Corruption and corporate social responsibility codes of conduct: The case of Petrobras and the oil and gas sector in Brazil

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ABSTRACT

Corruption and combating corruption is one of the most important challenges for both developing and developed countries. Corruption is a serious threat to principles and values of any government. It undermines the enforcement of the rule of law and compromises democracy. In the early 1990s, corporate social responsibility (CSR) codes of conduct emerged as an effective mechanism for integrating responsible economic practices against corruption. However, the question that arises is whether this self-regulatory instrument has any impact on the practice and policy of companies with respect to corruption. This study addresses this question through an analysis of the provisions related to corruption issues embodied in international conventions and guidelines, the norms or standards of oil and gas associations, NGOs, international and multilateral organizations. In particular, this paper examines how Petrobras, the giant Brazilian oil and gas company, responds to corruption in its CSR code of conduct. Using a comparative analysis of Petrobras’ policy and practice as expressed in its CSR statements and the related provisions embodied in the international framework, this study examines the extent to which provisions included in Petrobras’ CSR code of conduct are consistent with the belief of the current international framework system. Finally, this paper investigates the responses to questionnaires related to CSR codes of conduct of oil and gas companies operating in Brazil.

Keywords: Brazil, corruption, corporate social responsibility, CSR, oil and gas sector, Petrobras, codes of conduct

ملخص:

يتمثل الفساد ومكافحة الفساد أحد أهم التحديات التي تواجه البلدان النامية والمقدمة على حد سواء، حيث يعد الفساد تحدياً خطيراً حقيقةً، ويعتبر الفساد أداة تعيد تشكيل السياسة والقانون، ويعتبر الفساد تهديداً خطيراً للديمقراطية. في أوائل تسعينات القرن العشرين، نشأت مبادئ المسؤولية الاجتماعية للشركات (CSR) كأداة فعالة لإدماج الممارسات الاقتصادية المسؤولة ضد الفساد. تتناول هذه الدراسة هذا السؤال إذا كان نظام التنظيم الذاتي الذي يدار من قبل الشركات، بما في ذلك البرازيل، يساهم في تقليل الفساد في الشركات. باستخدام تحليل نسبي بين سياسات وسياسات شركة بتروبراس، كما تم التعبير عنها في مدونات معايير المسؤولية الاجتماعية للشركات الخاصة بها وبين نظريات معايير ممارسات الشركات في الاتفاقيات الدولية، فإن هذا البحث يتناول هذه المسألة في ضوء تحليلات استراتيجية مكافحة الفساد الموصوح عليها في الاتفاقيات الدولية والمنظمات الدولية، أو الوقاية أو مقاومة الفساد، أو مبادئ مكافحة الفساد، أو المبادرات الأخلاقية. كما تم التعبير عنها في مدونات معايير المسؤولية الاجتماعية للشركات الخاصة بها، ومن خلال تحليل مواقف سياسة وممارسات شركة بتروبراس، كما تم التعبير عنها في مدونات معايير مكافحة الفساد.
I. INTRODUCTION

Corruption is widespread throughout the world, which represents a serious threat to the principles and values of any country. Corruption causes damage to both public confidence in democracy and the efficiency of the rule of law. It arises at the boundaries between the public and private sectors. Among the most accepted definitions, corruption is “the abuse of public office for private gain.” This definition is used by a range of institutions and NGOs, including the World Bank (WB) and Transparency International (TI). It is also consistent with the provisions of the United Nations Convention against Corruption (UNCAC), the only global anti-corruption legally binding instrument, and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Convention). The study of corruption has been multidisciplinary, with reports ranging from theoretical models to corruption scandals. Corruption remains one of the main challenges of doing business in many countries. There is no disagreement among mainstream scholars about the fact that corruption has a more negative effect on developing and least developed countries. In fact, its negative effect seems to be stronger in these markets.

Companies are important actors in fighting corruption in developing and least developed countries through the implementation of their corporate social responsibility (CSR) codes of conduct. Zaheer recalls that the liability related to foreign operations and the extent to which it affects the performance of multinational companies in foreign countries have attracted much attention in the recent past. In the early 1990s, CSR codes of conduct emerged as a mechanism for integrating responsible economic practices. The primary goal of CSR codes is to provide safety for global activities by establishing minimum conduct standards for companies. CSR represents an effective mechanism for integrating responsible corporate practices against corruption. Some empirical works have proved that CSR codes can be a valuable instrument for improving the local quality of life for communities where multinational companies are operating. Nevertheless, CSR codes can be an effective mechanism against corruption only if multinational companies fully comply with their CSR statements.

Recent scandals involving FIFA, Toshiba and Volkswagen indicate that, by and large, the execution of the values behind corporate social responsibility is at stake. For instance, Brazil recently discovered its biggest corruption scandal at the state-controlled oil and gas company Petróleo Brasileiro S.A. (Petrobras). The Petrobras scandal, known as “Operação Lava Jato” or Car Wash Investigation, is until today the largest corruption probe in Brazil’s history. The Car Wash investigation splashed the reputation of Petrobras together with the government and political parties when it revealed an intricate network of kickbacks, bribes, money laundering, trading in influence and other related illicit activities.

This paper analyzes the extent to which CSR codes can be used as a tool to fight corruption in a developing country such as Brazil and in a challenging sector such as oil and gas. Thus, this study examines how Petrobras, the giant Brazilian oil and gas company, responds to corruption in its CSR code of conduct. The question that arises is whether this self-regulatory instrument has any impact on the practice and policy of Petrobras with respect to corruption. Using a comparative analysis of Petrobras’ policy and practice as expressed in its CSR statements and the related provisions embodied in the international framework, this study examines the extent to which provisions included in Petrobras’ CSR code of conduct are consistent with the belief of the current international framework system against corruption. If Petrobras fully implements its CSR code, it can be an important actor in fighting corruption in Brazil. Finally, this paper compares the responses of a survey on the CSR codes of conduct of oil and gas companies operating in Brazil.

II. LITERATURE REVIEW

According to Nye’s seminal work, corruption is a “behavior that deviates from the formal duties of a public role (elective or appointive) because of private-regarding (personal, close family, private clique) wealth or status gains”⁵. Broadly speaking, corruption is understood as the misuse of public resources by public officials for private gains. Bribes, kickbacks, “grease,” and “speed” money are the most commonly used types of corrupt behaviors. Corruption can take on several forms and meanings that can range from single bribes to malfunction of an entire political and economic system. Supported by international organizations and associations, many studies, research projects, surveys, books, seminars, and conferences deal with corruption and anti-corruption practices and policies. Corruption has been studied as political, economic, legal, cultural and/or moral issues. Many countries are unable or unwilling to fight corruption. While corruption is endemic in societies, its punishment in most of the cases is arbitrary, or it results from political payback. Nowhere does corruption cause more damage to the civil society than in developing and least developed countries. There is no disagreement among mainstream scholars about the fact that corruption has a negative effect on sustainable economic growth in emerging markets.

Corruption can destabilize a country’s economic performance, affect investment decisions, limit economic growth, and cause distortion in competition. It can mismanage natural resources, harm the poor, and weaken economies and societies. This assumption is true, and Brazil is a good example as evident from the Petrobras corruption scandal. It is difficult to measure corruption. One of the most popular indices available to measure corruption is the one compiled by the Transparency International (TI), TI Corruption Perception Index (CPI). In 2017, the CPI of Brazil was 37, which ranked 96 among 180 countries (Table 1), at the same level of Colombia, Indonesia, Panama, Peru, Thailand, and Zambia. To a large extent, endemic corruption faced by Brazil indicates that corrupt practices are widespread, well known and implicitly tolerated.

### Table 1. Brazil: Corruption Perception Index.

<table>
<thead>
<tr>
<th>Year</th>
<th>Score Index</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>37</td>
<td>96</td>
</tr>
<tr>
<td>2016</td>
<td>40</td>
<td>79</td>
</tr>
<tr>
<td>2015</td>
<td>38</td>
<td>76</td>
</tr>
<tr>
<td>2014</td>
<td>43</td>
<td>69</td>
</tr>
</tbody>
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Source: TI Corruption Perception Index, Transparency International.

Although the concept of CSR code of conduct has been advocated for decades and used by companies at the global level, agreement on how CSR should be defined and, in particular, implemented remains a debate among academia and society. CSR codes represent a change in the traditional paradigm of companies. The concept of CSR began in the 1920s, however, only in the 1950s, it became a more relevant topic among business leaders. In fact, CSR took shape during the 1950s and 1960s. One of the earliest definitions of corporate social responsibility was given by Howard Bowen who affirmed that CSR codes of conduct are “obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.”

Moreover, McGuire claimed that “the idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations.” CSR codes of conduct are no longer altruistic in nature and more than just philanthropy and community projects. Over the subsequent decades, CSR definitions have expanded immensely. More recently, Rasche et al. emphasized that “CSR refers to the integration of an enterprises’ social, environmental, ethical, and philanthropic responsibilities towards society into its operations, processes, and core business strategy in cooperation with relevant stakeholders.”

### III. METHODOLOGY

Compliance with CSR codes of conduct can occur because other behaviors are inconceivable in coping with corruption in emerging markets despite local and international legislation. This paper examines how the largest oil and gas company operating in Brazil, Petrobras, responds to fighting corruption in its CSR code of conduct. It intends to corroborate the assertion that CSR codes can be used as a tool for integrating companies’ responsible practices in emerging markets, such as the Brazilian market, by means of a comparative analysis of Petrobras’s CSR codes of conduct and the international framework against corruption. This assumption may be true only if Petrobras’ CSR statements are in accordance with the international treaties and conventions, guides and standards related to corruption and are fully implemented by the company.

The global coalition against corruption is expanding every day. Despite the fact that provisions embodied in the international legal framework system related to corruption are countless, we can recall the following: the United Nations Convention against Corruption (UNCAC), the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Convention), the United Nations Convention against Transnational Organized Crime and its Protocols (UNTOC), the United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (UN Norms), the International Chamber of Commerce Business Charter for Sustainable Development, the OECD Guidelines on Multinational Enterprises, the Global Sullivan and Global Compact Principles, the SA8000 and the Sullivan Principles, among others. This study aims to corroborate the assertion that the CSR code of conduct may be an effective mechanism for integrating responsible economic practices against corruption. By means of CSR codes, companies can play an important role in improving the fight against corruption only if their codes fully comply with the international legal framework. Quantitative data for this study was collected by e-mail survey. The surveys were sent to executives from selected companies.

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9 See Costa, supra note 6, at 191.
12 H.R. Bowen, Social Responsibilities for the Businessman 6 (Harper 1953).
operating in Brazil. The chosen companies include BP p.l.c. (BP), Eni S.p.A (Eni), Exxon Mobil Corporation (ExxonMobil), The Royal Dutch/ Shell Group of Companies (Shell), and TOTAL S.A. (Total). Companies were selected based on their relevance in the Brazilian oil and gas market. A total of 50 questionnaires were e-mailed, with ten questionnaires per firm. University letterhead was used in the cover letter to increase legitimacy. E-mail addresses of these individuals were obtained from local directories, embassies and consulates, and social media, in particular LinkedIn.

The response rate was low (40 percent) but deemed acceptable for this study, as the same number of respondents from each company was achieved in order to avoid a response bias.

The findings comprise the following three main sources:

1. Data collected from the website of Petrobras. In this case, Petrobras’ website was examined for references to corruption in order to get information about the extent to which the company has engaged these concepts in a way that is publicly available. Secondary data were collected and classified from publications, reports and documents posted on the company’s website;
2. Data collected from websites related to international guidelines, norms or standards of oil and gas associations, NGOs, international and multilateral organizations, in order to compare Petrobras’ code of conduct with the provisions of the international legal framework; and
3. Data collected from the survey conducted to investigate oil and gas companies operating in Brazil, in order to analyze their attitudes towards different approaches to combating corruption.

IV. RESULTS

The results from this survey were divided into two sections: a) a comparative analysis of Petrobras’ code of conduct and the international legal framework and b) a questionnaire about the perception of corruption in the oil and gas sector in Brazil based on a survey conducted with respondents of foreign companies operating in the country.

A. Comparative analysis: Petrobras’ code of conduct and the international legal framework against corruption

CSR codes can be an effective mechanism against corruption only if multinational companies fully comply with their CSR statements. Petrobras has a code of conduct with issues related to fight against corruption; however, it is necessary to compare these policies with the international legal framework. It is not enough to promote social responsible corporate policies against corruption by means of CSR codes of conduct. It is also important that these anti-corruption policies should be acceptable to all stakeholders at the global level. The international framework helps to limit the negative effect of corruption and the “legislative” power of CSR codes of conduct. As far as the international framework is concerned, the main provisions related to corruption issues are embodied in two major conventions: the UNCAC and the OECD Convention. Corruption issues present at Petrobras’ CSR code were analyzed and divided into three common subcategories as follows: bribery and corruption, political contributions, and financial transparency.

Bribery and corruption

Petrobras’ CSR code includes statements rejecting the payment or acceptance of bribes, collusions, pressure, or illegitimate favors, either directly or through third parties, whether public officers or private individuals: “Businesses should work against all forms of corruption, including extortion and bribery”\(^\text{16}\). More specifically, Petrobras’ code of ethics “specifically forbids the use of unlawful practices (corruption, bribery and “off-the-books” accounting) in order to obtain commercial advantages”\(^\text{17}\).

According to the international legal framework, article 21 of the UNCAC refers to the intention of committing a crime and commits member-state to

“adopt such legislative […] to establish as criminal offences, when committed intentionally:

a) the promise, offering or giving to a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties; and

b) the solicitation or acceptance by a public official, directly or indirectly, of an undue advantage, for the official himself or herself or another person or entity, in order that the official act or refrain from acting in the exercise of his or her official duties”\(^\text{18}\).

Similarly, the OECD Convention calls for effective measures to combat bribery of foreign public officials, in particular the prompt, effective and coordinated criminalization of such bribery and in conformity with the jurisdiction and other basic legal principles of each country. Article 1.1 disposes as follows:

“Each Party shall take such measures as may be necessary to establish that it is a criminal offence under its law for any person intentionally to offer, promise or give any undue pecuniary or other advantage, whether directly or through intermediaries, to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business.”\(^\text{19}\)

Some relevant provisions related to corruption and bribery embodied in international guidelines, norms, or standards of oil and gas associations, NGOs, international and multilateral organizations were also examined and compared: for example, the Caux Roundtable Principles for Business (Caux), the Global Sullivan Principles, the International Chamber of Commerce Business Charter on Sustainable Development (ICC Business Charter), the Regional Association of Oil and Natural Gas Companies in Latin America and the Caribbean (ARPEL), the Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises (OECD Guidelines), and


\(^{17}\) Id.


For instance, Article 11 of the UN Norms says that:

“Transnational corporations and other business enterprises shall not offer, promise, give, accept, condone, knowingly benefit from, or demand a bribe or other improper advantage, nor shall they be solicited or expected to give a bribe or other improper advantage to any Government, public official, candidate for elective post, any member of the armed forces or security forces, or any other individual or organization.”

The Global Sullivan Principles state that fair competition includes “not offer, pay or accept bribes”21. Similarly, the ICC Business Charter provides a method of self-regulation by businesses against the lack of national anti-bribery laws and regulations in developing and least developed countries. Furthermore, the OECD Guidelines cover all of the areas of business ethics including labor, environmental standards, and health and safety, with Chapter VI of the Guidelines focusing on combating bribery. The OECD Guidelines expressly provide that companies should not “directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage. Nor should enterprises be solicited or expected to render a bribe or other undue advantage”22. The Caux Roundtable Principles for Business state that fair economic competition requires “refrain from either seeking or participating in questionable payments or favors to secure competitive advantages”23.

The results of the comparative analysis between Petrobras’ CSR code of conduct and the international legal framework reveal that Petrobras’ CSR code of conduct is in agreement with the international legal framework regarding policies against bribery and corruption.

Political contributions

Petrobras’ CSR code does not permit contributions to a political party, organization, or any individual who either holds public office or is a candidate for a public office. In fact, Brazilian law no longer permits contribution to political parties. The law has been recently amended as a result of the Car Wash operation.

Few international associations have specific statements regarding political contributions. The ICC Business Charter establishes that “contributions to political parties or committees, or to individual politicians, may only be made in accordance with the applicable law, and all requirements for public disclosure of such contributions shall be fully complied with”24. Similarly, the OECD Guidelines state that enterprises should “not make illegal contributions to candidates for public office or to political parties or to other political organizations” and that any “contributions should fully comply with public disclosure requirements and should be reported to senior management”25. Therefore, it can be stated that Petrobras’ CSR code of conduct is consistent with the international framework.

Financial transparency

Petrobras’ CSR code has policies to promote financial transparency. For instance, one of the Petrobras’ “guiding principles” is “a commitment to the transparency and accuracy of the information provided to all the stakeholders”.

According to Article 12 of the UNCAC:

“Each State Party shall take measures, in accordance with the fundamental principles of its domestic law, to prevent corruption involving the private sector, enhance accounting and auditing standards in the private sector and, where appropriate, provide effective, proportionate and dissuasive civil, administrative or criminal penalties for failure to comply with such measures”.

Furthermore, in accordance with Article 14, 1 (a) of the UNCAC:

“each State Party shall institute a comprehensive domestic regulatory and supervisory regime for banks and non-bank financial institutions and, where appropriate, other bodies particularly susceptible to money-laundering, within its competence, in order to deter and detect all forms of money-laundering, which regime shall emphasize requirements for customer identification, record-keeping and the reporting of suspicious transactions”.

Some international associations have policies to encourage and strengthen financial transparency, such as ICC Business Charter and ARPEL. ICC Business Charter declares that “all financial transactions must be properly and fairly recorded in appropriate books of account available for inspection by boards of directors, if applicable, or a corresponding body, as well as auditors”26. The OECD Guidelines reaffirm that enterprises should “ensure that timely, regular, reliable and relevant information is disclosed regarding their activities, structure, financial situation, and performance,” and that they should “apply high quality standards for disclosure, accounting, and audits”27. The UN Norms generally state that companies’ financial statements should display financial conditions, results of operations and cash flows of the business28.

We may argue that there is a clear collective commitment to financial transparency. Broadly speaking, Petrobras’ CSR code of conduct complies with the spirit of the international framework on financial transparency.

25. Id.
27. OECD Guidelines, supra note 22.
B. Questionnaire on data perception of corruption in the oil and gas sector in Brazil

Survey participants provided information about the characteristics of their company based on companies’ headquarters. All companies reported as being listed companies; the questionnaire did not ask them to further distinguish by stock exchange market.

CSR and corruption

We asked the respondents to rank different aspects of CSR and to order them based on priorities. Corruption was placed more or less in the middle, and the most relevant aspects of CSR codes for the respondents were labor rights, health and safety, and anti-discrimination, and the least prioritized aspects were human rights and environmental protection (Table 2).

Most influential rules with respect to corruption

The most influential sources of rules identified by the respondents were the stock exchange rules together with companies’ codes of conduct with respect to corruption. On the other hand, less formal sources were ranked as the least influential sources of rules for fighting corruption.

Anti-corruption legal instruments

Consistent with the headquarters of the companies and with the general list of the New York Exchange Market and operation in the United States, the US Foreign Corrupt Practices Act (FCPA) was considered to be the most influential specific set of legal instrument followed by the UK Bribery Act. In general, beyond these two most influential instruments, legislation of the country where companies are operating were also ranked high. Multi-stakeholder’s coalitions, international associations, NGOs and voluntary initiatives received the lowest scores. The OECD and the UNCAC conventions ranked higher but still with low scores (Table 3).

V. CONCLUSION

With corruption being a social and global phenomenon, fighting corruption has become one of the most important challenges of the 21st century. Almost not a single day passes without corruption scandal news someplace in the world. CSR codes can be an effective mechanism against corruption only if multinational companies fully comply with their CSR statements. CSR codes can promote the integration of responsible economic practices against corruption, but they can also be used as a response to deflect criticism. CSR codes can be an effective mechanism against corruption only if companies fully comply with their CSR statements. In order to confirm these limits, corruption issues present in Petrobras’ CSR code were analyzed and divided into the following three common subcategories: bribery and corruption, political contributions, and financial transparency. Petrobras’ code of conduct was compared with the international legal framework in order to generally limit the “legislative” power of companies in their CSR statements. The compliance of Petrobras’ CSR code with the international legal system is a proven fact. If Petrobras fully complies with its CSR codes, it will be an important tool to fight corruption in the oil and gas sector in Brazil. A company that establishes a CSR code without ensuring full compliance of its statements compromises the ideals behind this approach. Moreover, it is better for companies to change the approach, before they have to do so, as it happened to Petrobras. It became clear that there was a gap between the claimed concern for fighting corruption as established in the CSR code of conduct and the former behavior of Petrobras.

The data show possible directions for improvement with respect to corruption, as it was placed more or less in the middle among the most relevant aspects of CSR codes. The perception data may be useful in future anti-corruption efforts regarding the fact of being more structured and formal over multi-stakeholder’s coalitions, international associations, NGOs and voluntary initiatives. The response rate for the questionnaire on data perception of corruption in the oil and gas sector in Brazil was low with consequent implications. Furthermore, at this stage, only three issues related to corruption were considered in this study. As this study was based on perceptions, the respondents might have emphasized their perceptions instead of their experiences and companies’ recommendation and training to answer the questionnaire. This can limit the results of this research. However, this paper did not attempt to provide an exhaustive analysis. Several issues that have not been addressed in this paper deserve close examination. To further investigate these hypotheses, future analysis will be performed to examine the full range of issues related to CSR codes of oil and gas companies operating in Brazil.

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