imperfection of managerial work; and, ultimately, the artificial nature of the firms.

* * *

> *Questo è el giuramento che Voi Magnifici Signori, fate el primo dì che entrate al vostro officio et che siete tenuti a osservare. […] Devete accrescere et conservare quanto ve sia possibile la ciptà de Siena […] Devete observare et fare observare tucti et ciascheuno statuti, ordinamenti*
>
> (Luchaire, 1901)

The wording of the rules in the Italian vernacular (and not in Latin) by the governors of the city of Siena coincided with the need to share their values, knowledge and understanding, and generate value. This is the issue we must work on, in order to overcome the improper and purely academic distinction between 'strategies', considered as preserving top management, and 'actions', polarized at the basis of the organization, in the

name instead of a need to assign given responsibilities to the entire chain of command and, thus, obtain a return on investments for the company. This is the innovative dimension proposed by Fabio Accardi who, well beyond the already valid and flourishing literature that deals with compliance, rather gives space to the experience, in close contact with the concrete processes of governance, without falling into the traps that often lead to theoretical excesses.

This book looks in this direction: it addresses future generations, young people who are starting their career in this field, with a sense of entrepreneurship in the service of a common cause. Accardi proposes a break from the prevailing literature on risk management, internal control, and compliance system. Indeed, a very large portion of the literature has paid too much attention on administrative and accounting issues, and the correct representation of the economic and financial indicators. That focus is rooted in the multiplication of scandals and financial crises that have highlighted the importance of principals as part of the broader 'financial risk'. Therefore, emphasis is placed on reporting risks and the correct information provided to stakeholders, which mainly consist of the company's financial capital providers.

In recent years, the sensitivity of institutions and the financial community are highlighting the importance of 'emerging' risks. Just think of cyber risks arising from the use of computer networks and related risks linked to security, the environment and, in general, sustainability. These situations can be addressed properly if an embedded approach is adopted, which takes into account that inevitable 'vulgarization' that has always guided the participation in decisions and configurations – never predictable – of the logics of 'being together'.

Embedment, then, that in final analysis is inclusion of all stakeholders involved in the conservation process and value creation. Public companies are adopting this approach, also as a

result of relevant legislations. In Italy, the corporate governance code for listed companies is a necessary path for companies that want to compete on foreign markets. In the field of infrastructure construction (which Accardi makes continuous reference to by virtue of his personal experience gained in this field), being compliant with international standards in terms of sustainability, safety, and environment can be crucial to successfully compete on international markets. During pre-qualification phases, participation in tenders requires that the organization has undertaken appropriate measures for prevention, mitigation, and control of risks. The same concerns the regulations on access to international funding, which require rigorous examinations on the subjects in question.

* * *

We are therefore ready. We will read in the next pages how some classic issues of modern finance and laws on risk management are filtered through a plurality of angles: that of the policy maker, the lawyer, the manager who transforms a discipline often reserved to the insiders in a discipline more accessible to everyone. Just as when, in 1125, in deposing the bishop, who at the time was the head of the city and the surrounding countryside, the Republic of Siena was born.

It is the way puntOorg intends to be a leading player of internationalization: a lesson from the Council of Nine. A lesson from the way of being and re-building Humanism, when Italy was the cradle of Europe and displayed the conditions for the affirmation of the modern world.

Luigi Maria Sicca
October 5, 2016
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