Transparency in addressing decoupling: The role of corporate transparency in the reformation process of the Institute for the Works of Religion

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Sic Transit Gloria Mundi

Abstract

Transparency in business and especially in the financial industry has proven to be a crucial matter for its stability and success over time. This dissertation is a case study that focuses, through an ethical perspective, in the particular situation of the Holy See's IOR – *Istituto per le Opere di Religione* - in its reformation procedures, which are commonly called altogether as a transparency process. It presents the problems IOR underwent and the recent process of change in the organization. It is analyzed the role that corporate transparency has in the solution of ethical problems of the institute, in particular in what regards the effective implementation of corporate values. In the end, it is argued that corporate transparency is an important factor for the implementation of values in the IOR, for through transparency there is the possibility of scrutiny of the company on the part of stakeholders, which harmonizes all reform measures in the same direction and convinces stakeholders of the institutional changes. However, it is also concluded that transparency is not the only factor to guarantee an ethical conduct, for there is the need of control mechanisms to monitor operations. These conclusions go in line with the existing theory on value implementation in organizations, which states that not only values-based programs but also compliance-based programs are effective in solving ethical problems. There is a revision on the existing literature regarding the role of values, Catholic Social Teachings, transparency and the phenomena of decoupling from institutional values in a business.

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Motivation and Acknowledgements

Many people write romances and novels on the subject of the Vatican. Many of those, too, claim they are writing something that is based in true facts, but end up scrambling truth with a romance, and the result of that is a biased view of Vatican affairs. Of these affairs, finance is always a hot topic, with its center in the "Vatican Bank", the Institute for the Works of Religion. As a Catholic and a business student, my personal interest to understand better the Church's administration drove me to study the situation. Having attended both courses of Business Ethics of the Master in Business Administration of Católica-Lisbon School of Business and Economics, a bigger interest in the area arouse, as well as the acknowledgement of having very little knowledge on the subject of ethics.

These two interests, in better understanding ethics and the Church, found an opportunity to be developed to some extent. As I concluded the curricular part of my Masters degree at Catolica-Lisbon School of Business and Economics, new developments occurred in the Institute for the Works of Religion, in what regarded the "Transparency Process" that is being implemented there since 2010. Therefore, envisioning the coming thesis to conclude the Masters, I presented the subject to Professor Tommaso Ramus, head of the Business Ethics department, who helped me in setting a clear objective for this dissertation, in order to avoid being trapped due to the risk involved of not gathering sufficient information for its development. The scope became, therefore, the study of the subjects of business values, decoupling from business values and the role of transparency in the re-implementation of business values in the Institute for the Works of Religion.

I thank Professor Tommaso Ramus for all the help throughout this dissertation, without whom I would not manage to keep focus on the essential questions. I thank all the people who conceded interviews for the purpose of this dissertation and who reviewed the facts exposed in the case study. Finally, I thank my family for the support given, without whom I could not accomplish this dissertation.

Introduction

The Institute for the Works of Religion (IOR), one of the financial institutions of the Vatican City State, is a Catholic institution, which is expected to follow strong ethical values, based in Catholic teachings. Nevertheless, through its history, it went through investigations of unethical matters, in some situations due to true misconduct.

Since 2010, due to a set of market pressures and to the will of the Pope, the Vatican City State started a reformation of its financial system, with a particular focus on the IOR. For the IOR, there was a specific program, commonly denominated a “transparency process”, which consisted in a series of measures regarding both internal and external stakeholders.

Proposition

This dissertation aims at understanding the causes and expected consequences of this transparency program, in particular the role that corporate transparency has in the effective establishment of business values in the IOR. This is set on the assumption that corporate transparency has an important role in the solution of the problem of institutional decoupling, since it is a guarantee of scrutiny of stakeholders. The rationale is that transparency drives pressure on business to be aligned with an ethical conduct. In the same manner, transparency would help by convincing stakeholders of the corporate changes.

At the light of the above mentioned proposition, this investigation aims to understand the role that transparency has in this program in order to guarantee the filling of ethical gaps in the running of the institution.

Objective

This case study’s objective is to test the given proposition, through a summative evaluation of the transparency program undertaken by the Institute for the Works of Religion (IOR) and the subsequent effect it is expected to have in addressing the problem of decoupling from institutional values. The established objectives for this case study are to understand the drivers, consequences and the rationale behind the measures taken by the management of the institution. Specifically, the aim is to understand the relative strength that each set of stakeholders, to which different measures of the transparency program were destined, have concerning driving the institute to the avoidance of illegal behavior. This is, considering the relative strength of information disclosure to market stakeholders comparing to non-market stakeholders, it considers which type of information disclosure is more effective in filling existing or potential ethical gaps.

Period of Analysis

The period of analysis that concerns this Case Study considers the recent history of the institution since the launch of its first statutes in 1942 until the 15th of November of 2013, date of launch of new statutes for the regulation entity, FIA. There is a specific focus on the period from the 30th December of 2010 until the 15th of November of 2013, since it is the timespan under which the IOR started its transparency process until the end of data collection for this case study.

Structure of Dissertation

First, a literature review is presented on the studying matters – values, Catholic social teachings, introducing values in an organization, decoupling and re-implementing values in an organization, chapter where transparency is addressed. Following goes the case study on the transparency process of the IOR, and the respective teaching notes to guide class teaching, optimized for a ninety-minute class. In the end, a series of attachments to better understand the subjects involved in this case study and the methodological approach for development of this dissertation, to justify the validity of the research and findings.

Chapter 1 - Literature Review

1.1 Values and Business

There is a vast literature on the subject of values. Various authors have drawn a set wide of definitions for values. Nystrom (1990) defines values as “normative beliefs about proper standards of conduct and preferred or desired results” (Nystrom, 1990). Joyner and Payne’s definition (2002) states values as “the core set of beliefs and principles deemed to be desirable (by groups) of individuals”. (Joyner and Payne, 2002). Rokeach states a definition regarding not only values but of a value system, which is “an enduring organization of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance” (Rokeach, 1979). At last, Schwartz and Bilsky (1987), wrapping up the definitions of value they found on their literature review, define values “as concepts or beliefs, about desirable end states or behaviors, that transcend specific situations, guide selection or evaluation of behavior and events, and are ordered by relative importance” (Schwartz and Bilsky, 1987). Based on each conception of value presented, in the present dissertation values are defined in short as beliefs that a specific mode of conduct or end-stake of existence is preferable to other alternatives. For fully understanding this concept, this short definition is to be complemented with Rokeach’s systemization of values, from which a hierarchy is established, this is, some values are more important than others. This supplement is crucial for understanding what are values, for it is through the hierarchy of values, on the interrelation of values, that the process of decision-making depends to choose from various alternatives (Fritzsche and Oz, 2007; Maurer, Bansal and Crossan 2011). For example, consider the case of an energy company building a dam on a river, which has necessarily consequences for the involving natural ecosystem. The decision to make regarding the construction of the dam depends on the relative value they give to preserving the established ecosystem and the economic development of the region, as in the case of Portugal’s Baixo-Sabor dam.

It can’t be disregarded that values are subjective, in the sense that they refer to a specific subject. This subject can be either individual or collective. For instance, values can be referent to a person – which are defined as personal values – or to a specific organization – organizational values – or to a culture – cultural values (Melé, 2009; Maurer *et al.*, 2011).

Notwithstanding the fact that values refer to a subject, this does not make values a relativistic matter which is unable to be judged. Values have a goal to reach, which is the happiness of men that, according to many notorious authors, is attained through human excellence. (Yarza, 2007) The goal of values is, therefore, human excellence, for which it makes it is possible to judge values per se an in relation to the subject's value hierarchy, in the way that they are or not driving the subject towards human excellence. Values aligned for this purpose are ethical values, and are defined, according to Melé, as "values based on moral qualities that contribute to human excellence" (Melé, 2009). For example, justice, gratitude and integrity are samples of ethical values (Melé, 2009).

In the corporate world it is generally agreed the importance of ethical values in business. To pursue ethical values should be a goal per se, for through this is achieved the fulfilment of the human being, whose reality goes beyond economic relationships (Melé, 2009) More than a guarantee of individual good, ethical values are a guarantee of the common good. For this reason, organizations, too, have to regard ethical organizational values as an important factor for its development and its members. Otherwise, disregarding ethical values might lead to big catastrophes for many people, such as closure of companies and, in a broader perspective, even to economical crisis. The cases of companies like Enron and many of the failing financial institutions during the subprime crisis that started in 2008 such as Lehman Brothers are associated with ethical problems, such as cosmetic accounting. These problems might happen through misconduct of individuals, ethical lapses in the structure of organizations and in the development of theories which are not based in ethical values, leading to unethical outcomes (Melé and Argandoña and Sanchez-Runde, 2011; Costa and Ramus, 2012). The pursuit of ethical values avoids the emergence of illegal behaviors, such as fraud, deception and illegal activities. The cases during the economic crisis of 2008 such as Bernie Madoff, the massive use of Ponzi units and the pushing of credit to consumers incapable of paying reveal such issues. It is essential, therefore, that the values organizations and in particular businesses stand for be ethical (das Neves, 2008; Melé, 2009).

1.2 Catholic Social Teachings and Business

The understanding of values in business depends on the perspective taken. Values can refer to either a person or to an organization. In the business context, both individual and corporate values influence the outcomes of a company. Corporate values are not, nevertheless, an arithmetic sum of all individual values, for businesses and organizations as a whole have its own dynamic that surpasses those of the individual. Many times, more than a situation of an individual misconduct, there is a corporate culture whose values are disregarded. Examples that illustrate this point are the cases of unethical behaviors of companies, such as Enron, Lehman Brothers and other financial institutions during the 2009 crisis, as well as other notorious cases, such as Nike's incompliance to its own ethical standards in the 90's, as with the use of child labor. These cases were a matter of organizational values and its violation, not a matter of individual values alone (Hatch, 1993). Under this situation, the focus for the purpose of this dissertation will be the corporate values of a company.

Corporate values vary from firm to firm, and can have a variety of expressions that orient business and its members. A particular expression of the orientation of business according to a specific ethical value structure is the case of the doctrine derived from the teachings of the Catholic Church, which serve as a guideline not only for personal, but also for organizational and cultural values. The role of the doctrine from these teachings, denominated Catholic Social Teachings, recently had a greater highlight on the part of some authors, in what matters rethinking the values of a business context (Costa and Ramus, 2012; das Neves and Vaccaro, 2013; Abela, 2001).

Catholic Social Teaching (CST) is a collection of documents elaborated by the Catholic Church, which apply Catholic beliefs to contemporary issues, in particular issues that regard economics and business (Abela, 2001; Costa and Ramus, 2012). The literature on the application of CST to business, although recent, had a great increase in the past decade (Costa and Ramus, 2012).

CST applies transversally to society as a whole and the teachings of the Church on social matters are various. Although the vastness of CST, its core teachings are gathered into four permanent principles: Common good, solidarity, subsidiarity and the dignity of the human being (Compendium, 160; Vaccaro and Sison, 2011). These are the central principles of the social doctrine of the Catholic Church. For this, they will be briefly described according to the Compendium of Catholic Social Doctrine and other related documents and authors that worked on them.

Common Good

The principle of common good includes three basic values – the dignity, unity and equality of all people. Given this, the concept of common good comes as an aggregator for these three determining factors. The compendium defines common good as "the sum of the total social conditions which allows people, as groups and as individuals, to reach their fulfilment more easily" (Compendium 164). It respects all aspects of society and it give responsibility to every person and governments in particular, to contribute to the common good of society (Compendium 165; Compendium 166).

Solidarity

The permanent principle of solidarity embraces the premise of equality of all men in terms of rights and dignity and "the common path of individuals and peoples towards an ever more committed unity" (Compendium 192). Solidarity comes in response to the fulfilment of this: it is a duty of each individual and of society to strive for fair conditions to everyone. Solidarity highlights the moral requirement of interdependence between the needy and the ones who have in abundance (Compendium, 193).

Subsidiarity

Subsidiarity consists in the matching of freedom and responsibility. Its focus is set on avoiding the exploitation of the weak by the powerful, and promoting on the other hand a relationship in a constructive way, allowing the participation of all involved in a given matter. The principle of subsidiarity implies the duty of social entities that are in higher orders of a hierarchy to help, by support, promotion and development, social entities or individuals of lower orders of the same hierarchy in economic, institutional or juridical matters. Simultaneously, those superior order entities have to refrain from anything that restricts the lower order cells, guaranteeing their personal freedom and responsibility, therefore their personal development (Compendium, 186).

Respect for human being

The respect for the human being is the value that recognizes the dignity of men as center of all creation and the equal dignity of men and women (Compendium 106; Compendium 107; Compendium 111; Compendium 112). It opposes reductive visions of men, many times applied in management theories, that absolute men as, for example, a “human resource” (Melé, 2009)

There are several reasons that Catholic Social Teaching gives us to arrive at the principle of respect for the human being. According to Catholic teachings men is created at God’s image, which grants dignity in itself and should make him recognize dignity in other men, for they follow the same condition (Compendium, 106; Compendium, 108). Moreover, men is the protagonist of all social life and has all creatures at his service, which he is to manage with responsibility (Compendium, 113). For these and other reasons, in a humanistic perspective it is, in fact, the principle that absorbs all others due to its conceptual broadness.

Impact of CST on Business

The four permanent principles of CST affect the conception of business when business is seen through them, and can contribute to the presence of ethics in the business, for the reasons that follow next.

According to Melé, to know if a business is ethical, we have to analyze the ethicality of its purpose and practices (Melé, 2009). The values of CST, by focusing on the common good, the respect for the human being, subsidiarity and solidarity give a different view to the spread purpose of business as a means for wealth creation. Business, according to Catholic Social Doctrine and specifically according to John Paul II’s encyclical *Centesimus annus*, has the purpose to fulfill three main vectors at the same time: to generate a profit, to serve society with goods and services and to be a community of people striving to satisfy basic needs (Abela, 2001).

On the view of CST profit generation is a guarantee of financial health, for “when a firm makes a profit, this means that productive factors have been properly employed” (Centesimus annus, 35; Compendium, 340). The second goal described, to serve society, emphasizes the responsibility of a business in what is does; its responsibility to provide goods and services that are beneficial to society (Abela, 2001; Centesimus Annus, 36). This comes as a direct consequence of the values of common good and solidarity, for it makes the business accountable to make good in whatever it does, to the society as a whole.

At last, according to CST, business also exists in order to be a community of people striving for the satisfaction of basic needs. This third vector of the purpose of business is, once again, the application of the permanent principles of CST of common good, solidarity and subsidiarity. Dislike the goal of business of serving society, which consists in providing goods and services to society as a whole, it concerns the benefits of a specific group of people who are part of a business. This presupposes the respect and the help of the business' hierarchy to all workers involved in the business in order to guarantee them dignity in their living conditions (Abela, 2001; Centesimus Annus, 36).

There is, therefore, a difference in the scope of business when seen through CST (Abela, 2001; Costa and Ramus, 2012). Through the application of the core values of subsidiarity, solidarity, common good and the respect for the human being the ethicality of a business, in what regards its purpose, is more likely to be guaranteed. The sole focus on profit, disregarding these values or regarding other non-ethical values, might lead to unethical situations (Abela, 2001) To be ethical, however, the business also has to be ethical on its practices, which implies the implementation of ethical values in its operations, not only on its theoretical principles (Melé, 2009).

1.3 Introducing Values in an Organization

The reality of an organization goes beyond the sum of the reality of the individual parts of its members. In what concerns values, the implementation of values in an organization is, in the same way, a situation of greater complexity.

The introduction of values in an organization is usually made through the implementation of an ethics program. An ethics program consists in a set of initiatives taken in order to promote ethics and values. Ethics programs can be very diverse in its forms, for they are to comply with the unique reality and specific values of a company. Previous literature has shown, however, that programs can be categorized according to its main focus (Trevino & Weaver &

Gibson & Toffler, 1999). The focus of an ethical program, according to Trevino *et al.* (1999), can follow four main approaches (Trevino *et al.*, 1999):

i) Values-based ethical programs, which focus on defining organizational values and encouraging the ethical awareness of employees;

ii) Compliance-based, focused on preventing, detecting and punish unethical behavior;

iii) Protecting top management, on the eventual need to assume responsibility in the case that unethical behavior arises;

iv) To boost corporate image and please stakeholders.

In Trevino *et al.*'s research (1999) on which is the most effective approach to implement values on business, it is highlighted that the most effective way to implement values on a business is through a substantial values-based approach. A values-based approached is the most effective for motivating employees and arising ethical aspirations and awareness in the company. Through such a program, employees are more likely to report ethical violations, be more committed in their job and be better decision makers, in comparison to other types of programs (Trevino *et al.*, 1999). However, a combination of a values-based ethical program with another type of program can prove to have complementary skills that are valuable to the company. Combining a values-based program with a complementary compliance-based approach, can be of great value, for "discipline for rule violators serves an important symbolic role in organizations—it reinforces standards, upholds the value of conformity to shared norms, and maintains the perception that the organization is a just place where wrongdoers are held accountable for their actions" (Trevino *et al.*, 1999). For effective implementation of values in corporations, ethical programs should focus, therefore, in a values-based approach complemented with a compliance-based approach.

The form ethical programs materialize is through interventions in two different aspects (Harvey, 2000). One aspect focuses on promoting an ethical conduct of the employees, through teaching. The other aspect is to analyze the structural practices of the company or organization, such as rewards and punishments, corporate culture, and other environmental conditions that can influence the ethical conduct of individuals in a company (Harvey, 2000).

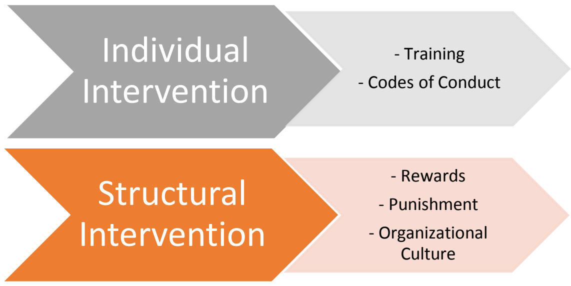

Figure 1 - Types of programs for implementing values

Both aspects are complementary to each other, for in order to guarantee values and an ethical behavior in an organization the structural conditions can help, through organizational designs that avoid exposure of employees to pressures that move to unethical practices (Trevino *et al.*, 1999; Harvey, 2000).

Intervention in individuals

Ethical programs' intervention on the individuals of an organization consists in, essentially, training and the establishment of codes of conduct (Harvey, 2000). Training consists in initiatives to raise the ethical awareness of individuals, such as workshops and simulations (Crane and Matten, 2007). A code of conduct or code of ethics is a document whose goal is to help people in an organization interiorize certain rules of conduct that are essential in the vision of the company's top management, this is, the values stressed for the company (Melé, 2009). Its adoption, in what regards the implementation of values in business, can be very beneficial. According to Melé, a code of conduct is useful for many different reasons. First of all, through a code of conduct there is an exposition and articulation of corporate values, so the company's view on different values is materialized for employees. Second, through a code of conduct the company is providing to its employees guidelines for decision making, so some ambiguity in analyzing situations might be prevented. Lastly, by stating what a company stands for in a code of conduct, it is limiting power abuses within the firm and it helps avoiding litigation between employees, for there is an objective document as a reference (Melé, 2009).

Structural intervention

For effective implementation of values it is important to remove any barriers that can be in the way of ethical choices. Three main situations have to be analyzed in the company's structure: rewards and punishment, performance and evaluation processes and decision-making rights and responsibilities (Harvey, 2000). Regarding rewards and punishments it is important, especially, that the company condemns unethical behavior, through punishment, so that it is not seen as impugn and be repeated in other occasions (Harvey, 2000, Trevino *et al.*, 1999). Moreover, the system a company adopts in terms of performance evaluation has to be in such way that unethical behavior is not incentivized to meet expectations. It is important to have objectives very clear as well as the expectations top management has of the employees to avoid such situations. For example, this issue occurred with Sears Auto centers, where central management, in a time of financial distress, implemented a plan that established the need of reaching certain sales levels on each units, and the failure of this plan would result in penalties to the units, including job losses. The results from this policy was that unethical behaviors such as overcharging customers were incurred in order to meet quotas (Harvey, 2000). At last, there are circumstances that facilitate the incurrence of unethical behavior in matters of decision-making. This occurs when power is divided between a group of people, which diminishes the sense of responsibility, and when there is little sense of power over questions. An example of this last situation was the decision to launch the space shuttle Challenger (1986) in adverse meteorological conditions and the consequential explosion of its fuel tank. Even though engineers, the experts on the matter, strongly recommended postponing the launch due to the weather, NASA overran the safety recommendation, which resulted in disaster (Harvey, 2000).

Cultural aspects

Organizational culture has a crucial role in the effectiveness of the initiatives for an effective implementation of values in a business. By organizational culture it is intended the assumptions, beliefs, goals, knowledge and values shared by organizational (Hatch, 1993). Values are instigated in employees through the corporate culture established. For this to happen, organizational culture needs to have certain characteristics that promote effective value transmission. In order for this to happen, participation an communication with members has to be present, for this way individuals make corporate values their own and management shows its commitment to the values. Moreover, it is very important that an organizational culture shows commitment of top management in the values desired to all levels of the hierarchy, for the example of leadership is one of the top influencing factors (Harvey, 2000; Stevens, 2008).

Corporate culture fills in the gaps of organizational structure in what concerns the implementation of values, therefore is crucial to consider it and the need of its enrichment with participation of members, example from leadership and efficient communication (Harvey, 2000)

1.4 Decoupling

Efforts are continuously made in the academia on the development of management models that help effectively implementing values in a business (Melé, 2003; Spitzeck, 2011) and there are various studies on the most effective way to implement corporate values (Trevino *et al.* 1999; Harvey, 2000; Stevens, 2008). However, the establishment of a formal system with mechanisms like ethical codes, training and whistleblowing lines is not enough to guarantee that the values a company aims in attaining are de facto put into practice (Trevino *et al.*, 1999). There are cases, in fact, where the values a company officially stands for and formally states and defends through the described mechanisms, are disregarded in practice. This situation is conceptualized as decoupling (Bromley and Powel, 2012).

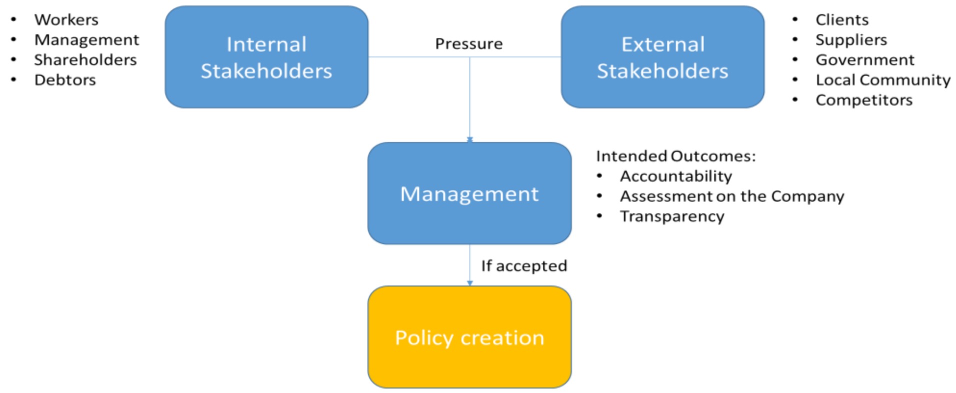

Figure 2 – Process of policy creation

Decoupling is defined as the situation of a company formally having a policy or code of conduct which in practice is not regarded (Bromley and Powel, 2012). Decoupling can occur essentially due to two different types of causes, one related with issues on the implementation of the policy; another related with issues of the implementing process. When decoupling occurs due to issues in the process of implementation of the policy, creating a gap between the stated values of the company and the actual values of the company, it is called policy-practice decoupling. The other situation, when decoupling is caused due to a bad definition of the policy at first it is called means-ends decoupling (Bromley and Powel, 2012).

Policy-practice decoupling arises when there are pressures from different sets of stakeholders to avoid the practical consequences of a formalized policy. Means-ends decoupling occurs due to a bad connection between the policies defined and the outcomes that are desired, for the policy in itself might raise in the organization conflicting views on the same matter than cannot be compatible (Bromley and Powel, 2012). Policy-practice and means-ends decoupling are a result of different factors that lead to each situation. As there is a conceptual difference between policy-practice decoupling and means-ends decoupling, as there are different causes and antecedents that lead to each type of situation.

Policy-Practice Decoupling Antecedents and Drivers

According to Bromley and Powel (2012), an organization is more likely to incur in policy-practice decoupling situations in the case that the company or organization has network ties with entities that incur in decoupling situations or if there is any prior experience decoupling from established policies. Moreover, in the case the company has a weak capability of implementing changes and where there is no reinforcement of changes that are to be implemented it is more likely to fall into such a decoupling situation (Bromley and Powel, 2012). The occurrence of policy-practice decoupling, however, is caused not by the circumstances alone, but due to pressures that come in different forms from different stakeholders on the company (Bromley and Powel, 2012). Bromley and Powel (2012) describe these pressures in the form of five different drivers. The first driver regards the existence of interests of leaders on the concerning policy, such as personal gain or covering malpractices (Bromley and Powel, 2012; Tilcsik, 2010). Secondly, the existence of local power relations that are unfavorable, such as rivalries, relationship struggles, transfer of responsibilities to other persons, excess familiarity or character clashes, among others, can stalk or impede the process of an effective implementation of a policy (Bromley and Powel, 2012). In third place, there might be the desire of agents to protect its internal core operations, which are considered to be of high value to the organization and whish not to have any interference from external factors (Bromley and Powel, 2012). Fourth, there can be a pressure from outside the company that the company assumes as its own priority, disregarding the established policies. For example, the case of an important client who threats to finish his relationship with the company if a new implementing policy goes through, to which the company's response is evading the policy to keep the client. (Bromley and Powel, 2012). At last, inertia in implementing drives to a situation of policy-practice, in the case something needs to be worked on to guarantee it (Bromley and Powel, 2012).

Means-ends decoupling antecedents and respective consequences

Means-ends decoupling is a result of a weak formulation of a policy that does not establish tight relationships between the implementing policy and the desired outcome. Bromley and Powel (2012) consider essentially four main reasons why a company might incur in means-ends decoupling. The first cause presented is the case of, when establishing a policy, give excessive attention to the way a policy is to be implemented, respecting all rules and involved stakeholders, but consequently not giving the necessary importance to the outcome that is desired in the end. It is the case of, for example, of quality control processes where the main focus is to guarantee that all steps are followed properly and not in the final quality of a product in itself (Bromley and Powel, 2012). Consequently, resources are shifted from the principal activity to support these policies (Bromley and Powel, 2012). Means-ends decoupling can happen, too, when the environment of the company is fragmented, for example working in multiple industries, therefore having a great number of different stakeholders to report. Implementing a common policy, to all different realities it is present at, might be a difficulty due to the compartmentalization of the company, and policy remains a mere formal document or it is only partially implemented. For example, a production facility of heavy material, which requires physical strength, might not be able to fulfil an establishing general policy of the company imposing that half of the workforce in all departments be woman. When such situation occurs, it makes the organization in cause very complex in its internal activity, requiring multiple logics of acting inside the company and, when the policy is not directly related to the activity of a specific department, it might deviate it from the core work it is to do. (Bromley and Powel, 2012). Rationalizing pretended outcomes that are difficult to measure can be another possible cause for means-ends decoupling. For example, it is not easy for the Church to measure the intended outcomes of its policies, which is the saving of souls – it might instrumentally consider the number of people present or other factors that are measurable. Companies tend to create mental shortcuts and, in the end, have false links between the intended outcome and the designed policy. An endemic reform, rethinking the goals and policies of a company, would eventually emerge as a way to give consistency with the purpose of the organizations (Bromley and Powel, 2012). At last, means-ends decoupling can also be caused when the company champions a specific ideal and lose sight of its core activities. Such is the case of companies that set CSR departments that act on its own, disregarding the essence of the core activities of the main company. Resources, in this case, are diverted to fields other than the company's industry and, sometimes, to entities unrelated with the mother company (Bromley and Powel, 2012).

Effects of decoupling

Besides not implementing the policy in question, when a company falls into the situation of decoupling, additional consequences come to the performance of an organization, both in internal and external matters. These occur especially in what regards the long-term performance of an organization. These effects can be the following:

- In external matters, there can be an effect in a company's legitimacy in acting and its reputation. Westphal and Zajac (2001) studied the situation of companies who implemented stock repurchase plans and disregarded them in practice, and noticed that, with time, financial markets become policy-neutral in matters of policies of the given company, they are seen as merely symbolic documents (Westphal and Zajac, 2001). In regards of the reputation, decoupling might damage it for according to Stevens *et al.* (2005) it is directly connected to a company's ethical conduct (Stevens & Steensma & Harrison & Cochran, 2005).
- In internal matters, corporate governance might be affected with decoupling. Decoupling is more likely to occur when previous decoupling situations had already

taken place (Westphal and Zajac, 2001). This situation creates a governance problem of endemic misconduct and, possibly, mistrust on the dedication or effectiveness on the management team by internal and external stakeholders.

Means-ends decoupling, due to its conceptual nature, might have some additional specific consequences of its own. These consequences are directly linked to the causes means-ends decoupling, and consists in situations such as diversion of resources from core activities, creating complexity in operations and endemic reforms.

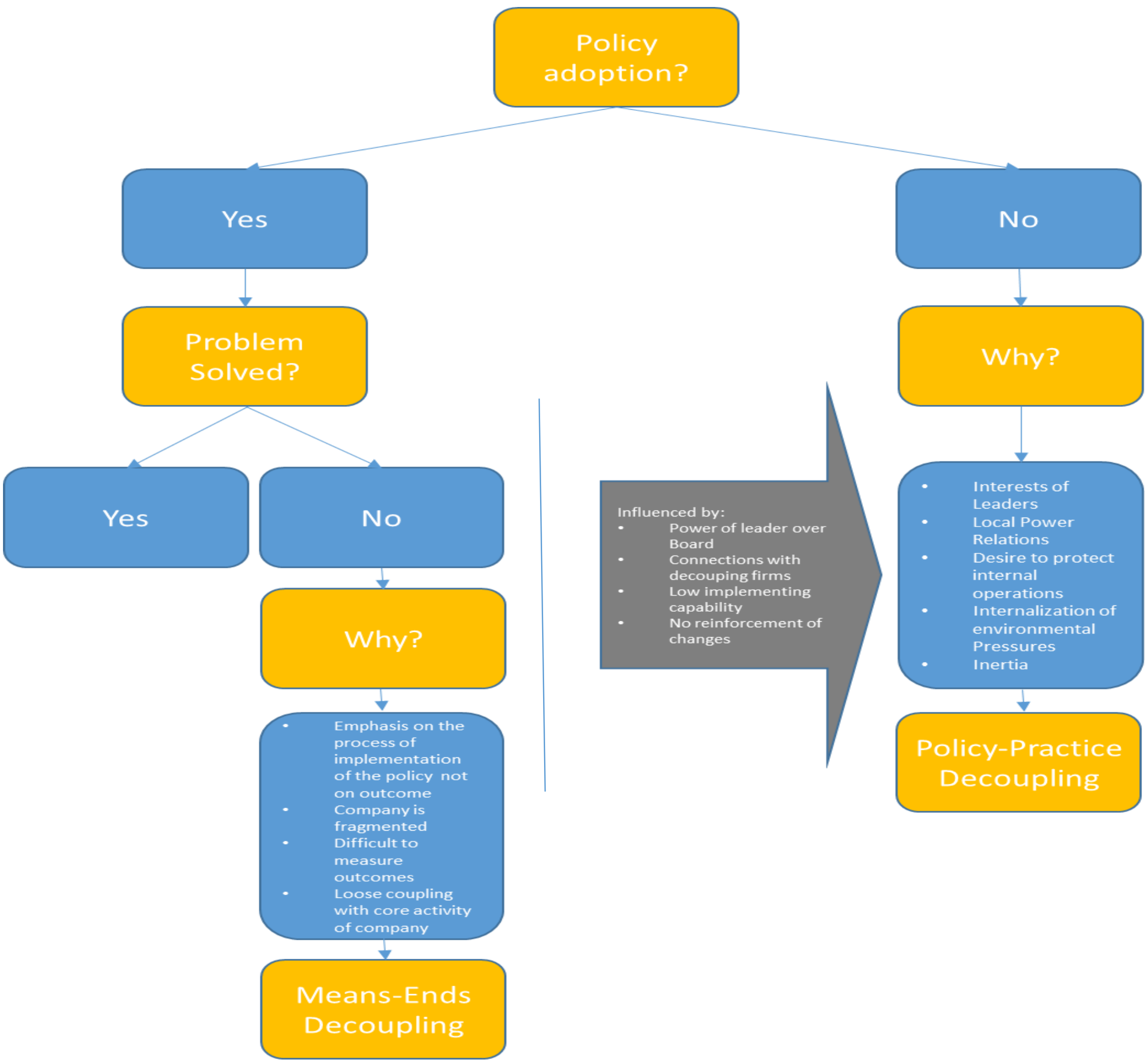

Figure 3 - Scheme of effective policy implementation, means-ends and policy-practice decoupling

1.5 Reintroducing Values in an Organization

The path to solve a decoupling situation, however, might be complex, for it goes according to the nature of the issues present in the company, which can be of structural nature or regarding behaviors of members. Diagnosing each issue might be hard and can be erroneous, and the problem might still remain if the issues are not correctly addressed. Nevertheless, there are some key figures on the company found in the research of Trevino *et al.* (1999) that are strongly related to the effective implementation of values in organizations. The research identifies what are the most significant aspects on a business that lead to ethical outcomes, therefore what aspects most contribute for the guarantee of ethical values in a company (Trevino *et al.*, 1999). The factors that were found as being the most relevant for ethical outcomes in businesses were the presence of an ethical leadership, a positive perception that members of a company have in terms of internal fairness in treatment, discussions of ethical matters with employees and general perception that ethical behavior is rewarded and unethical behavior punished (Trevino *et al.*, 1999). In order to guarantee such conditions in a company, corporate transparency can have an important role, for it upholds pressure on the company to implement the announced policies, and therefore promote an ethical conduct.

Corporate transparency

Corporate transparency has multiple definitions according to different authors and application fields, such as accounting, finance or business in general. The broadest definition given of transparency is from Saint Thomas Aquinas, who defines transparency simply as “declaring the truth” (das Neves and Vaccaro, 2013). Tapscott and Ticol (2003), on the other hand, consider transparency as “accessibility of information to stakeholders of institutions, regarding matters that affect their interests” (Tapscott and Ticol, 2003). Vaccaro and Madsen give a definition of transparency as the “Widespread availability of information about such aspects as short and long term performance, financial position, investment opportunities, governance, value and risk” (Vaccaro and Madsen, 2009). Finally, Das Neves and Vaccaro (2013) wrap up the current business ethics literature and conclude that, in the field of business, the most agreed and used definition of transparency is “addressing stakeholders’ information requests” (das Neves and Vaccaro, 2013).

Considering the given definitions, for the purpose of conceptualizing corporate transparency, we obtain that corporate transparency is, in short, to provide information to stakeholders. This definition can apply on the corporate level in two ways: internally, which is refers to as internal corporate transparency, or externally, which is called external corporate transparency. Internal corporate transparency applies to providing information of various activities of the company, in diverse departments, to internal stakeholders. For example, monthly operational reports to the administration board and internal newsletters to all employees on the company's activities are examples of internal transparency, to the leadership and to all company, respectively. External transparency, on the other hand, considers disclosure to external stakeholders, unveiling. the way the company operates to people outside of the company (das Neves and Vaccaro, 2013). The role of both internal and external transparency produces effects in the functioning of companies in matters of internal operations and the way stakeholders relate to the company. There is, however a difference in the strength of the effects of internal and external transparency. From transparency is expected, as it will be explained next, exigencies of stakeholders for compliance in the matters found most opportune to each stakeholder, and the weight these have is relative. According to Stevens *et al.* (2005), by norm the power of external stakeholders scrutiny on the operations of a company, especially the one that comes from market-based stakeholders, tends to be higher than the pressure made by internal stakeholders (Stevens *et al.*, 2005). We can expect, therefore, a greater impact in the company from external transparency rather than from internal transparency.

Transparency in Re-implementing Values

In addressing the matter of decoupling and value implementation, corporate transparency is a powerful way to help the effective implementation of values within a business. Both internal and external transparency produce effects in a company that support the establishment of values.

Through internal transparency, internal agents within a company are informed about the company's course of action, which is a way to hold the management of the company accountable for what is does (Vaccaro and Sison, 2011). With this, being under scrutiny management is more likely to have an ethical leadership approach. However, more than a potential control mechanism, which can also be, until a certain degree, an auto-regulation tool for the company, it is also an ethical value per se to provide information to whoever has the right to it, in this case the internal stakeholders (Vaccaro and Sison, 2011).

Through external transparency, the same effects as internal transparency in regards to internal operations of the company occur, with the difference that external shareholders are involved in the process. From external transparency, corporate accountability, trust and regulation come from figures outside of the company, such as clients, governments and the public opinion. According to the existing theory, the more information given to stakeholders the higher trust is placed by these on the company (DiPiazza and Eccles, 2002; Vaccaro and Madsen, 2009; Williams, 2005).

Internal transparency effects

- Increased corporate accountability;
- Respect of internal stakeholders' right to know about business activities;
- Self-regulation through internal stakeholder engagement;
- Increased ethicality of leadership and human resource management.

External transparency effects

- Increased corporate accountability;
- Respect of external stakeholders' right to know about business activities;
- Regulation from scrutiny on company;
- External Stakeholder engagement;
- Trust from external stakeholders;
- Increased ethicality of leadership and human resource management.

Figure 4 - Effects of internal and external transparency

Acknowledging the described effects of transparency, the role it can have on the successful reimplementation of values in a country is to be recognized essentially for three main reasons. First, a company in a decoupling situation lost trust on the part of its stakeholders, for not fulfilling its own values. Since transparency engages stakeholders and builds trust, it can convince stakeholders of the changes the company is undergoing in order to correct its situation.

Second, since transparency has, to a certain point, a regulatory function done by stakeholders, it keeps pressure on the company to respect its policies and can help to accelerate them.
Third, just the fact of being transparent is a sign of compromise and respect for stakeholders, recognizing their right to know.

Effects within the company

- Increased corporate accountability;
- Respect of internal stakeholders’ right to know about business activities;
- Self-regulation;

Effects on the company's stakeholders

- Respect of external stakeholders’ right to know about business activities;
- Stakeholder engagement;
- Trust from stakeholders.

Figure 5 - Effects of transparency in internal and external environment of the company

Transparency can be, therefore, a helpful tool in the process of reestablishing values in a company as a good complement to the core measures that need to be undertaken in order to solve a decoupling situation.

Chapter 2 - Case Study

2.1 Introduction

Two man were sitting in a round table in an ample room, height three times the size of a man, walls covered with frescoes that contained maps with the various perspectives that humankind had, throughout time, of how were the seas and land of the world. Outside of the window, a magnificent view over Bernini's masterpiece of the Piazza S. Pietro, covered of Saints that inspire the lives of many Catholic throughout times. In the midst of this atmosphere, the host, who was wearing a cassock, went straight to the point that motivated the coming of the visitor:

Archbishop - "Don Corleone, I need your help… I am not just a white little candle. My gift was to be able to persuade people to give to the Holy Church. Then, the Pope decides to put me in charge of the Vatican Bank. But I was never a true banker… Mea Colpa, I trusted my friends".

Don Corleone - "Friendship and money… boiling water…"

Archbishop - "Indeed. But these - "friends" – used the good name of the Church to feed their greed! If money was lost, than I am to blame!"

This dialog extracted from Francis Ford Coppola's movie, *The Godfather III,* a romance about the life of the Mafia and organized crime in the second half of the twentieth century, although it is a product of fiction, reveals a lot of what is the common idea people have concerning the financial activities of the Holy See – obscure, dirty and illegal. On the eyes of the public opinion, the Holy See's "Vatican Bank" is nothing other than a vehicle for the greed of the Vatican Clergy. History shows that, in fact, some misbehaviors were effectively connected to this financial institution, but many myths have also been created around it, always generating suspicion of a systematic involvement in illicit situations. Myth and fact are scrambled, and the integrity of the institution is the one who suffers with this, especially in the financial industry where the main asset is trustworthiness.

In real life, the so-called "Vatican Bank" is, in fact, the Institute for the Works of Religion (In Italian *Istituto per le Opere di Religione*, from here on called IOR). The purpose of the IOR is essentially to help the fulfilment of the Church's mission – which is the salvation of souls and giving glory to God[i] - through supporting financial services for religious works all over the world. Not disregarding this end, throughout its history the IOR became known for lack of transparency in its operations. There was effectively, in some cases, a set of occasions when the institute was under inspection due to suspicious situations. Such situations concerned investments in companies engaged in activities of money laundering and connected to the Mafia, as well as money laundering of singular people that used the IOR, which in some cases ended in accusations on the part of Italian authorities[ii]. The response to this situation came throughout time, with a progressive walk towards a greater transparency. In the recent years, from around 2009 until today, the Holy Father gave a special attention to the Institute, by appointing the president Gotti Tedeschi, from the moment of his nomination, a special task of bringing light to the Institute's activities, make them transparent and according to the standards of international finance. From that point on, it started what is frequently called a "Transparency Process", which continues as of today.

2.2 The Institute for the Works of Religion

Inserted in a very peculiar ecclesial context, the IOR is a financial institution that serves the Church through the provision of financial services to the Holy See and to whoever is connected to activities of the Church. Being an institution of the Holy See, it operates under the values of Catholic Social Teachings, the doctrine the Church sets for an ethical conduct.

The IOR is inserted in the Vatican framework as an institute of pontifical law with its own juridical personality, which means that the institute's leadership responds for what the institute does. It is directly dependent from the Pope, not being integrated in any congregation that is part of the Holy See. IOR's mission, according to its last statutes, is the custody and administration of goods that are transferred to it. Historically, as a Diplomatic official of the Holy See states, its central function was the service of the Holy See.

"The main objective of the IOR is, before anything else, to manage the finances of the Holy See."(Interview with external stakeholder, Diplomatic Official of the Holy See, 29th October 2013)

The IOR serves a client base, which according to the statutes, is limited to "entities or *persons of the Holy See and of the Vatican City State"*. In practical terms, the main function for which the IOR exists is to support the economic activities that the Holy See is supposed to fulfill, such as the reach of aid of local churches or communities in need, from all around the world, as well as for charitable purposes.[iii] As an expert of financial affairs of the Holy See states it:

... the IOR is important to guarantee the arrival of money to , for example, a hospital in Vietnam, where the government would not make it. Why the existence of the Istituto per le Opere di Religione? Precisely for this. (Interview to expert in Financial affairs of the Holy See).

The way the IOR fulfils this is through the use of the international financial system. The clients, whose scope is described in the last paragraph, open accounts next to the IOR, who guarantees that the money deposited is well managed and arrives where it needs to go. This way, the IOR has in its hands not only assets of the Holy See's organisms but also goods of a greater number of church and charity-related entities. This way, the IOR concentrates on itself money from diverse entities and is able to create greater value from a greater volume of funds and invest them, just like any financial institution[iv].

The IOR manages the funds to it allocated through a set of banking activities, for as any financial institution, the IOR is to multiply the goods entrusted to it. The activities IOR performs to reach this goal are deposit-taking, payment services, asset management, custody services and even some pension accounts[v]. Given this, the IOR can be classified as a financial institution very similar to a bank, even though it has some peculiar characteristics.[vi] Nevertheless, certain circumstances regarding the services provided, its *modus operandi* and its ownership structure make the IOR substantially different from regular financial institutions, which puts the IOR in a very particular, unique situation. First, very little of its income is originated by granting loans, which traditionally is the core business of banks and its main source of income. In second place, the way that IOR operates to serve its clients is through corresponding banks, this is, it opens accounts in other institutions and manage its activities through these. It has no branches or offices, just the In terms of the shareholder structure, there is only one shareholder - the Holy See – which cannot be seen as a regular entity, for it is an entity which is closer to a public entity than to a private owner.

"IOR is not a company, the IOR is not a Bank, the IOR is not a concession, it is nothing of this. The IOR is an Institute of Pontifical law, which means that all the funds go to the Pope who decides how to use them. This is so because the Vatican City State is the only Patrimonial State in the world – well maybe in Saudi Arabia something like this happens – where all the goods belong to the Pope" (Interview to expert in Financial affairs of the Holy See following IOR's transparency process).

The client base of the institute is restrictive to individuals and entities that have some connection to the Holy See, as seen in the statutes of the Institute (See appendix for Client Base)[vii]. The main goal of the institute is to serve the Holy See and activities associated to it. Nevertheless, the broadening of the service to other categories of clients permits greater synergies for the fulfilment of its primary mission – more funds means more disposables and consequently higher profits on investments, which is beneficial to everyone, for the Institute received fees for its service to clients and could invest the money in a broader portfolio. The logic is the same as any financial institution.

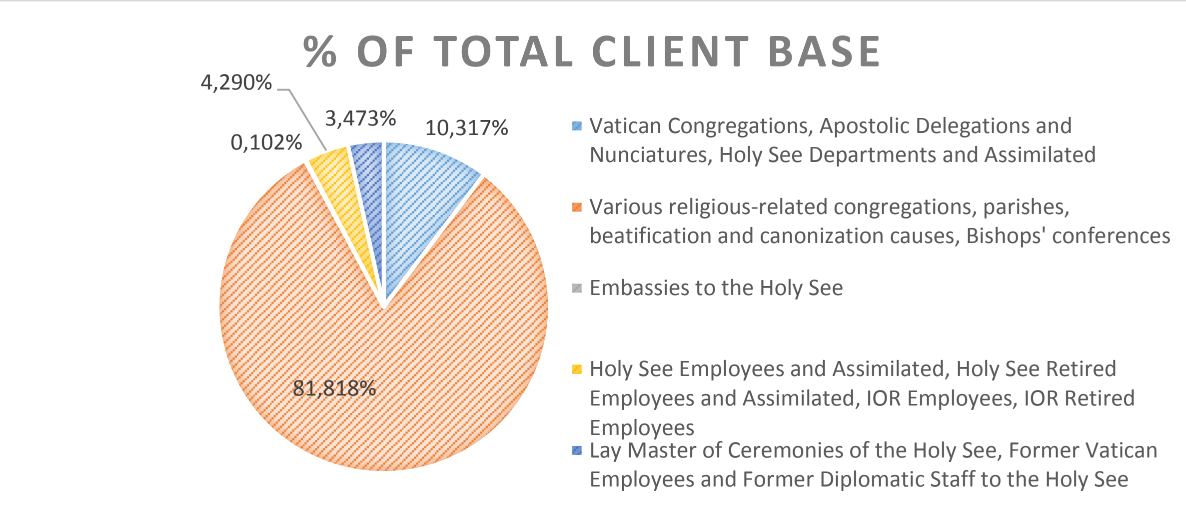

Figure 6 - Client profile in number of clients

Source: Moneyval report, 4th July 2012

Values of the IOR

The IOR in itself does not state, either in its statutes or in any official document, the values under which it operates. However, being a Catholic institution dependent of the Holy See it is expected to follow the values the Church defends, in particular those that affect the institutional context it is inserted in, which are expressed through the Social Doctrine of the Catholic Church. Such values are aggregated into four main principles, which consist in i) the respect for the human being, ii) solidarity, iii) subsidiarity and iii) common good (See Appendix Permanent Principles of Catholic Social Doctrine)[viii].

However, Catholic Social Doctrine Principles did not avoid the emergence of problems and accusations in the lifetime of the institution, regarding common problems of financial institutions. This contrast with the values of a Catholic institution, which is to be light to the world in its operations. Business obscurity in its financial activities was a constant accusation of the media and the financial industry and this had repercussions on operations of the IOR in the market and in civil society (See appendix 4 - main irregular cases of the IOR). For this, throughout the last five years before the writing of this case study, IOR's approach for the solution for these issues was, among other factors, to be transparent with its stakeholders – market stakeholders, clients and civil society – in order to impose a straight conduct that is verified through scrutiny of these[ix].

2.3 History and Important Facts on the IOR

The foundation of the IOR, under this designation, took place in 1942 with Pope Pius XII. The operating currency for the Institute and all Holy See was the Lira and, in 1999, the Euro. In the beginning of the 90's there was a revision of its statutes.

IOR is part of the independent financial system of the Vatican City State, and its history is deeply connected with the background of the finances of the Vatican City State since its foundation in 1929, with the Lateran Treaty. The Lateran treaty was the culmination of the conflict between Italy and the Holy See on Papal territory conquered by Italy. The treaty sat peace through the revocation of claims on the conquered territories on the part of the Holy See and its consequent financial compensation in 750 million liras and consolidated bearer bonds with a coupon of 5% with nominal value of one billion liras, as well as an uncontested territory, the Vatican City State[x]. After the treaty an agreement was issued concerning the use of the lira by the new Vatican State, currency that the new state was allowed to issue under a set of conditions[xi].

The State that resulted from the process of these treaties, the Vatican City State, is autonomous by nature and financially independent. This made it, therefore, independent from Italian regulation. This way, the Vatican City State is able to exchange liras directly for other currency so the Pope was not subject to another authority[xii].

Under this paradigm that in the 19th of June of 1942 Pope Pius XII founds the *Istituto per le Opere di Religione*, an institute with juridical personality of its own, therefore having responsibility for its own activities. Its first client and principal aim was to serve the Holy See with its financial services[xiii].

Reform of the Statutes

Past the second world war, IOR's activity developed and it engaged in a series of investments in Italian companies, especially in the 80's, under the leadership of the American Archbishop Paul Marcinkus. Some of these investments, in the end, proved to be ruinous and ethically challenging, in some cases resulting in scandals in the public opinion. For example, the investment of the IOR in *Banco Ambrosiano* turned out to be a big failure, with associated cases of money laundering (see appendix main irregular cases of the IOR)[xiv]. Consequently to these cases, on the first of March of 1990, Pope John Paul II wrote a Chirograph[1] on the IOR, with the intention of better "adapting it to the exigencies of the present times", in which it establishes new statutes for the Institute, which included a new governance organization. In this new configuration, which is in practice as of today, two novelties are introduced: the existence of a board of layman, experts in banking and the figure of a Prelate, who was a Pope's delegate and who is present in all deliberations of the Institutes' organs and in its operational activities, in order to report to the highest council and representative of the Pope, the council of cardinals.[xv].

The Euro

With Italy's adoption of Europe's unique currency in 1999 the Vatican City State decided that it was to follow Italy and make an agreement with the European union to join the Euro. This act created a peculiar situation, for the Vatican City State was not an integrated financial system in the Eurozone, it was not part of the European Union and it remained independent from its supervision, essentially just sharing the same currency[xvi]. The IOR, therefore, was connected to the European network in a special way, for it was not supervised by any institution or body, unlike all other financial institutions in the Eurozone who were regulated by an independent entity.

With the Euro we arrive at the preceding time of the transparency process of the IOR, that was to start in 2008. On the 17th of December 2009, the Vatican City State would settle with the European Union the adoption of anti-money laundering measures, which was a formal sign of its compromise in the process of transparency of its financial institutions, through the sharing

[1] Chirograph – Decree from the Pope to the Roman Curia

of confidential information for guaranteeing the soundness of its operations. This would affect the IOR directly, for it was in this particular institution of the Vatican City State that this form of white-collar crime was more felt throughout its history.

2.4 Historical Problems of the IOR

Throughout its history, the IOR went through problems of people who sought to use the institute as a means for illicit gain. To understand the reasons why this happens it is necessary to understand the circumstances where the institute is inserted and its history.

There was a set of problems through which the IOR went through in its existence, some of which were very mediatized – cases that involved dubious investments with the Italian businessman Michele Sindona, who was a financial advisor for the Holy See and with the Italian banker Roberto Calvi, which resulted in cases such as the *Banco Ambrosiano* bankruptcy referred before. More recently, under the new statutes of the IOR, other cases emerged, which involved the then Prelate of the Institute, Monsignor Donato de Bonis, who, creating fictional foundations or using existing entities of such kind used its accounts to manage funds for political and personal matters of third persons. Due to this, later the institute prohibited IOR's employees or associates to manage third party accounts.[xvii] Finally, the most recent case arouse in June of 2013, which is related to Monsignor Nunzio Scarano, an accountant of one of the Vatican's financial institutions, who is arrested and being investigated for two different operations. The alleged operations are, first, of having withdrawn 560 thousand dollars in cash from his account in the IOR and bring it to Italy in order to pay for his house mortgage. The issue involved is the fact that the origin of the funds is not attested to be licit, and allegedly, the Monsignor used a scheme of dividing the money between some friends in smaller amounts to pass unnoticed. The second case involved the unsuccessful plot to introduce in Italy 20 million dollars coming through a governmental airplane in Switzerland, whose origin was also dubious, together with some of his friends. At the moment of the writing of this case study the investigation was not concluded yet.[xviii]

To look for the genesis of these cases, nevertheless, is never a clear cut situation to the public nor there is a clear cut solution. The testimony of a Vatican insider who follows economic issues of the Vatican City State and of the Holy See attributes the problem to a structural issue:

”IOR’s problems are in fact connected to its lack of transparency. The IOR is an institution that was impossible to control from outside of it, because it was constructed and made to function in an incontrollable, not understandable way, unable to hold account” (Interview to Vaticanist[2] A)[xix].

In fact, until December 2010, the structure of the IOR consisted in a board of supervision, in practice an administration board, who met according to the statutes once every three months and a supervising organ, the Cardinals commission.[xx] Very little information came out public regarding the institute, no independent entity followed the IOR’s activities to check the regularity of what it was doing and the unit who was in charge of prosecuting illicit situations, the Gendarmerie, was small and specialized in small crimes, such as theft[xxi]. All control on the operations of the IOR was therefore, made essentially by the IOR itself. This helped the arousal of a series of circumstances in IOR’s operations that contributed to the stories that emerged. According to multiple sources, until 1995 the IOR was accepting, similarly to what happened in Swiss banks, numbered accounts – situation when the holder of the account did not need to be identified by name to manage his money, but by an account number.

“What they (numbered accounts) usually do is attract money. Money of whom? Of those who don’t want that people know the money is theirs, but want to keep the money. For example, if I was a drug dealer and making a living out of it, (…) if I wanted to keep myself undercover maybe a way to do it would be to find a place who would accept my money and give me a document saying it was received (…) so it would be at my reach. ” (Interview with Lawyer following IOR affairs)[xxii].

These accounts were finished in 1995, time when there was an analysis of all accounts and computerization of the account system.[xxiii].

“(…) when they (IOR) say that there are no numbered accounts – it means that there aren’t anymore. They made their job. In 1995, they got an external company to revise their accounts, they got PriceWaterHouse to do it (…) on a KYC[3] process” (Interview with expert on financial matters of the Holy See)[xxiv].

However, for many experts the problem that led to illicit behaviors did not reside in guaranteeing that the ownership of the account is disclosed, but rather on the operations that were developed through the accounts.[xxv] A Vaticanist recalls that the danger of the accounts

[2] Vaticanist – Journalist especially accredited by the Holy See
[3] KYC – “Know Your Customer”, minimum information requirements to do business with customers.

is not solvable simply through having an exigency of having the owner's name, but that it resides in what is done through them.

"The danger for the IOR is not as much of who holds the accounts, but what happens inside the accounts, for in many cases, which were scrutinized by the courts, from regular accounts came irregular operations from the part of external persons." (Interview to Vaticanist A)[xxvi].

The entity responsible for investigating these cases in the Vatican, the Gendarmerie, was later found inexperienced to deal with such cases in an assessment made by the European Council's unit for anti-money laundering affairs[xxvii]. It was later revealed money laundering issues in the functioning of the institute, that were somehow tolerated, as a report from an investigation by the then president Angelo Caloia, which was disclosed unofficially in 2009.

"The Internal investigations (...) conduct to Donato de Bonis, directly or indirectly, a great movement of titles and money, with a special intensity between the years of 1990 and 1993 with the substantial end, which we don't know if intentional or from mere opportunity, to find secret hosting for financial valuables or, in any case, to clean them, being covered by the protection offered by a financial institution with its head office out of Italy, as is the case of the IOR". [xxviii]

Donato de Bonis was the Institutes' Prelate, a figure who would follow the institute's operational activities on a daily basis, was present in the meetings of both the Cardinals' commission and the council of superintendence and had access to all acts and documents of the institute.[xxix] Why would this happen? The sources interviewed state that, in great measure, these cases were for the benefit of external clients, who found a helping hand inside the institution.

"It was the interests of external clients who had, inside the IOR, a direction that tolerated and in some cases even justified this behavior." (Interview to Vaticanist A)[xxx].

Through the IOR, clients are not taxed transacting money – the Vatican City State does not have any taxation - but this gain is relative, for clients are required to follow the tax code of the countries where they operate, and in most cases will pay the respective taxes. However, within the territory of the Vatican City State, the control of the financial operations was limited to the internal organs of the institutions[xxxi].

All this is reflected in the relationship of the IOR with its partners, the financial institutions. According to many bankers, the use of the IOR to introduce money in the European financial system from offshore havens was a constant preoccupation to Intelligence authorities[xxxii]. The Intelligence Authorities, who are the supervisors of the financial system, were attentive to the situation in which the IOR was involved. Although it used the same coin than Eurozone countries, it had a diverse, independent regulation, so the rules to follow were either not coincident or inexistent[xxxiii]. Within the Eurozone, each country has its own financial regulator and regulators sign memorandums of understanding between them that permits that, in cases of suspicion of certain operations, information is shared to analyze the situation. In the IOR, nothing permitted operatively the checking of details on operations by foreign official entities, so the cleanness of the operations could not be attested.

Therefore, the suspicion on the part of Intelligence Units on the coherency of IOR's operations led them to address the issue from where they could, which was through the banks who they regulate. In this manner, the financial regulators, especially Italy's Intelligence Information Unit (UIF) required banks on their jurisdiction to have their correspondent institutions functioning according to transparency standards of anti-money laundering.[xxxiv]

Following the rules implemented from this law, the Italian authorities sat a series of investigations on operations that banks performed with the IOR that did not match the requirements that the new law imposed on the Italian-regulated banks. The Regulation authority was pressuring the Holy See to follow the same rules as Italy.

"The relationship between the Holy See and Italian authorities was very tense and the Holy See was regarded with great mistrust (...)The external entities consider the IOR as a bank and the Holy See as a multinational."(Interview to expert on financial affairs of the Holy See). [xxxv]

2.5 Reforming for Transparency

In 2009, the new leadership set by the Holy Father Benedict XVI, Pope at that time, was to guarantee that no more problems would occur in the IOR's functioning, through being a transparent institution. In the following years, the Vatican City State founded a Financial Information Authority and requested an assessment to its financial system to the European Council. A set of reforming measures was taken in the Institute and a great effort was made to be more transparent, opening the Institute for visits and publishing public information on the activities developed. Even though there was an incident with the president, who was dismissed, the reform proceeded.

As a response to the problems felt in the institute, in September 2009 Pope Benedict appointed a new President of the IOR, with a specific mandate to transform the IOR into a transparent institution and an example for the financial system. That President was Ettore Gotti Tedeschi, an Italian Manager in charge of Bank Santander's Italian branch and professor of financial ethics in the Catholic University of *Sacro Cuore* in Milan. The strategy of reformation of the IOR into an exemplary institution was defined at the moment of Gotti Tedeschi's nomination, who was to put it in practice[xxxvi].

The process of reformation was driven faster by the market. For instance, on the 15th of September 2010 the Bank of Italy opened an investigation on the IOR for the alleged lack of information to the competent authorities on two particular operation performed next to IOR's corresponding bank *Banco Artigiano*, of which resulted the freezing of 23 million euros involved from the operations. These were internal fund management operations, for liquidity purposes.[xxxvii] For addressing this, urged the issuance of a new document that sat a law in the Vatican City State, regarding the issues of money laundering and the financing of terrorism. It came out on December 30th 2010, through the form of a *Motu Proprio*[4], and it addressed the prevention and countering of illegal activities in the Holy See, specifically on the phenomena of money laundering and on the financing of terrorism.[xxxviii] This *Motu Proprio* establishes the *Financial Information Authority (FIA)*, an autonomous and independent agency whose scope was to put into practice the law consequent to the *Motu Proprio*[5], law no. CXXVII of 30th December 2010, which putted in practice in the Vatican City State the Pope's *Motu Proprio*. The funds frozen in September 2010 were released, but could not be used until the investigation on the matter was over[xxxix]. Even though the Vatican City State now had a similar intelligence unit such as other countries, there was still a great deal of suspicion on the part of Italy[xl]. Under this situation the Holy See decides to submit its financial system, of which the IOR is part and the biggest institution[xli], to the scrutiny the European Union, addressing a

[4] Motu Proprio – Document of the initiative of the Pope, personally signed.
[5] For administrative acts, the way of a Papal decree to be implemented in the Vatican City State is through the issuance of a law by the Secretary of State.

request to the Council of Europe on February 24th 2011 to be analyzed by Moneyval, in order to consequently modernize it for avoiding the issues it had before[6].

Process of Moneyval

Moneyval is *" the Council of Europe's primary monitoring arm in anti-money laundering and countering the financing of terrorism"*[xlii]. Moneyval follows a process of on-site evaluation of the present situation of countries in matters of money laundering and the financing of terrorism, by making an extensive report, diagnosing problems and proposing recommendations for correcting the problems found. The first visit of Moneyval to the Vatican City State was held seven months after the request of analysis of the Vatican, from the 20th to the 26th of November 2011 and a second visit took place from the 14th to the 16th of March 2012.[xliii] The report that resulted from this analysis was expected to be released later in 2012.

The report gave light to many situations that were not fully understood by the general public. For example, just before Moneyval's process began, the IOR had to deal with another case with the Italian authorities that affected its clients. Italy's UIF required the IOR a full list of its clients in order to be able to emit checks from the correspondent banks it had in Italy[7]. Not willing to do so, on May 23rd 2011 the IOR sent a letter to its clients notifying them that they could no longer be able to use checks. Later the case is explained to Moneyval's assessors[xliv]:

"IOR officials explained to the assessment team that they were willing, and in practice provided, all the required information on the basis of international standards, but that this particular demand of the Italian bank went far beyond the international requirements (by requesting a full client list of the IOR as a condition of doing any further business with the Institute)" (Moneyval Report, 2012)[xlv]

[6] Moneyval considered that the Holy See/Vatican City State had only two financial institutions: the IOR and the APSA (Administration of the Patrimony of the Apostolic See), institution which is responsible for the management of the property owned for the functioning of the Roman Curia

[7] The IOR did not emit checks to clients on its own, the clients received checks referent to the corresponding bank where IOR's account was opened.

On the 4th of July 2012 Moneyval presents the first report that regarded the first two months after its first visit in November 2011, covering the period of analysis until January 25th of 2012, date when an amendment to law no. CXXVII of 30th December 2011 was issued.[xlvi] This first report made an extensive assessment on the IOR, APSA and the Vatican City State/Holy See as a whole, in what regards its legislative framework and functioning. In what concerned directly the IOR, the report focused on the need of an increased customer due diligence[8] and reinforce in the strength of the regulation entity, the FIA, for effective supervision as well as granting it with providential supervision, this is, ensuring prudent behavior by the financial managers, promoting measures to reduce risks to the institution[xlvii].

In what regards customer due diligence, the report points out the existence of "reduced or simplified" measures concerning costumer due diligence procedure, which, according to Moneyval, should be revised[xlviii]. There was, therefore, a simplification system for known customers, which overrode the Customer Due Diligence normal procedures. Moreover, the clients who the IOR served, although were regulated by an internal rule, were not defined by statues, situation which Moneyval recommended to be considered[xlix]. As the report states:

(...)The IOR is committed to complete this process with up to date CDD information by the end of 2012, though this was still at an early stage at the time of the on-site visits. Though there is an IOR bylaw that sets out the categories of persons that may hold accounts in IOR, it is recommended that serious consideration be given to a statutory provision describing the categories of legal and natural persons who are eligible to maintain accounts in the IOR. (Moneyval report, Executive Summary, point 15, page 9).

Furthermore, Moneyval stressed the need of training on money laundering issues and the need for increased experience of the FIA, as well as the need to develop preventive regulation by the same organism, and a clear definition of its role and responsibility.[l] It is underlined, moreover, the need of the agency to sign a memorandum of understanding with financial

[8] Customer due diligence – process of clearly identifying all customers with reliable documentation. This includes the identification and verification of the natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted and those persons who exercise ultimate effective control over a legal person or legal arrangement (such as trusts).

regulators of other countries in order to share information mutually and effectively avoid possible cases of money laundering or financing of terrorism.[li]

Beyond Compliance

Parallel to the Moneyval process, the IOR went beyond the mere fulfilment of the recommendations of Moneyval and followed a path of its own in increased transparency in the institution.

On the agenda for transparency, there was the opening of the institute to the visit of the ambassadors next to the Holy See, and later to journalists. The first visit to ambassadors, which occurred on the 15th of May 2012, was, in the words on the day of the event of the official Vatican Network, News.va, “to give them the chance to witness the transparency, professionalism, and strict adherence to the ethical norms that are practiced by the Institute”[lii]. The visit consisted in a presentation of the institution by the director Paolo Cipriani, which included a moment to pose questions, and a walk around the facilities. A similar visit took place for journalists on the 28th of June of the same year.[liii]

In the meantime, there was an eight-month period where the IOR underwent the transparency process without a president. On the 24th of May the council of supervision voted the expulsion of president Gotti Tedeschi for not accomplishing fundamental management aspects.[9][liv] On the 15th of February 2013 a new president was nominated, the German Ernst Von Freyberg, experienced in reformation processes.[lv] Von Freyberg continued IOR’s transparency process.

With Von Freyberg some additional measures were added to the transparency process. Part of the process was outsourced, through the hiring of the Promontory Financial Group, an American Consultant specialized in financial matters, parallel to the assessment of Moneyval, that continued. Promontory Financial Group was asked to screen client relationships, which consisted in the analysis of the accounts of more than 19 thousand customers, as well as two people from Promontory were invited to the Board of Supervision of the IOR as Senior advisors, Elizabeth McCaul and Raffaele Cosim.[lvi] The results of the account analysis are yet to be known, for the process is ongoing as of the time this case-study is written. Moreover, on the President’s program was the launch of a corporate website and of the first-ever public

[9] The decision of the expulsion of the president generated a lot of controversy – he was accused of not defending the institute publicly, disclosing confidential information and missing board meetings.

annual report if the IOR, regarding the year of 2012. In the president's words, transparency did not consist just in following anti-money laundering procedures suggested by Moneyval:

"In May we said we would focus over the coming months on transparency and on the Moneyval process, that is the anti-money laundering obligations which the Vatican has accepted in the EU reparative framework."(President Ernst Von Freyberg, July 31st 2013). [lvii]

Achilles' heel

Notwithstanding, in the midst of the process, at the end of June the Italian authorities started investigating operations of the IOR held by one of its clients, Monsignor Nunzio Scarano. Msn. Scarano was a Vatican accountant of APSA, who allegedly made two operations that concerned his accounts of the IOR, that supposedly were used to insert 20 Million euros in the European system whose origin was a Swiss bank and to purchase real estate through the IOR[lviii]. Official information from the Holy See came out on the 28th of June 2013, acknowledging that Scarano had been suspended from his functions for over a month, just after it was known he was under investigation, as it is according to all regulations of the Roman Curia[lix]. Three days after this announcement, the direction of the IOR, director Paolo Cipriani and vice-director Massimo Tulli resigned from their functions, leaving the direction ad-interim to President Von Freyberg. The reasons for this resignation were not disclosed officially.[lx] Simultaneously to this resignation, a new position in the IOR was created, that of Chief Risk officer, which was filled by Antonio Montaresi. The new position's goal was to oversee compliance and to deal with special projects.[lxi]

In the meantime, as the investigation process of Msn. Scarano took place, the newly-elected Pope Francis sets, on the 26th of June 2013, a commission to study the IOR and make an extensive report on its juridical standings and activities, with the view of reforming the institute[lxii].

In an interview that the Pope granted to journalists on the flight back from World Youth Day in Rio de Janeiro, the Pope was asked what was to happen, under his pontificate, to the IOR. The Holy Fathers' response was the following:

I intended to address this issue next year but the plan's now changed due to the problems you are well aware of. How do we reform and put right what needs to be put right? I set up an "advisory" commission. I don't know what is going to happen with the IOR: some say it's better to have a bank, others say a foundation is what's needed and others say it should be shut down. I trust in the work being done by the people employed in the IOR and the commission. I don't know what the outcome will be: we have to try and see what works. But whatever happens to the IOR, what is needed for sure is transparency and honesty."(His Holiness Pope Francis, 29th July 2013)[lxiii]

Two days after this interview the IOR launches its website, on the 31st of July 2013 and announces that it would publish its first public annual report, which effectively happened on the set date of October 1st 2013[lxiv]. On the meantime, on the website several pieces of information on the Institute were released, such as the balance sheet for 2012, a timeline of important events of the institute, the governance of the Institute and a brief description of the reformation process it is undergoing. The Importance of the website, for Von Freyberg, is that it is part of the Transparency Process. [lxv]

"It is an important part of transparency to launch a website," he said, explaining that its purpose "is to tell our customers, the Church, the interested public, what we are doing, how our reform efforts are progressing, and what the scope of our work is."lxvi

Two moths later, on the 1st of October, there was the launch of the annual report. The report, a hundred pages long, followed the traditional structure of a report of any financial institution – had a presentation of the Institute, of its different organs and activities, a macro and micro analysis of year 2012, financial documents of the Institutes activities and a seal of approval of an external auditor, KPMG. In any case, the media did not seem to care much about this document.

Three months later, on the 15th of November, the FIA acquired new statutes, following the recommendations of Moneyval's report for clearer definition of roles within the Intelligence unit and the garrison of the faculty of prudential supervision, also a request from Moneyval. It seemed all the financial regulatory framework was set in the Vatican City State or was, at least, going forward. A confirmation of that was the admission of the AIF in the Egmont group, an international group of Financial Intelligence units that discuss and promote better ways of effective information sharing of financial regulatory agencies on the 4th of July 2013.[lxvii]

As of today, the IOR continues to review its accounts with Promontory Financial group and still awaits for the conclusions of the Commission that Pope Francis set to study its future. Moneyval's first report acknowledges many changes not only in the IOR but also in all the financial system of the Holy See in a very short period. These changes included the creation of an independent regulation authority, analysis of accounts by external entities, opening the institute to visits of ambassadors and journalists, a corporate website, public annual reports and interviews to the press. In the meanwhile, on the 9th of December 2013, a new Moneyval report was issued regarding the subsequent time period. [10] With all this, in the end, what was the role these measures have in the effective implementation of the Catholic Social Doctrine in the IOR?

[10] This report contains partial recommendations on the developed Moneyval process. It is not analyzed in this dissertation.

Questions

1. **What are the problems that IOR's leadership had to face in:**

   a) The past;

   b) At the moment of the appointment of President Ettore Gotti Tedeschi.
2. **What are IOR's values and how do the problems described in question 1 impact on them?**
3. **What led and what permitted the occurrence of unethical behaviors in the IOR?**
4. **Identify the factors that drove the recent process of transparency in the IOR.**
5. **How effective is transparency in guaranteeing the ethical conduct of the IOR?**
   a. **Identify the subjects to whom the IOR chose to increase information disclosure and the actions that were undertaken to fulfill it.**
   b. **Discuss the relative importance of information disclosure to each stakeholder in the process of guaranteeing an ethical conduct.**

Chapter 3 - Teaching Notes

3.1 Case Synopsis

The IOR is a Catholic financial Institution that belongs to the Holy See, funded in principles based on Catholic Social Teachings regarding business activities and purposes. Nevertheless, throughout its history and in recent days the Institute was involved in a series of white-collar crimes that go against the fulfilment of the values for which it stands.

Pressured by the market and aware of the existing problems of the Institute, in 2009 Pope Benedict XVI, head of the Catholic Church appointed a new President to the Institute, Ettore Gotti Tedeschi, who had a mandate to make the institute a transparent organization, envisioning that it would guarantee the ethical conduct in the Institute. The process regarded being transparent to the market, to the Pope and to clients and all catholic in general. It consists in the establishment of an intelligence unit, the revision of the Institutes' activities and client base and the release of public data to the public.

What is essential and what is unnecessary in the transparency process in order to guarantee integrity of the IOR? What are the strongest drivers that move the institute towards this process? What is the role of transparency in the process?

3.1.1 Course and Levels

This case study is suitable for the courses of business ethics and financial ethics, as well as corporate governance, in both undergraduate and masters levels. It is developed for a class of 90 minutes.

3.1.2 Teaching and Learning Objectives

After studying and discussing the case, students should be able to:

- Identify and analyze the problem of decoupling from organizational values;
- Learn and apply the values proposed by the Catholic Church on social matters, as well as understand the violation of such values;

- Recognize the role of financial intelligence units in the guarantee of an ethical conduct in financial systems;
- Apply theories of strategic and ethical reasoning to analyze steps taken to address existing problems;
- Understand the role that transparency has in addressing decoupling.

3.2 Presentation of Case Study

3.2.1 Summary of Class Discussion:

a) **Introduction to the case study (15 min)**

b) **Discussion of Questions in class (65 min)**

   1. **What are IOR's values? (10 min)**
      a. **In what way the problems the IOR faced throughout its history conflict with these values? (10 min)**
      b. **What were the drivers of decoupling from these values in the IOR? (10 min)**
   2. **Identify the factors that drove the recent process of transparency in the IOR (15 min)**
   3. **Analyze the effect of transparency in guaranteeing an ethical conduct: (25 min)**
      a. **Identify the subjects to whom the IOR chose to increase information disclosure and the actions that were undertaken to fulfill it. (10 min)**
      b. **Discuss the relative importance of information disclosure to each stakeholder in the process of guaranteeing an ethical conduct. (15 min)**

c) **Closing of Class (5 min)**

3.2.2 Preparation

The teacher should tell their students to read the case study and respond to the respective questions before class, together with all nine appendixes attached to the Case Study. Moreover, for a better understanding of the case study and the theory involved, students should read the following documents:

- Values of Catholic institutions according to Catholic Social Teachings
    - http://www.archkck.org/workplace-catholic-social-teaching-the-basics-for-business
    - Compendium of the Social doctrine of the Catholic Church, Part one, Chapter Four.
      http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html
- Role of transparency in business:
    - From the book Transparency, Information and Communication technology by Vaccaro, A. Horta, H. and Madsen, P. 2008. Philosophy Documentation Center. The suggested text is through the pages 117-130 of Miller, Chiristopher S. and King, Silvia M. ***Transparency as the Nexus Between CSR and Financial and Business Model Performance: A Lesson for Management.*** The teacher should contact the authors in order to get the available text for the students.

3.2.3 Class Presentation

1. Introduction of the case Study (15 minutes)

On the first twenty minutes of class the teacher should do a brief synopsis of the main points of the case study. It is recommended to follow the structure of the case study, which by rule follows a time-series analysis of facts until the arrival of . The participation of students in summarizing the case should be promoted, through asking questions to students to complete the exposition of the teacher. It is proposed that the teacher and the students cover in the introduction the following topics, in broad terms:

- What is the IOR;
    - Financial institution
- Foundation and purpose of existence;
- Main historical problems:
    - Association of criminal minds with the IOR and its consequences in the 80's;
    - Case of De Bonis in the 90's;
- First reform with new statutes and external consultant;
- Present reformation process, so-called Transparency Process.

2. Discussion of Questions (65 minutes)

The teacher can pose the question to the whole class, expecting volunteers to start answering. If such case does not occur, the teacher can ask specifically to an individual a question and build on the answer given, through contributions of other students.

Question 1 – What are IOR's values? (10 min)

It should be stressed to students the importance of identification of values in order to do an ethical reasoning of what is in question and why some situations are ethically wrong.

In this question the student should refer to the values presented by Catholic Social Doctrine, in particular the four permanent principles of Catholic Social Doctrine that are head of all other values.

Table 1 - Brief Explanation of the four permanent principles of CST

Principle	**Description**
Common Good	Respects the total sum of social conditions of every person. Implies responsibility on every action taken.
Solidarity	Interdependence of every being; duty to strive for fair conditions.
Respect for Human Person as Image of God	Highlighting the dignity of man and its importance
Subsidiarity	Higher hierarchy should help the development of lower rank hierarchy

Question 1-a) In what way the problems the IOR faced throughout its history conflict with these values? (10 min)

The four general problems of the IOR should be here identified and analyzed at the light of the CST permanent principles.

Table 2 - Conflict between unethical situations and the permanent principles

Issue	**Conflicting Principle**
Investment in companies engaged in illicit activities of money laundering	Common good – money laundering guarantees the sustainability of illicit business and these businesses harm the society in general (drugs, mafia, violent crime, prostitution) Respect for human person as Image of God – the sources of money might come from situations that are detrimental to human dignity (violent crime, prostitution)

Table 2 - Conflict between unethical situations and the permanent principles (cont.)

Issue	**Conflicting Principle**
Investment in companies engaged in illicit activities of financing of weapons	Common good – Only in some particular cases the financing of weapons can respect the principle of common good, for example, in the case that the receiver of money for weapons is being unjustly oppressed. Respect for human person as Image of God – The promotion of violence through weapons endangers human integrity.
Conflict of Interest of Financial advisor of the IOR	Common good – by promoting an investment in a biased way, it is not promoting the best interest of the institution Solidarity – bad advice on investments not only damages the institute as a whole, but also the individual work of each employee that works there.
Criminal Association with the Mafia	Common good – the agreement of engaging or tolerating criminal behavior shows intention of actual action that is prejudicial due to the nature of the activities that are associated to it.

Question 1-b) What were the drivers of decoupling from these values in the IOR? (10 min)

The question might be analyzed through a drivers and circumstances analysis that leads to the present situation of the institute.

- The drivers of unethical behaviors are the interests of external clients regarding the use of the IOR as a financial institution to move money, in order to launder it (see record from Vaticanist A regarding what is the source of the illicit behaviors of the IOR throughout its history in Historical Problems of the IOR). The circumstances that moved the subjects to be interested in the use of the IOR for illicit behaviors are drawn in the following scheme:

- **Social Proximity** – Refers to the fact that clients who used the IOR for illicit

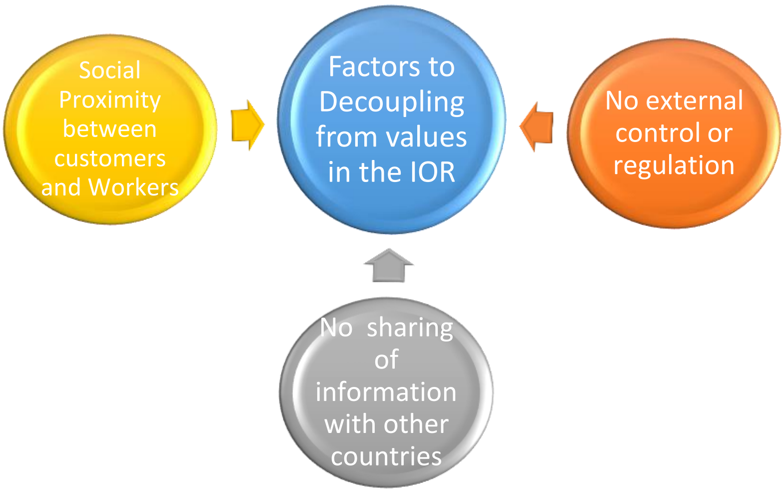

Figure 7 - Scheme of drivers of decoupling

behavior had someone inside the institute who would cooperate or tolerate such practices (Account from Vaticanist A). In the recent case under investigation of Monsignor Scarano, the fact that he was an accountant of APSA, the other financial body of the Holy See, is a determining factor for the connections he had inside the IOR, who trusted the operations of his accounts. The demission of the direction of the IOR after his case erupted is a sign that he was not being properly controlled (See Reforming for Transparency, subsection Achille's Heel).

- **No sharing of information with other countries** - In practice, lack of transparency to the competent authorities. The share of information between different countries attest the soundness of the origin of funds and grants transparency to financial operations (See Historical problems of the IOR).
- **No external control or regulation** – the absence of laws regarding money laundering and financing of terrorism did not grant the institute the urgency of an effective screening of the origin and destination of the money, remaining these obscure. Moreover, the control was all made internally, which proved ineffective operationally. Moreover, the existing authorities had no experience dealing with white-collar crimes of this kind (See Historical problems of the IOR).

Question 2 - Identify the factors that drove the recent process of transparency in the IOR (15 min)

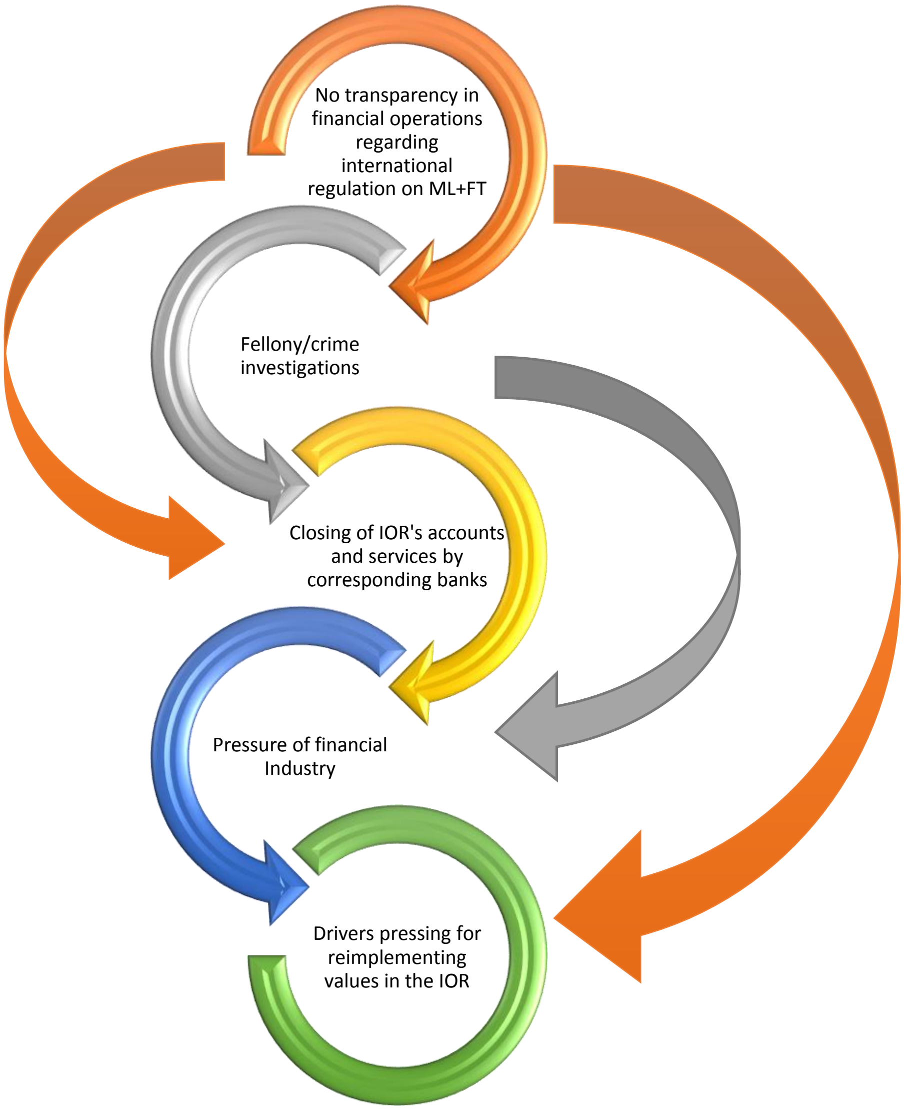

Figure 8 - Main factors leading to the process of transparency

Students should identify and analyze the main factors that led to the beginning of the recent transparency process that the IOR is undergoing. It should be highlighted the interdependence of the factors:

- The genesis of the question resides in the lack of transparency of the operations of the IOR, who did not have mechanisms to share information with other entities and therefore be according to the anti-money laundering rules and financing of terrorism, as well as generated suspicion on its operations (See Historical problems of the IOR);
- The emergence of crime investigations of the Italian courts on the IOR (see last occurrences in Appendix 4) came as a consequence of the Italian law decree n.231 of the 21st November 2007 that required corresponding institutions to Italian banks respect the principles of transparency of anti-money laundering rules (see Historical problems of the IOR);
- Pressures from the financial industry and the consequent closing of some of IOR's accounts and services (See Historical problems of the IOR).
- The expressed will of Pope Benedict XVI of transparency for the IOR with the appointment of President Ettore Gotti Tedeschi in 2009 with a specific mandate to do it (See Reforming for transparency).

The relative strength of the variables can only be accessed by the proximity of events between the case of *Banco Artigiano* on the 15th of September 2010 which froze 23 Million euros with the release of the *Motu Proprio* establishing the FIA three months later, on the 30th of December 2010. The strength of market variables in urging the process is, therefore, more likely to be stronger than that of non-market variables.

Question 3 - Analyze the effect of transparency in guaranteeing an ethical conduct (25 min):

Question 3-a) Identify the subjects to whom the IOR chose to increase information disclosure and the actions that were undertaken to fulfill it. (10 min)

Students should identify the main entities to whom the transparency process is meant and the measures the institute took in order to do it.

Essentially the transparency process of the IOR had three main categories of beneficiaries:

a) Internal Stakeholders (decision makers, respectively the Cardinals, the Board and in last instance the Pope);
b) Financial Industry (European banks, especially Italian Banks)
c) Clients and other external stakeholders (Clients, journalists)

The main actions the Institute took for addressing information disclosure needs for each group to whom it is destined is described in the following table:

Table 3 - Transparency measures and its targets

Internal Stakeholders	- Moneyval reports accesses the situation of the IOR; - Pope sets up a commission with free access to study the IOR; - Promontory Financial Group hired for the analysis of the regularity of the accounts of the IOR.
Financial Industry	- Establishment of the AIF for the exchange of information regarding financial operations; - Signing of Memorandums of Understanding for the exchange of information; - Moneyval reports are public and address the real situation of the IOR and the whole financial system of the Holy See; - Adoption of Anti-money laundering laws; - Joining Egmont Group.

Table 3 – Transparency Measures and its targets (cont.)

Clients/Other External Stakeholders	- Visits from ambassadors to the IOR; - Visits from journalists to the IOR; - Interviews with IOR's president; - Launch of IOR's website; - Publishing of IOR's first public annual report.

Question 3-b) Discuss the relative importance of information disclosure to each stakeholder in the process of guaranteeing an ethical conduct. (15 min)

Students are invited to discuss, in this question, what is the essential action of information disclosure in order to decrease the probability of occurrence of unethical behaviors through/by the institute. There should be a pondering of the real effect of each action and how it can help the avoidance of unethical behavior.

Table 4 - Effects of disclosure to stakeholders in the Institute.

Subject to whom information is disclosed	**Disclosing actions**	**Impact in the Institute**
Clients/external stakeholders	Visits from ambassadors and journalists, interviews to the president of the IOR, launch of website, publishing of public annual report.	The management, hiding eventual misconduct that might be occurring in an institution, can easily manipulate these actions. There is the risk of window-dressing, as occurred in other companies such as Enron and Parmalat. Although it is a way to inform the general public of the activities developed if developed honestly, these actions per se are not a guarantee that unethical situations might occur in an organization. Nevertheless, they are very useful in proving the commitment of the company in a policy, if followed by concrete action.

Table 4 – Effects of disclosure to stakeholders in the Institute (cont.)

Subject to whom information is disclosed	**Disclosing actions**	**Impact in the Institute**
Financial Industry (external Stakeholders)	Establishment of the AIF, Adoption of anti-money laundering laws, Signing of Memorandum of Understanding for sharing information, Moneyval process and joining Egmont group	The sharing of information done through Intelligence Units creates a mechanism of verification of the legitimacy of the operations and the adoption of anti-money laundering laws requires the institution to request transparency also from clients, in terms of the sources and ends of the funds. Permanent, independent financial intelligence units is a way to disclose information in order to guarantee that operations are clean without exposing all actions to the public.
Internal Stakeholders (decision-makers)	Moneyval Report, Commission to study the institute, external consultant analyzing client accounts	A third party analyzing an reporting on the existing situation gives a more credible view on the facts and helps to have credible information for effective decision-making. Independency of the entity analyzing the organization, with full access to information, avoids eventual conflict of interest in the part of who is disclosing.

- From the analysis of the table above, it is recognizable that disclosure to Internal Stakeholders/Decision makers and to the financial industry are the two essential factors for the guarantee of an ethical conduct within an organization.

- Making a parallel to a normal company, the Internal Stakeholders in question would be that of shareholders, in this case the Pope, and information of the real situation of the organization is critical for shareholder decision-making.
- The disclosure of information between peers of the financial system, through third parties, is a vital for the analysis of the existence of irregular activities and it is through the intelligence units that misbehavior is detected, so they are an effective preventive mechanism.
- Disclosure to clients and external stakeholders is a question of justice, for clients have the right to know about the activities of the institute to whom they are trusting their money, in order to respect the principle of common good. However, in matters of avoiding decoupling from the values of the organization it has a secondary role.

Note:

- **Independence of organisms** – note that in disclosing both to decision makers and to the financial industry the interaction was done through a third party, which avoids the risk of conflict of interest, one of the circumstances that lead to decoupling.

3. Closing of the Class (5 min)

Wrapping up the class, the teacher should extract the main theoretical points that are present in the case study, respectively:

- The phenomena of decoupling from corporate values is a complex issue and hard to understand, due to the multiplicity of circumstances in which the company is involved;
- In the case of the IOR, decoupling was caused essentially due to lack of transparency, lack of control and Social proximity between clients and workers.
- The solution for decoupling situation involves action to solve the existing problems. Transparency is a way to help the reestablishment of values through scrutiny on the firm, which causes pressure to change and by convincing stakeholders of the process that is undergoing, and per se is a response to stakeholders' right to know about the company whom they trusted their money.

- As discussed, transparency is not per se the only solution of decoupling, there is also the need of control mechanisms, which was the AIF, and independence in professional relations to avoid conflict of interest.

Conclusion

The case of the transparency process of the IOR is very complex, due to the multiple political and economical aspects, related to the fact that it is operating in a very peculiar country, the Vatican City State. In the same manner, the subject of decoupling from values is very difficult to understand, for its many factors involved. Nevertheless, looking to the process as a whole, there are some conclusions that can be drawn on the way that decoupling was addressed in the IOR and in particular the part that corporate transparency develops.

First, we can conclude that corporate transparency has, indeed, a role by convincing stakeholders of the ethical conduct of the IOR and by establishing a continuous scrutiny on the institute, that coordinates all drivers in the IOR in the same direction. This is driven both by disclosing information directly to stakeholders, the assessment reports but also through the newly-created FIA, that accessing information of the IOR in an independent manner and exchanging it with financial regulators of other countries promotes trust and demotes unethical conduct. This concerns both market stakeholders, the financial peers of the IOR, and the general external stakeholder, such as clients and believers.

Second, through the analysis of this case study it is concluded that transparency was not the only factor for the reform of the IOR and re-implementing values. Allied with transparency came a control mechanism of operations, endorsed through the Financial Information Authority.

Third, it cannot be disregarded the need of avoiding conflict of interest through social proximity of professional agents, and therefore the need of independence of agents of the IOR and of the FIA.

Limitations and further research

The fact that this case study concerns a very complex reality makes it difficult to address in the same degree all different factors that influence IOR's environment. Being a single case whose expected effects are yet to be verified limits the applicability of the case study, even though the conclusions are in line with existing theory. Further analysis of situations of decoupling, re-implementing values and the role of transparency in different contexts will strengthen conclusions attained.

It would be interesting to study the aspects of corporate governance of the institute in the transparency process, in what regards the different alternatives to the given outcome. In the same manner, the role of the leadership in the process would be interesting to particularize, due to the change it suffered. More generally, all aspects regarding the economic structure of the Holy See and the Vatican City State would need further studying, for little academic literature exists on the subject and it is currently being studied new alternative economic models for the Church's institutions.

Appendixes

Section 1 – For a better Understanding the Case Study

Appendix 1 – Clients, Internal Risk-Level Assessment and Distribution of Clients in Quantity

Table 5 - Risk level and distribution of clients of the IOR in number

Risk Level	Description	% of total Client base
0	Vatican Congregations, Apostolic Delegations and Nunciatures, Holy See Departments and Assimilated	10.1%
1	Canonical Foundations, Beatification Causes, Secular and Religious Congregations (Male and Female), Monasteries, Convents and Abbeys, Bishops' Conferences, Dioceses and Repres. Depts, Parishes, Churches and Pertinent Departments, Seminaries, Colleges, Various Entities, Cardinals, Bishops, Secular Clergy and Religious Men, Nuns	80.1%
2	Embassy to the Holy See	0.1%
3	Holy See Employees and Assimilated, Holy See Retired Employees and Assimilated, IOR Employees, IOR Retired Employees	4.2%
4	Lay Master of Ceremonies of the Holy See, Former Vatican Employee and Former Diplomatic Staff to the Holy See	3.4%
5	Diplomatic Staff Accredited to The Holy See, Legal persons without canonical recognition	2.1%

Source: Moneyval report, 4th July 2012, "preventive measures - financial institutions", pp.102.

Appendix 2 – Key Milestones of IOR's History

11 February 1887 - Pope Leo XIII constitutes the "Commissione ad pias causas"

24 November 1904 - "Commission of Cardinals for the Works of Religion" with own regulation

17 March 1941 - Foundation of the "Administration of the Works of Religion"; Pope Pius XII approves the first Statutes of the "Administration of the Works of Religion"

27 June 1942 - Pope Pius XII constitutes by Chirograph the "Istituto per le Opere di Religione" (IOR) with own legal status, which absorbs the "Administration of the Works of Religion" (Acta Ap.Sedis n.217, 1942)

1 March 1990 - Pope John Paul II approves by *Chirograph* the present Statutes of the IOR

30 December 2010 - Creation of the "Autorità di Informazione Finanziaria" (AIF), the Vatican's financial regulator; Introduction of the Act of the Vatican City State No. CXXVII on the prevention and countering of the laundering of proceeds resulting from criminal activities and financing of terrorism

25 January 2012 - Amendment of anti-money laundering and countering the financing of terrorism (AML/CFT) Law by Decree No. CLIX

24 April 2012 - Presentation of the Law CLXVI to confirm Decree No. CLIX on the prevention and countering of the laundering of proceeds resulting from criminal activities and financing of terrorism

14 December 2012 - Law amending the Decree No. CLIX of 25 January 2012, converted into Law No. CLXVI on 24 April 2012

24 June 2013 - Establishment of a Pontifical Commission by *Chirograph* of Pope Francis

8 August 2013 - *Motu Proprio* of Pope Francis for the prevention and countering of money laundering, the financing of terrorism and the proliferation of weapons of mass destruction, pursuant to the steps already taken by Benedict XVI in this area with the Motu Proprio of 30 December 2010

1 October 2013 - Publication of the Institute's Annual Report for 2012. This is the first ever Annual Report of the IOR being made available to the public

1 October 2013 - New Law XVIII of Vatican City State on transparency, supervision and financial information

Source: IOR's Website, accessed 7th December 2013

Appendix 3 – Permanent Principles of Catholic Values and Purpose of the Firm According to the Social Doctrine of the Catholic Church

Table 6 - Brief description of the permanent principles of CST

Principle	Description
Common Good	Respects the total sum of social conditions of every person. Implies responsibility on every action taken.
Solidarity	Interdependence of every being; duty to strive for fair conditions.
Respect for Human Person as Image of God	Highlighting the dignity of man and its importance
Subsidiarity	Higher hierarchy should help the development of lower rank hierarchy

Purpose of Business According to Catholic Social Teachings (3 vectors)

Table 7 - Purpose of business according to CST

Aspect	Description
Generate Profit	Profit generation is the guarantee of the health of business.
Be a community striving for satisfaction of basic needs	Benefit the workers of the business through just compensation.
Serve Society	Provide goods or services which are beneficial to society. Be responsible for the ethicality of the activities developed.

Source: Casewriter's study of Catholic Social Doctrine

Appendix 4 – Main Irregular Occurrences Regarding the IOR

Table 8 - Main irregular occurences regarding the IOR

Case	People Involved	Period of Occurrence	Brief Description	Judicial Action
Edward Prettner Cippico	Edward Prettner Cippico (Monsignor at the Secretary of State)	1948	Taking advantage of his position in the Secretary of State, that involved commercial relations with foreign countries, Cippico forged authorizations from superiors to drive money out of the Vatican	Arrested, Served two years in prison and was laicized[11][12] .
Banca Cattolica del Veneto	Roberto Calvi, Administration of the IOR	1972	IOR gives 17% of Banca Cattolica del Veneto to Roberto Calvi, who disregards the main scope of the bank of helping the development of Church activities in the region and stops attributing lower interest rates for such ends	None.
Money Laundering and Issuance of False Bonds	Roberto Calvi, Michele Sindona, Arch. Paul Marcinkus (Administration of IOR)	1973	IOR is called by the United States to respond regarding Money Laundering and issuance of false bonds, totalizing $950 Million	Some mafia members associated to the case are arrested, IOR is not held responsible due to lack of evidence.
Sindona	Financial Adviser to Holy See, Michele Sindona	? - 1984	Sindona, being a financial advisor to the Holy See, moved the IOR to invest in his financial empire, which eventually collapsed. Illegal activities were related as a consequence of this acquisition, such as tax evasion and money laundering from the Mafia and, in the end when Sindona's empire collapsed, of fraudulent bankruptcy.	Directors of the IOR are jailed: Massimo Spada was sentenced to 5 years, Mennini was sentenced to 7 years.
Banco Ambrosiano	Roberto Calvi (President of Banco Ambrosiano, member of massonic order P3), Sindona (Financial Advisor to Holy See) Administration of the IOR	?-1984	Through Sidona, who became a financial adviser to the Holy See, Calvi influenced the IOR to invest in Ambrosiano, using money lended by Ambrosiano itself. Through relations with IOR Calvi would use the Institute to transfer money to offshore banks from his own banks. Banco Ambrosiano would fail and leave a debt of $1633 Million. Biggest Bank Crash on that time. IOR payed debtors, as a "voluntary contribution", a sum of $250 Million to settle demands.	Calvi was condemned to prison for fraud in valuations, but before effective imprisonment appeared dead in London .
Fondazione Cardinale Spellman	De Bonis (Secretary and prelate of the IOR [not simultaneously])	1987 - 1993	As prelate, De Bonis is said to have used fictional accounts and illicitly manage funds of foundations through which funds would be canalized for political purposes and for use of Money Laundering to the Mafia	None.

[11] Laicized – reduction of a priest to the state of laymen, being prohibited to celebrate Mass and other Sacraments

[12] Eventually pardoned and reinstated by Pope John XXIII.

Table 8 – Main irregular occurrences regarding the IOR (cont.)

Credito Artigiano	Gotti Tedeschi and Paolo Cipriani (as responsibles of IOR)	15th September 2010 - Ongoing	Italy's intelligence unit UIF suspends 23 Million euros of an operation next to Credito Artigiano destined to Jp Morgan Frankfurt and Banca di Fucino, for not respecting Anti-money Laundering rules. Money was transferred for liquidity purposes.	Gotti Tedeschi and Paolo Cipriani are investigated for Money Laundering by the Roman Authorities.
Banca di Roma 204, Via della Conciliazione	Gotti Tedeschi	2010 - Ongoing	Suspicion on the transfer of funds.	Gotti Tedeschi and Paolo Cipriani are investigated for Money Laundering by the Roman Authorities.
JP Morgan	IOR	15th February 2012 - Ongoing	Alleging lack of sufficient knowledge on the transactions of IOR, JP Morgan decides to close IOR's account	None.
Gotti Tedeschi	Gotti Tedeschi, Board of Administration	25th May 2012	Accused of not fulfilling primary functions of his role, disclosing classified documents and mental illness the Board votes unanimously the removal of the President	None.
Scarano (I)	Nunzio Scarano, Paolo Cipriani + Vice Director	June – July 2013 - Ongoing	Transaction of house in Salerno	Preventive arrest of Monsignor Scarano by the Italian Police. Trial ongoing.
Scarano (II)	Mons. Nunzio Scarano, Paolo Cipriani and Massimo Tulli	June – July 2013 - Ongoing	Transfer of funds of a third person using the IOR	Preventive arrest of the Monsignor by the Italian Police. Trial ongoing.

Appendix 5 – Governance Structure of the IOR

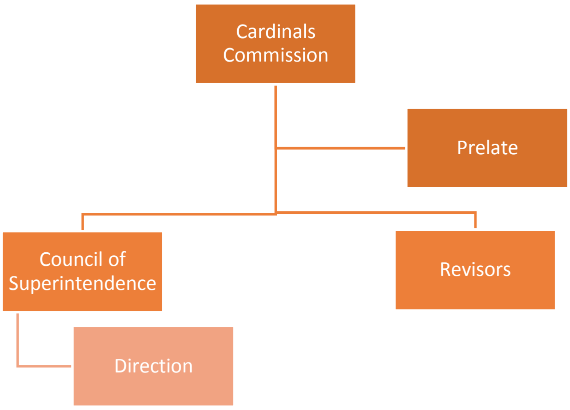

Figure 9 - Governance structure of the IOR

Source: IOR's Annual Report 2012[lxviii]

Appendix 6 – Drivers of Transparency Process and Corresponding Effects

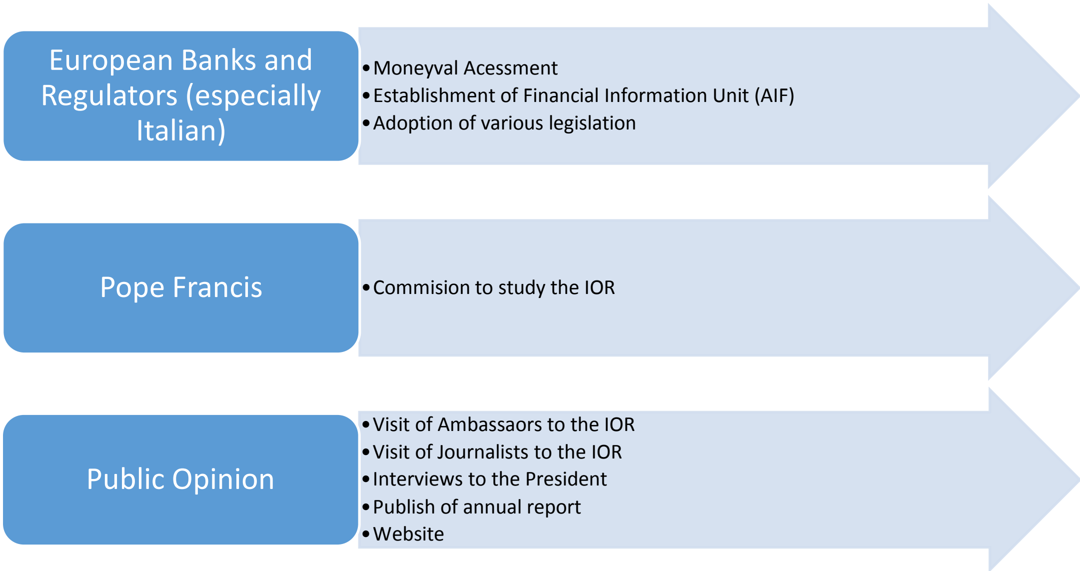

Figure 10 - Drivers of transparency and corresponding effects

Source: Casewriter

Appendix 7 – General Outline of the Economic and Financial Structure of the Vatican City State and of the Holy See

To fully understand the economic dimension in which he IOR is inserted, it is important to trace the geopolitical context in which it is inserted. Within the Vatican City State there are two entities operating, functioning independently: the Vatican City State and the Holy See.

Disambiguation

The Vatican City State is an independent sovereign country which resulted from the Lateran pacts of 1929. It is ruled by a Governorate in a similar manner to a small country, with some peculiarities, such as having a population which is not born in the country, among other factors. Its form of government is an absolute monarchy.

The Holy See is the set of congregations, ministries, tribunals and other administrative bodies that support the Pope in his mission of government of the universal Church. These respect to all places where the Church is present all over the world. For example, the Congregation for the Doctrine of Faith, which analyses doctrinal issues and the Apostolic Signature, which is the High ecclesial court are part of the Holy See. Other denominations can be given to the Holy See, such as the Roman Curia or the Apostolic See.

His Holiness the Pope is the head of both the Holy See and the Vatican City State, in an absolute manner. Most of the organs of the Holy See are settled in the Vatican City State and operate from there, for which the confusion between these two entities is frequent.

Source: Apostolic Constitution *Pastor Bonus*[lxix].

Economic Sustainability

The Vatican City State is a monopoly regime in economic, financial and professional matters. All belongs, in last instance, to the Pope. There is no private property or business within the Vatican City State. In terms of financial institutions operating within the Vatican City State, there is the APSA (Administration of the Patrimony of the Apostolic See), with the scope of managing patrimony and the IOR, who manages finances.

The sustainability of the Holy See and the Vatican City State is kept independently through mainly the following sources of funds:

Table 9 - Sources of funds for Holy See's and Vatican City State's budget

Holy See	Vatican City State
Peter’s Pence	**Tickets for Vatican Museums**
Contribution from the IOR	**Selling of Stamps**
	Souveniers
	Book Publishing (Libreria Editrice Vaticana)
Annual Budget (2010): €235 Million	**Annual Budget (2010): €234,8 Million**

- Peter’s Pence is an annual collection made in all the Church to support the Holy See’s budget on the part of dioceses and other ecclesial circumscriptions to the Holy See according to its possibilities.
- The IOR yearly transfers to the Holy See a contribution for its budget.
- The Vatican Museums account for more than five million annual visitors.
- The remaining values to form the budget are generated from operational revenues, such as APSA’s activity of renting real estate.

Sources: Moneyval Report, July 4th 2012; News.va: Holy See financial Statements for 2011[lxx]

Appendix 8 - Classification of the IOR According to Portuguese Regulation Standards

In order to better understand the situation of the IOR in the framework of financial institutions, following the regulation “Regime Geral das Instituições de Crédito e Sociedades Financeiras” from *Banco de Portugal*, enforced through the Portuguese law decree nº 298/92 of the 31st of December we attain that:

Article 2nd – Credit Institutions

1- Credit Institutions are companies whose activities consist in receiving from the public deposits or other reimbursable funds, in order to invest on its own account through the concession of credit.

Article 5th – Financial Institutions

Financial Institutions are societies which are not credit institutions and which main activity consists in developing one or more of the activities reffered in the previous article (…).

Situation of the IOR – From the Annual Report of 2012 of the IOR, page 6, and from the balance sheet statement we get that the IOR does offer loans, even though in exceptional situations. Nevertheless, the funds it uses for such loans are not from its deposit base of customers but from the Institutes’ own funds, which, according to the interpretation, might make the IOR fall out of the category of a credit institution and be classified a financial institution. Nevertheless, two factors of IOR’s peculiar situation have to be pointed out, as explained in the case study:

- It is fully owned by the Pope/Holy See
- It does not serve business customers.

Source: Portuguese law decree nº 298/92 of the 31st of December on the classification of Financial Institutions.

Appendix 9 - Financial Statements of the IOR

Table 10 - Income statement of the IOR, 2012

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012			
	Notes	*2012*	*2011*
		EUR 000	*EUR 000*
			as restated
Interest income	17	90,547	91,714
Interest expense	17	(38,375)	(26,786)
Net interest result		52,172	64,928
Fee and commission income	18	15,105	14,077
Fee and commission expense	18	(2,911)	(3,858)
Net fee and commission result		12,194	10,219
Dividend income	19	1,827	2,705
Net trading income	20	51,128	(38,173)
Other net income	22	(4,653)	5,305
Operating result		112,668	44,984
Impairment losses	23	(2,104)	(3,774)
Operating expenses	21	(23,949)	(20,957)
Net profit for the year		**86,615**	**20,253**

Table 11 - Balance sheet of the IOR, 2012

BALANCE SHEET AS OF 31 DECEMBER 2012				
	Notes	*2012*	*2011*	*01.01.2011*
		EUR 000	*EUR 000*	*EUR 000*
ASSETS	blank	blank	as restated	as restated
Cash	1	5,303	6,750	7,445
Bank deposits	1	1,216,245	1,435,510	1,118,955
Trading securities	2	2,730,675	1,697,102	2,374,381
Gold, medals and precious coins	3	41,346	40,119	35,188
Derivative financial instruments	4	-	32,637	-
Loans and advances to customers	5	25,823	30,619	36,216
Loans and receivables securities	6	252,252	341,405	162,843
Investment securities, equity available for sale	7	9,619	10,977	13,384
Investment securities, bond available for sale	7	-	-	106,439
Investment securities, held to maturity	8	626,764	446,953	304,445
Investment in subsidiaries	9a	15,835	15,835	15,835
Investment properties	9b	1,914	315	315
Equipment and furnishings	10	226	517	760
Intangible assets	11	436	403	499
Other assets	12	59,318	8,384	39,580
Total assets		**4,985,756**	**4,067,526**	**4,216,285**
LIABILITIES				
Due to banks	13	3	5,617	8,278
Due for saving accounts	14	4,103,473	3,224,981	3,308,652
Derivative financial instruments	4	-	-	69
Other liabilities	15	26,126	15,763	41,875
Post-employment benefit obligations	16	86,895	80,004	79,610
Total liabilities		4,216,497	3,326,365	3,438,484
EQUITY				
Equity reserves		309,874	309,874	309,874
Fair value reserve available for sale securities		-	(82)	2,692
Pension fund actuarial gain (losses) reserve		(4,876)	723	1,842
General operating risk reserve		377,646	410,393	399,317
Net profit for the year		86,615	20,253	64,076
Total equity		769,259	741,161	777,801
Total liabilities and equity		**4,985,756**	**4,067,526**	**4,216,285**

Source: IOR's Annual Report

Section 2 – Methodological Approach for the Case Study

1. Research Design Protocol

The protocol followed for the development of this research consisted in a three-phased process, which consisted in literature review on the involved theory of business ethics, data collection and case study writing based on the data collected. The phases of the investigation overlapped, in particular the phase of case study writing and data collection, for better reliability of information when sources of information appeared to be in need of corroboration.

Literature Review

A literature review on the involved theory was performed in order to have a clearer insight on the studying subjects. The objective of this review was to better understand the subjects of values, in specific Catholic social values; institutional decoupling and the means to re-implement values in a company, in specific the role of transparency in the whole process. The review consists in five different chapters on the main subjects involved, which are the theoretical grounds under which this case study is grounded. The theory concerns Business Values, Catholic Social Teachings, Decoupling, Reintroducing Values in an Organization and Corporate Transparency.

Data Collection

For the development of this case study the data collected consists in interviews, public documents and, to some extent, company records.

Table 12 - Summary of data collection and literature review

Type of data	Total number analyzed
Interviews	7
Documents	21
Records	6
Academic articles and chapters from books (for literature review)	33

Seven interviews were collected next to people who were expertized in the IOR. One interview took place in Lisbon, with a lawyer who follows affairs of the Vatican City State and six interviews took place in Rome. The interviews in Rome were, respectively, with two Vaticanists (2) who write about the IOR, a Holy See diplomatic official and both institutional and personal client of the IOR (1), a director of a faculty of a Pontifical University in Rome (1), an official of the Holy See's communications office (1) and a journalist expertized in economic affairs of the Holy See (1). All were single interviews, except the interview with the journalist specialized in economic affairs with the Holy See, who became the informant for the understanding of the matters related to this case study. The interviews were both open-ended and focused interview. The date and type of interview are detailed in the following table:

Table 13 - Record of interviews collected

Interviewee	Type of Interview	Date
Lawyer following Holy See affairs	Open-ended	26/09/2013
Vaticanist A	Focused Interview	14/10/2013
Holy See Diplomatic Official/Client of IOR	Open-ended	21/10/2013
Expert in financial affairs of the Holy See (Informant)	Open-ended	22/10/2013 (First Contact)
Director of Pontifical Faculty	Focused Interview	09/12/2013
Vaticanist B	Focused Interview	16/12/2013
Official of Holy See's communications office	Focused Interview	20/12/2013

Interviews were first collected in an open-ended manner, in order to have a broad vision on the matters involved and, during the phase of case study writing, a new set of three interviews was collected with the purpose of attesting the reliability of the information developed.[13] The informant reviewed the case study writers' positions every time there was the opportunity to do so. The last focused interview, with an official of the Holy See's communications office, confirmed the established facts on this case study. Whenever such case does not happen it is mentioned.

The interconnection between the different sources is low, considering that the interviews were obtained in an independent manner, with the exception of both the informant and the director of a pontifical faculty, which were obtained through two different informants. All other interviewees were obtained independently. All interviews are recorded and transcript by the investigator and on his possession, with the exception of the interviews with the Holy See Diplomatic Official/Client, where data was collected through notes and that of Vaticanist B, whose interview was via telephone and only notes were able to be taken. The identities of the interviewees remain disclosed in order to protect their privacy and job relations with third parties.

Interviews were requested by letter to both the President and to the direction of the IOR, however they did not occur due to lack of availability on the part of the institute in a timely manner.

Documents

The collected documents for use in the construction of the case study concern mostly information such as news pieces from the official Vatican network, Vatican.va. Other documents were analyzed, such as Italian and Vatican laws, information from IOR's website and the Vatican portal, as well as other pieces of information. Opinion and unofficial articles were avoided.

[13] The interview with Vaticanist A, even though was the third interview, was a focused-interview due to the impossibility of the Interviewee to be available but for a short period of time.

Records

In what concerns records, not many records were available for the development of this case study. As the IOR is an Institute that belongs to the Vatican City State, it follows the rules established by this entity, which until 2012 did not disclose to public any records concerning the activity of the institute. Only in 2012, during the analyzing period of this case study, some information was released to public with the Moneyval report of July 4th, developed as the result of an assessment done by Moneyval, the European Council's branch against money laundering issues. On the part of the Institute, it disclosed its first public annual report concerning the year of 2012 in October 2013. Both these records, especially the Moneyval report, are used together with the interviews as sources of information, as well as a mean to triangulate information.

Some records were also obtained through the publishing of Gianluigi Nuzzi's book, Vatican S.A, which includes full, signed documents concerning IOR affairs, whose genuineness was not refuted by authorities of the Vatican City State when confronted by the case study writer on the matter. The interviewed sources confirmed the written facts that were based on the documents from Nuzzi's book, except for the official of Holy See's communications office, who stated that the IOR never confirmed such facts.

2. Case Study writing

Based on the initial proposition and in the data collected, the writing of the case study sought to have all prepositions referenced, to guarantee reliability and proper explanation of facts. A time-series analysis was sought to be made, even though there are elements that disregard directly the IOR but regard the entire financial system of the Holy See, of which the IOR is part and the biggest institution. Therefore, causality, in some cases, is hard to determine precisely based on documents alone. When this happens, causality relationships are established through the testimonies from interviews, when possible.

3. External Validity of Findings

The generalization of the findings of the case study can only be made to some extent. The case of the IOR is very particular, for it is part of the financial system of a patrimonial state, the Vatican City State; it is publicly owned and has a specific mission of serving the Church. However, many market factors affect the IOR and, in what concerns business ethics and transparency, the same principles apply to all organizations. Therefore, in what matters the theoretical findings regarding the causes and expected consequences of the transparency process in addressing decoupling, the most important factors that lead to the transparency process can be generalizable, as well as the expected effects of the transparency program. This is aligned with the existing theory of corporate transparency.

This case study focuses solely on the effects of transparency in the Institute and the expected effects that it has regarding ethical matters. Other related aspects, such as the role of corporate governance of the institute, would be interesting to study to better understand the whole process of reformation of the institute, such as the impact that the change in both the president of the IOR and of the Supreme Pontiff of the Church.

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