

*Corrupt Nonmarket Strategies Megaprojects: The Case of a Corrupt Cartel of
Construction Companies in the Oil and Gas Sector*

ABSTRACT

In this paper I analyze a corrupt cartel of Brazilian construction companies that supplied services to Petrobras, while it invested billions of dollars in megaprojects in Brazil. I use non-traditional data drawn from publicly available and verifiable court investigation data and plea agreement from the public prosecution Brazil and in the USA. I find that the cartel created a set of rules, and enacted their nonmarket strategies across 12 years and that the stability of the group was also mediated by “institutional anchors of trust”. These anchors were peripheral actors such as money launderers and lobbyist that were not part of the firms’ organizational structures. I extend the strategy literature by explaining how corrupt cartels adopt a portfolio of nonmarket strategies that are essential for their maintenance and collaboration of long-term deviant practices

Corruption is one of the greatest afflictions to affect the corporate world and leads to both economic and social losses. One way that corruption is enacted is via the use of non-market strategies for corrupt purposes. Corrupt non-market strategies lead to financial losses, inefficiencies, and erosion of trust in governments (i.e., Nigeria), the governance of companies (i.e., Siemens and Samsung), and the functioning of competitive markets. Interest in corporate corruption as a topic has increased among management scholars in the last decades and journals such as the *Academy of Management Review* (2008) and the *Journal of Management Inquiry* (2017), which had special editions focusing on corruption. Yet, there is still a research gap in analyzing and understanding what kinds of corrupt strategies are enacted by corporations and how they are maintained. Therefore, corruption is a grand challenge that needs to be understood by management scholars and addressed by practitioners in order to find better ways to fight it.

Several attempts have been made to explain corrupt strategies based on, for example, the application of theories such as game theory (i.e., prisoner's dilemma). These explanations seem plausible for single transactions between actors, but do not seem to explain the unfolding of the corruption case within organizations nor its duration. In this paper, I attempt to understand how corrupt strategies are applied and how businesses are able to institutionalize and maintain corrupt relationships for long periods of time. In particular, I look at corrupt non-market strategies adopted by management teams of construction firms in the energy sector in Brazil. "Non-market strategy refers to a firm's concerted pattern of actions to improve its performance by managing the institutional or societal context of economic competition" (Mellahi et al., 2016, p.144). Firms that attempt to manage their institutional context often adopt non-market strategies to increase company performance. Although non-market strategies were successfully used for long periods of time in Brazil, the very same strategies that initially led to the award of tenders of megaprojects ultimately led to the firms' executives' demise.

This research is based on data drawn from one of the most publicized corruption investigations in the world: the *Lava Jato* (Car Wash). The Car Wash investigation is an ongoing investigation into the payment of between \$2 billion to \$4 billion in bribes by construction-supply companies to Petrobras executives and their political patrons. The criminal investigation that took place in Brazil has so far led to more than 953 arrest warrants, 188 condemnations, and 163 plea agreements of executives, lobbyists, and politicians. The prosecution has made all the legal documentation of the investigations publicly available. Therefore, there is a rich amount of data that offer the chance to peer inside a corrupt network and view some of the practices and mechanisms that are not often publicized.

I expand the literature on non-market strategy by analyzing a context that has not been studied empirically, namely, the coordination of groups that apply non-market strategies. I also contribute to the literature on the non-market strategy by identifying how such corrupt relationships were able to last for such a long period with the use of the “institutional anchors of trust.” Such agents were responsible for maintaining the stability of the illegal arrangement. Finally, I develop a framework to explain how these corrupt non-market strategies were managed and applied over time.

THEORETICAL FOUNDATIONS

Institutionalization is “social processes, obligations, or actualities [that] come to take on a rule-like status in social thought and action” (Meyer and Rowan, 1977, p. 341). The idea of “illegitimate” practices becoming accepted and normalized is a paradox because corrupt practices that become part of cognition (taken for granted) violate regulative and normative pillars of institutional theory (Scott, 2008). Corrupt practices have their own goals, values, and norms under the discretion and cognition of actors in the organizations, which contradicts the literature on institutionalization that does not consider any deviant practice. Yet in the real

world, examples abound of deviances such as frauds at Parmalat food company (Gabbioneta et al., 2013) and the UN oil-for-cash scandal (Jeong & Weiner, 2012).

Corruption can be analyzed at the industry field level. The mapping of practice in the field should include the role of institutional rules, political processes, ownership structure, institutional structure, and other organizational forms that can lead to more embedded corruption. Gabbioneta et al. (2014), among others, have dealt with both the field and societal level, whereas Pinto et al. (2008) looks at the difference between organizations of corrupt individuals and corrupt organizations. However, we still have little understanding of the maintenance of corrupt practices and the strategies that reinforce and maintain corrupt institutions over long periods. Ashforth and Anand's (2003) explored the mechanisms inside organizations, and organizational corruption becomes normalized through the rationalization of corrupt practices and a process of hybridization and cohabitation within the host organization once corruption is institutionalized, but from a theoretical perspective. Therefore, there is a gap in strategy research regarding the processes underpinning the "dark side" of strategy. Understanding how corrupt strategies are enacted is also essential.

The use of corrupt non-market strategies

Non-market strategies have been studied by strategy scholars for several decades (Aguinis & Glavas, 2012; Hillman, Keim, & Schuler, 2004). Recently, the corruption research in management has come back into prominence and has been debated in forums such as the Strategic Management Society (2017) and in several articles (Doh et al., 2015; Lawton, & Rajwani, 2012; Mellahi et al., 2016). Non-market strategies are a broad set of measures that include different corporate attempts to manage or influence political institutions or actors in ways that can favor the firm (Mellahi et al., 2016; Lux et al., 2011). The non-market strategy literature is fragmented and has traditionally been defined by two major strands (Mellahi et al., 2016). The first strand is corporate political activities (CPA) which focuses on issues of power

and institutional influences (Liedong et al., 2015), and the second is Corporate Social Responsibility. However, recent studies such as Iriyama, Kishore, and Talukdar (2016), however, try to understand why firms engage in corruption. They state that "engaging in corruption is a distinct action in non-market strategies that are usually illegal but firms do so as a competitive action to gain some advantage over their rivals" (p. 2153).

Non-market strategies traditionally have been studied as means to increase a firm's performance (Frynas et al., 2006; McWilliams & Siegel, 2011; Oliver & Holzinger, 2008; Sun, Mellahi, & Thun, 2010). Thus, many papers have focused on organizational performance (Madsen & Rodgers, 2015; Zhu & Chung, 2014), mechanisms for buffering performance (Aragón-Correa & Sharma, 2003; Hillman, Withers, & Collins, 2009), and moderators of performance (Aguinis & Glavas, 2012).

Scholars in the Strategic Management Society (2011) have acknowledged the existence of a dark side of non-market strategies. Nevertheless, discussing and analyzing how companies can use "dark and immoral" non-market to gain competitive advantage and to maintain corrupt alliances seems to have been taboo (Doh et al., 2012). Some strategy articles have started to discuss the topic (Guo, Huy, & Xiao, 2017), and some non-market strategy scholars looked at entry strategies and corruption in foreign markets (Uhlenbruck et al., 2006). However, most non-market strategy papers on corruption focus on country-level corruption (with the exception of Guo, Huy, & Xiao, 2016, and Iriyama, Kishore, & Talukdar, 2016), such as the relationship with the government and strategies for entering a new foreign market (Darandeli & Hill, 2016). This means more longitudinal studies are needed involving qualitative approaches focusing on non-market strategies at the top management executives (Mellahi, Frynas, & Sun, 2016, p. 168).

These strategy studies ignore the role of corruptors in the corruption decision, processes. Hence, the need still exists to better understand why firm executives adopt corrupt

strategies and how corrupt activities are maintained, particularly, which non-market strategies top managers use to maintain durable corrupt relationships across their sector, and where the pressure to do so comes from.

In this study, I attempt to bridge these gaps by looking at how and when businesses engage in corrupt strategies and how they go on to maintain the status quo. Ultimately, I want to understand the following question: How do corrupt corporations and individuals maintain illegal relationships and what strategies do they use to do so?

METHODS

This study starts with a broad empirical question regarding what strategies firms use to sustain corruption for long periods. Specifically, I am interested in identifying what strategies *corporations and individuals* use to maintain long-term corrupt relationships and *how they are deployed*. By asking a broad phenomenon-based question, I follow the tradition of empirical research in other domains such as organization theory (Eisenhardt, 1989) and the natural sciences (Tinbergen, 1963). Serendipity has impacted my research, with the public the Car Wash operation starting and the public prosecution team offering access to all the investigation data.

I use qualitative methods because doing so can lead to insights that consider the complexities of a phenomenon (Bettis et al., 2014) of corruption and the underlying mechanisms (Anteby, Lifshitz, & Tushman, 2015) and can have an in-depth understanding of the processes underlying the maintenance of the cartel. Additionally, one of the challenges of studying corruption quantitatively is that they overly rely on perception surveys such as the one of Transparency International or World Bank. The respondents may lie because they do not want to provide evidence that could incriminate them or are afraid of retaliation in their countries. Aware of such limitations, during the data collection, I incorporated additional data

sources that have seldom been used in strategy research. I started by analyzing all the sessions of Petrobras' parliamentary inquiry in 2014 with the corrupt business executives. Such sessions were recorded and transcribed, and the transcripts were made publicly available on the website of the Brazilian congress. I decided to use these rich data because they are extremely detailed and have been used in previous studies in management (Gephart, 1993). Gephart uses public inquiries to make sense of disaster scenarios, and with such data, one can seek in-depth accounts. As my research developed, I also used publicly available court proceedings (Gabbioneta et al., 2013).

However, analyzing archival data from court proceeding also presents some challenges; therefore, I enriched the dataset. I compared testimonies, financial data, judicial condemnations, apprehended documents of the companies, and general publicly available financial reports. The additional financial data were provided by the Brazilian construction sector, Brazil's central bank, and the Brazilian government.

Insert Table 1 about here

Data and Sample

Due to the huge amount of data provided by the investigation, I decided to narrow them down to relevant and workable sets after initial filtering. To better answer the broad research question, I decided to focus on Petrobras business executives who were investigated. I initially focused on Paulo Roberto Costa, Petrobras's former executive director, the first high-profile arrest, and a prolific collaborator. Then, I expanded my investigation to the testimonies the other Petrobras executives gave to the parliamentary commission of inquiry. These plea agreements are not only questions and interviews regarding who paid bribes to executives; they also contain the documents regarding the bribes operationalization. From these plea agreements and collection of files from the prosecution, I started to gain a better understanding of the case

and built a narrative and the corrupt relationships of the executive. For robustness, I double-checked these transcribed testimonies against videos of the key testimonies and annotated them using NVivo software. I also filtered out the irrelevant actors and testimonies (The link and access to all of these public files are provided above). Rather than following a research “recipe book” when analyzing this unconventional dataset (Eisenhardt, Graebner, & Sonenshein, 2016), I combined several qualitative methods (Stigliani & Ravasi, 2015).

In figure (1) below, I describe the analytical process followed in this case:

Insert Figure 1 about here

Combinations of different qualitative methodologies are gradually becoming more common in management research (Stigliani & Ravasi, 2015). Strategy scholars have traditionally ignored the corpus of data, such as court proceedings and legislative public commissions of inquiries, although other social sciences have used it. Most countries make litigation data accessible to scholars (i.e., the Siemens case), and this rich group of data offers researchers a chance to peer into some of the hidden practices and strategies that firms adopt. These data also provide and help solve part of one of the main conundrums of studying deviant practices—the validity of data when analyzing—because they are verified by several state officials in several states (i.e., WTO, Interpol). Particularly, plea agreements can display non-disclosed strategies adopted by firms. These individual-level data from plea agreements offer insight into top management team motives, rationalizations, and cognition and why they adopted such strategies.

Such a wide variety of data provides a better understanding of how the corruption process unfolded. My analysis therefore also involved a detailed analysis of the data, visual mapping, and temporal bracketing (Langley, 1999). I analyzed and reconstructed several

corrupt contracts, relationships, and relationship webs. My research ethos and initial units of analysis are provided below.

Insert Figure 2 about here

Note that the court documents have their own legal vocabulary, yet they follow a rigorous methodological process. The evidence has been collected as the foundation for the prosecution to build up a case against corrupt individuals and companies. In this sense, an evidence-collection process is a form of research, and prosecutors have been sure the data are reliable and show suspected illegal behavior. While I analyzed the judicial pleas, I also tried to make sense of the broader Brazilian context during that period. To do so, I checked the economic data of the country and construction sector as in the previous section.

Insert Table 2 about here

From this broad understanding of what happened, I then analyzed the prosecution files again. After the initial analysis of the testimonies, I analyzed the mechanism described by the executives.

ANALYSIS

The corruption case is a complex one involving many actors and organizations. The analysis focuses on the firms that supplied services to Petrobras and their top managers. In order to understand the construction company cartel, it is essential to understand their main client Petrobras. Petrobras has been for several decades in Brazil the largest company and its unique governance structure leads to loopholes that were used by the construction companies for their own benefit. This is followed by the analysis of the cartel and its strategy.

Petrobras

Petrobras (Petróleo Brasileiro SA) is one of the most important companies in Brazil and engages in oil and gas exploration, production, and distribution activities. Petrobras was founded in 1957 by President Vargas, and until 1997, it had exclusive rights to explore oil concessions in Brazil. Currently, the Brazilian federal government owns 28.67% of the capital stock and 50.26% of voting shares. Its board of directors is composed of 10 members, where six members are directly appointed by the government.

It operates through the following commercial segments: exploration and production; refining, transportation; distribution; gas & power; biofuel; marketing and corporate. It has a current market capitalization of \$85.65 billion (April 2018) but had an exponential growth in value after the pre-salt oil deposits were discovered in 2006, the world commodities boom. Petrobras is a large employer, and by the second quarter of 2017, it had 63,100 thousand employees. Managers are promoted internally, and employees are hired following a public admission exam similar to the Brazilian public-sector admission exam. The internal dynamic of the network of the top management team at Petrobras was essential for its growth and development but is also strictly related to its downfall. So in recent decades, the company has undergone several changes, and crises and has had to deal with an ever more complex national and international environment.

Petrobras scandals The Brazilian parliament has investigated Petrobras 12 times since the company was founded. Suspicions of its internal corruption were also widespread. In 1997, a prominent journalist accused Petrobras managers of embezzling company funds, but this accusation wasn't proven. In 2009, a scandal occurred regarding Petrobras acquisitions of an oil refinery in Pasadena, California, in the US. This acquisition led to Petrobras's loss of hundreds of millions of dollars (Parliamentary Commission of Inquiry, 2015). Following a public outcry, the Brazilian senate decided to create a Parliamentary Commission of Inquiry

(CPI) to investigate such acquisitions abroad, but it ended in December 2009 with no condemnation.

Insert Figure 4 about here

The Car Wash investigation started in 2014 as an investigation of gas stations suspected of being part of a money-laundering scheme; thus, the operation was aptly named Car Wash, or the *Lava Jato* Operation. The investigation uncovered a corruption scheme of unprecedented scale involving Petrobras, the largest construction companies in Brazil and construction companies that supply billions of dollars in services and finance legally and illegally the campaign of all the major political parties in Brazil. Once uncovered, several top executives signed plea agreements denouncing their peers, companies were fined billions of dollars across different jurisdictions, accounts were frozen, company valuations plummeted, and future contracts were canceled. From the *Car Wash* investigation, I have identified the main group involved in the corrupt network.

Petrobras Governance. Appointments to the board of Petrobras were made by the political patrons with strong ties to the construction industry. Petrobras managers and their appointments were made politically; the figure below shows a common formula.

Insert Figure 5 about here

A clear example is provided by Paulo Roberto Costa, who started working for Petrobras in 1978. Many executives such as Costa, with long and successful careers in Petrobras, knew from the outset the trade-offs they would have to face to be promoted to the highest echelons:

I got in through (in Petrobras) a public competition in 1977, 2 February 1977. I worked at the company for 35 years. Until I got my first political appointment... I worked for 27 years in various PETROBRAS department, chalking up several positions in the company, and I never needed political support to progress in my career. It was because

of my ability that I got the various positions I held in the company. Unfortunately, you can't get on to the Board of PETROBRAS without political support. (Paulo Roberto Costa, Director Supply Petrobras, 2014)

In 2004, Costa, with the support of Jose Janene, the leader of the Partido Progressista (PP) party in the government coalition, was nominated to the executive board of Petrobras as the executive director of Supply. According to the federal prosecutors and to the pleas, the political agents responsible for the nomination of Costa would receive a percentage (around 1%) of the value of each contract signed by the directorate. From 2004 to 2011, the PP party gave political support to Costa. However, from 2011, the PP party lost political influence, and members of the new controlling party, the PMDB, decided to keep Costa at his post and started to receive a percentage of the bribes. In 2014, Costa was arrested, and in 2015, he was sentenced to 12 years in prison and returned \$23 million acquired via bribes.

The appointment of these managers is extremely important due to their responsibilities inside Petrobras. Costa was managing billions of dollars in contracts, which led to losses in every project, due to corruption and technical flaws.

Petrobras' Contracting with Suppliers. At the end of the 1990s, Petrobras changed its way of conducting public tenders to make contracting out to the international market quicker. The new bidding procedure created for tenders was the *invitation letter*, which a limited number of participants received, and the process was directly controlled by the executive directors of Petrobras. Several changes happened. For example, in 2004, just 8% (GLOBO) of \$15.30 billion spent by Petrobras in tenders was done through this discretionary invitation. The following year, this figure rose to 60%, and in 2009, it stood at 76% of the company's investments.

Insert Table 3 about here

In the following section, I describe and analyze the role the cartel, and then I move on to the actions the participants undertook to maintain the corrupt agreement during various shocks, such as the replacement of members, external investigations, and delays in payments.

Cartel

The executives of Petrobras had close contact with the cartel of construction companies from the beginning of 2004 when a group of construction companies struck a deal with the Director of Supply, namely, Costa, and the only companies invited to tender were members of the “club.” At its inception, the club’s strategy was to limit the companies that could be invited to tender, and beginning in 1998, the cartel members tried to limit competition among themselves by fixing favorable prices to all members and became progressively stronger. According to Mendonca (2015), by 2004, the cartel had total power and coordinated tenders among themselves.

Nine executives confessed that this cartel began with 16 companies, and later included 23, with 7 occasional participants. According to the CEO of Toyo Setal, the members of the club were initially Odebrecht, UTC, Camargo Correa, Techinit, Andrade Gutierrez, Mendes Júnior, and Promom. From 2006 onwards, new companies joined and were invited, such as OAS, Skanska, Queiroz Galvão, Iesa, Engevix, GDK, and Galvão Engenharia. When a new member arrived or replaced another, he (they were exclusively male) was socialized and introduced to the previous commitments the organization had accepted.

Overall, the cartel had several strategies to maintain internal cohesion, to deal with other threats, and to increase and spread their influence. The non-market strategies were composed of different sets of practices, for example, political campaign financing, bribes to Petrobras executives, and financing to politicians who would help them appoint desired managers in publicly controlled companies. Internally, the cartel adopted a number of strategies for its

survival and to maintain its cohesion for a sustained period of time. They include the establishment of common rules on bribes, a clear hierarchy of firms, policing of its members and the diffusion of membership. In this section, I follow the ethos of my research analysis and analyze what happened within and across the cartel in order to maintain it, and how non-market strategies were implemented.

Pressures within Firms. To maintain corrupt activities, executives had to deal with the internal pressures of their own firms, including the internal compliance teams. To be part of the stock exchange and to have access to national and international financing, large companies in Brazil are required to have a compliance department. However, compliance departments, although taken into consideration, were not seen as particularly efficient:

Member of Parliament - For the money from the kickbacks, didn't you have to rely on the collusion, collaboration of employees, who were not guilty of anything? How did you do that?

Dalton Avancini - Several of these processes (...). The law of compliance is strict but (they) weren't picking us up.

Another threat to corrupt executives was compliance capturing corruption payments through the internal accounting system of these multinational companies. To minimize this risk, corrupt executives started using *doleiros*, money launderers that soon became the core of this corrupt network. Then, executives, with the money launderers, created separate accounting systems to keep registered such payment and generated fake invoices to pay the bribes. This is described here:

For you to make payments... I mean, we did not have a shadow accounting system, we don't have it, we never had it there, in the company; so, you had to find some kind of mechanism, that is, for you to make payments to these... to fulfill these pseudo obligations there, with these agents... So, the use of companies, the use of consultants, derived from that. That's what I call structuring such payments. (Dalton Avancini, ex-CEO, Camargo Correia, 2015)

All these activities are unexpected in traditional firms. We can see through the quote how a fair amount of narrative decoupling happens between what the external

stakeholders view as the accepted rules and the actual practices put in place by top executives.

Institutionalization of the cartel. A document apprehended by the federal police in 2014 was headed “Proposal to close the bingo.” It included a set of rules similar to the Brazilian football league, but with corrupt prizes. This document offers insight into the allocation mechanism and the rules of the cartel.

Insert Figure 6 about here

The figure above presents one of the apprehended documents showing the formalized group. The subsection of the contracts of Comperj Refinery lists the prizes of their “game.” Such practices extended to several other contracts. To maintain the equilibrium on a large number of contracts on which the group members were bidding, the cartel created a clear rulebook regarding the division of tenders. As mentioned in the testimony of one of the CEOs (Plea Mendonça Neto, 2015), this accountability helped build trust, cohesion, and stability between members of the group and was successful for at least a decade.

The cartel meetings included the analysis of tenders, and a chronological list of contracts was assigned so that some companies were written out, and then members could choose tenders that were their priority (MPF, 2015). A CEO mentioned the companies were pressured to participate in the group and to conform to the established rules. Therefore, the club created processes and evolved rules in this corrupt field that were respected and followed over the years.

Boundaries were instituted within the cartel, with rules eventually implemented. As such, we can see how corrupt institutions are created maintained and run.

Stability across firms. When a new member entered the cartel, the existing members aimed to maintain existing processes. When he was promoted to his first executive board, the CEO of Camargo was told about the company's previous "agreement" with other members: "I was notified by the director who preceded me. He told me there was already an existing process, that is to say, there was a payment commitment from the company within the supply board and service board" (Dalton Avancini, ex-CEO, Camargo Correia, 2015).

Members socialized even outside the companies and frequently met for dinners. Trusts and bonds were also created through these 10 years, and even after they left their positions, they were expected to find a new role in the corrupt field. In spite of these "friendships," the coercion factor was still present and was extremely important. This collusion and the setting of boundaries were part of a process of institutionalization, whereby rules were gradually defined to maintain such activities and can probably be applied to other illegal situations. Yet, emotional ties were developed. This fact contradicts some of the rational-choice proponents of corruption as simply a principal-agent issue.

Therefore, the cartel had several instances of collaborative work. It also had several strategies to deal with the external environment and replace its members, as well as clear rules to enforce its agreements internally.

External Shocks A number of shocks came from outside the system during the period, such shocks caused members to leave the cartel. Yet old members incentivized others to continue the corrupt activities. Yet, corruption is able to sustain itself over longer periods and ultimately a sense of impunity would detain members from either leaving the field or trying to disrupt it:

What effectively changed is that today, the environment is completely different. Today, I have the assurance that everything I'm talking about is going to be investigated, assessed, and people will have to be penalized. Doing something like this in another era, with an isolated attitude, would have been very foolhardy in my opinion. I honestly did not have the courage. Until Lava-Jato (Car Wash Operation) arrived, that was the reality. (Augusto Mendonca Neto, ex-CEO Setal, 2015)

The finding that other anticorruption operations could also be beneficial to business executives within the investigated firms is counterintuitive. For example, in 2009, Camargo Correia was investigated as part of a high-profile corruption scandal regarding tender manipulation, called the “Sandcastle activities,” and police detained several top managers. Previous managers were replaced by younger executives, not directly involved in the incident, but the corruption activities in Petrobras continued:

I will say this: I did not participate in the Sandcastle activities, but I will tell you that I benefited from Sandcastle (anticorruption investigation), it opened up space inside the company for me. All those who participated or were involved with something - it opened a professional avenue. It was from that point that I began to gain space within the company. So, in a way, I benefited indirectly. They took away my internal competitors. I gained a foothold. I was coming from private clients (the department). (Eduardo Leite, Executive, Camargo Correia, 2015)

Note these corrupt relationships resisted several shocks over the years. During this period of great interaction and difficulties, members tried to make sure the cartel was preserved. Trust was reinforced internally and aided the creation of the cartel. This colluding and setting of boundaries was a process of institutionalization, whereby rules were gradually defined to maintain such activities.

Enactment of the Non-market Strategies

Corporate political activity scholars have identified private companies’ campaign donations as a non-market strategy (Mellahi et al., 2016). This prevalent strategy was also adopted in Brazil, and five of the 10 largest official contributors to campaigns of all parties were construction companies. They financed the presidential, legislative, and governors’ campaigns in 2014—a campaign cycle that officially cost more than \$1 billion. Yet a Petrobras executive had a different take on the accepted view and the legitimacy of such a strategy:

“It is a great fallacy to say there is campaign donation in Brazil (...) they are loans to be paid (back) later on by the beneficiaries of (such) contributions when (in their) positions” (Paulo Roberto Costa, Testimony (plea agreement) Federal Court 9/3/15).

The figure below shows how members of the cartel would implement their non-market strategies regarding Petrobras and their competitors. They did so by limiting competition and by creating a cartel that also influenced executive appointments at their clients' firms.

Insert Figure 7 about here

Mediating conflicts within cartel members. On several occasions, the money launderers and lobbyists were the key actors within the network. Not only had they operationalized the payments and laundered the money to help the corrupt executives within the firms; they also close contacts with the money launderers and political sponsors of Petrobras. Therefore, lobbyists and money launderers were liaisons: They passed on messages, paid bribes, and defused tension when problems arose between Petrobras executives, political sponsors, and corruption scandals.

These tensions would arise, for example, when companies did not agree with the rules of the club or there was a delay in bribe payments to Petrobras's executives. This would lead to directors' retaliation by denying the company the opportunity to participate in future tenders. A manager of Petrobras also had "the power to complicate things," according to one of the CEOs:

"In reality, a director of PETROBRAS has great power to disrupt and very little power to help. So, our participation, and I believe this is true of most companies, is much more about preventing harm, than to reap any benefit" (Augusto Mendonca Neto, ex-CEO Setal, 2015).

So in order to keep the system working there was a need for institutional anchors of trust. Such anchors were an essential, stable link for the routinizing and enabling of the non-market strategies by the supplier companies through different channels of illegal activities. They managed the tensions across the field and were reliable agents to the entire cartel. Fake

receipts were routinized and operationalized for companies paying bribes and were able to send the money abroad and into secure offshore accounts. Finally, they offered to conceal powers of all the operations through offshore and by protecting companies balance sheets and were adept at dealing with external shocks. The figure below explains the process.

Insert Figure 8 about here

Such anchors did understand their importance and had a sense of pride in what they did:

I'd actually like to come back to that e-mail where I put it like this: "Doleira - money changer. (Laughter.)" Why? Money changer has always been a synonym for those who keep their word for off-the-record agreements (...) You understand? So when I say that I'm proud, not proud as a "money changer" undermining the financial system, but proud to have kept my word, kept my credibility, because customers would hand over money to me, sometimes without knowing who I was... So, the person trusted what I was saying. And sometimes I would say: "I'm not going to take your money, because I haven't got the right conditions to send it, I'm not going to send it." So, in this sense, being a money changer is linked to the issue of credibility. (Nelma Kodama, Money Launderer, 2015)

DISCUSSION

In this study, I attempted to provide an understanding of how and when businesses engage in corrupt strategies. I tried to understand the following question: What strategies do corporations and individuals use to maintain long-term corrupt relationships? From this in-depth case study, one can develop implications for the existing theories and question some of the prior empirical findings.

This in-depth case study of the corrupt oil and gas industry in Brazil demonstrates how corrupt practices were maintained across time, even in cases of external shocks, and has explored some identified strategies corrupt firms adapt to maintain the corruption. In this case study, we can see how corrupt practices from the society's perspective are legitimized at the

firm level and then sustained. Corrupt actors inside firms co-opt, influence, and control processes across the industry while concealing such activities from their own company's compliance team and from society.

I first tackled how corrupt actors were able to maintain such activities within their own firms and across cartel members, by deploying non-market strategies. Non-market studies have shown that in many cases, the demands of stakeholders with stronger ties to the top management team may take precedence over the demands of other stakeholders (Michelson, 2007) and that campaign contribution has effects on government policy (Holburn & Vanden Bergh, 2014). I extend the literature by showing that even corrupt groups adopt a portfolio of non-market strategies that focus on their cohesion rather than only on maintaining their short-term competitive advantage. Such relationships are not strictly based on a resource-dependency interaction among peers and can last several years.

A corrupt group of firms and their executives create a set of rules, authority, and coercive power to enact their strategies. These firms establish the norms, rewards, rules, and common strategies that are essential for a coordinated existence and for the maintenance of such interactions and boundaries. All the main multinational conglomerates also have their compliance department and have to follow the SEC rules. There are other parallels in the world such as Siemens, for example, opened several parallel offshore accounts in Panama and the Caribbean to operationalize its bribe payments in Latin America (Panama Papers, 2017). Petrobras's managers and a group of supplier companies were involved in corrupt practices despite having an internal compliance department, ensuring they formally abided by SEC rules, and had their accounts audited by major international auditing firms. Thus, an institutional persistence of corrupt practices in the companies appears to have co-existed alongside legitimate departments and continued when new members were introduced.

Strategy scholars have studied how corruption affects the entry strategy of international businesses (Rodriguez et al., 2006) and the role of non-market pressures (Davis et al., 2000). However, when analyzing a deployment or investment of a foreign company in a new context, one might consider it a one-off act that leads to conformity. Yet corruption is a much more complex issue, and firms have to repeatedly engage in their local contexts. Therefore, corruption is much more socially embedded than the previous literature demonstrated, executives were not only thinking in short term exchange of bribes and favors but also in maintaining the stability and cohesion with their peers for long periods.

As corrupt non-market strategies led to short-term financial gains via the awards of multi-billion contracts, the companies felt financial and institutional pressures to participate in corrupt arrangements. Yet, in the medium and long run, the strategy became self-defeating because once uncovered, it led to the demise of the managers as well as their firms. The negative impact of corruption led to the loss of credibility, destruction of the company's public image, the collapse of its market value, and, in many cases, bankruptcy.

Understanding the Institutionalization of Corruption within and across Firms

Corruption is a market failure, yet it can be institutionalized. In this case study, the corrupt group relied on the illegal actions of individuals with normative authority and coercive power within the group. In this way, my analysis and findings directly contradict the accepted definitions of an institution (Scott, 2008). Consequently, members who have established the norms, rewards, and rules legitimize changes in the operations or in the decisions of when to enact the strategies. In turn, the members reward the compliant behavior of new members to maintain the status quo.

Corrupt activities can be maintained in several ways over time, such as through the institutionalization of a group of cartel members. In this case study, clear strategies were in

place to ensure the existence of a boundary and rules. Boundaries were necessary when choosing to expand the membership of the corrupt group during the year. Rules were created for the assignment of contracts according to need. Policing was used to ensure bribes were being paid on time, and to determine who could join the group.

Finally, competing, non-colluding companies had to be deterred from participating in the business. This figure analyzes the dynamic processes and tensions that arise from corrupt relationships and how they are successfully maintained over years. The different pressures work together to increase and maintain the corruption cycle.

Insert Figure 9 about here

Institutional Anchors of Trust. To maintain a corrupt field across a lengthy period of time, members of the cartel worked hard to maintain, repair, and even prevent changes in their context. A considerable portion of this work is done by the institutional anchors of trust. These anchors of trust are agents acting under the radar of traditional governance mechanisms, yet are prevalent around the business world. Such anchors are individuals or organizations that maintain stability in the corrupt network and are used by a corporation's top managers to enact many of the strategies and to maintain durable corrupt relationships across their sector and cartel.

Contribution to empirical research on strategy and corruption

Although widely accepted as a relevant topic, the study of corruption faces several challenges regarding data collection. To deal with these challenges, I analyzed micro-level data, such as testimonies and interviews from criminal investigations into corrupt practices. I looked at publicly available data from ongoing investigations of the corruption scandal at

Petrobras, which offers an opportunity to build a detailed case study and enrich the field of corruption. Using this material led to the unprecedented availability of data regarding executives and their firms' strategies. Executives revealed the process of paying bribes, what contracts were awarded to the firms, and what strategies they adopted to win the contracts and maintain the relationships over several years.

Strategy scholars should be more creative in their use of widely available data, particularly reliable court proceedings. Thus, I offer pathways that enrich strategy scholars' empirical research, using widely available non-conventional data from legitimate sources. This means applying other adjacent theories, tools, and methodologies from legal studies, sociology, and other related social sciences.

By understanding and explaining the behavior of managers in such firms, we can better understand the persistence of problematic corrupt practices and how these practices spread. Policymakers and compliance professionals should think about how to tackle individual pieces of this corruption puzzle beyond cosmetic announcements by the public relations departments of corporations. In addition, practitioners and scholars need to identify more proactive strategies to deal with corruption.

CONCLUSION

This study focused on a corrupt group of companies that collaborated for more than 10 years in Brazil, institutionalizing corrupt behavior and using corrupt non-market strategies. I tried to better understand the complex phenomenon of corruption, particularly how it occurs and persists, and the institutional strategies within and across different firms.

I analyzed how corruption is maintained over time, and what institutional mechanisms underpin this phenomenon. I also analyzed in depth the processes and strategies adopted by

managers and firms in a corrupt field. I ultimately identified the reasons a cartel is able to sustain a long-term fragile partnership and the role of anchors of trust in such a context.

By understanding how corruption works, anti-corruption officials, managers, and compliance departments can gain more insight into how such strategies are put into place and how to develop a toolkit to fight the problem. Furthermore, by using non-traditional data, I bring new insights to the field of strategy. Finally, my work contributes to the strategy and corruption literature by studying a phenomenon that is relevant in all societies, while connecting it to non-market strategy.

Limitations and future research

This study and future paths of research have a few limitations. This paper focuses on a single qualitative case study with traditional limitations. Analyzing different firms in different industries would, therefore, be interesting.

The influence of the context and non-market strategies are also limited by local laws and social and political contexts. Some countries accept regulated lobbying and advocacy activities (US) and private campaign financing (Brazil), whereas others do not. However, they all agree that cartels are illegal (160 members WTO) (Clougherty, 2005). Therefore, corruption moves from a grey zone to a “dark side” for the multinational, subsidiary, or local organization that suffers corruption.

Finally, questions at the micro level and on leadership are still open to exploration, such as, what is the process through which responsible leaders manage relations with divergent stakeholders?

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TABLE 1

Data Sources

	Data Sources		Data Available
Primary Data Analyzed	Parliamentary Commission of Inquiry	http://www2.camara.leg.br/atividade-legislativa/comissoes/	More than 120 people questioned
		-comissoes-temporarias/parlamentar-de-inquerito	More than 230 hours of sessions
		-55a-legislatura/cpi-petrobras/documentos/notas-taquigraficas/	More than 6,000 pages transcribed 58 Sessions
	Prosecution files	http://www.mpf.mp.br/para-o-cidadao/caso-lava-jato	50 investigated operators
	Court file (Plea agreement and transcripts)	https://www.jfpr.jus.br/	30 hours of interviews and videos
		https://www.youtube.com/watch?v=jzQQMPcOjPM	1,000 pages or investigation reports
Additional Data Cross-Referencing	Economic Data	https://seriesestatisticas.ibge.gov.br/	Documents issued by public authorities: central bank, trade associations,
	Financial Data	http://www.cbicdados.com.br/media/anexos/070.pdf	Construction Sector Trade Body, companies public balances

TABLE 2

Selected quotes from suppliers and Petrobras executives

Within Construction Companies	Dalton Avancini, ex-CEO, Camargo Correia, 2015	We did not have a shadow accounting system, we do not have it, we never had it there, in the company; so, you had to find some kind of mechanism, that is, for you to make payments to these... to fulfill these pseudo obligations there, with these agents... So, the use of companies, the use of consultants, derived from that. That's what I call structuring such payments"
	Eduardo Leite, Executive, Camargo Correia, 2015s	An internal meeting at Camargo Corrêa, in which Leonel brought me the existing ongoing contracts, the existing commitments, the consultancy contracts to support these kickback payments. And all this was presented to me. (Eduardo Leite, Executive, Camargo Correia, 2015)
Within Petrobras	Pedro Barusco, former managing director of distribution, Petrobras, 2016	The bribes within Petrobras were something endemic and institutionalized... This is a path of no return. Start receiving (bribes) overseas, it will keep going, going and going until there is a sword on your head. You have no way out of this.
	Paulo Roberto Costa, Director of the Supply Unit, Petrobras, 2015	Since I (can) remember in Petrobras, the directorship and the CEO of the companies were based on political nominations. I used to give the example (...) 'no one becomes a general if he is not nominated'. (...). So, the directorship of Petrobras, either in the Collor government, or the Itamar Franco government or in the Fernando Henrique government, or Lula government where there was a political indication, he was appointed, really by the PP to take charge of the directorship of supply.
Across the Cartel Members	Augusto Mendonca Neto, ex-CEO Setal, 2015	They were intended to protect each other, right, so there was not a trade war between these companies. And so, the story began. There was never a day, never a conversation that went like this: "No, from today this is what has been established." No, these things go through an evolutionary process, and this process started way back when all companies were going through great difficulties, through a difficult period suffered by the industry at the time.
	Dalton Avancini, ex-	Member of Parliament- You said you called attention to poor basic projects, which opened up loopholes.

	Ceo Camargo Correia, 2015	Dalton Avancini- They did open them up... That's what happens when you have a poor project, is not it? I mean, it then allows a series of negotiations to take place during the performance of the contract and requires so many (financial) additions (to the cost).
Across the Cartel and Petrobras	Augusto Mendonca Neto, ex-CEO Setal, 2015	An oil production platform costs more than 1 billion dollars. So, these things are not simple... the construction of these projects, which, as I said, is extremely complex – we're always using the latest technology available worldwide – and this involves over a hundred people at PETROBRAS. I have no doubt that, within this relationship between PETROBRAS and its suppliers, there are many opportunities for corruption; especially because there are not only opportunities but also very close interactions. We are talking about contracts with an execution time of approximately 4 years. So the interaction between the people from the companies and the people from PETROBRAS is extremely close and for a long period. There is no doubt that there are many opportunities for corruption.
	Eduardo Leite, Executive, Camargo Correia, 2015	We were sitting down in Júlio's house... I had been invited to dinner there. (...) Pedro Barusco spoke of bribes, of how much he estimated, within his control, that Camargo owed, and that it looked like patronage, (...) And the second time, at the time at which Renato Duque was leaving the board (of Petrobras), he came to me asking for a consulting firm to be hired that he had opened for the payment of kickbacks, at which time it was said to have the required payment.

TABLE 3
Refineries tenders controlled by Costa

Projects	Refinery of Abreu e Lima	Petrochemical Complex of Rio-Comperj	Refinery Presidente Getulio Vargas- Repar
Value of tender (R\$)	18 billion	7.5 billion	8.6 billion
Main contractors	Camargo Correa, Engevix	Iesa, Queiroz Galvao, Galvao Engenharia	Mendes Junior, OAS, Odebrecht, UTC
Estimated losses of Petrobras (R\$)	400 million	249 million	N/A

Sources: Modified from Brazilian Federal Prosecution Task force (2015)

FIGURE 1

Initial Research Protocol

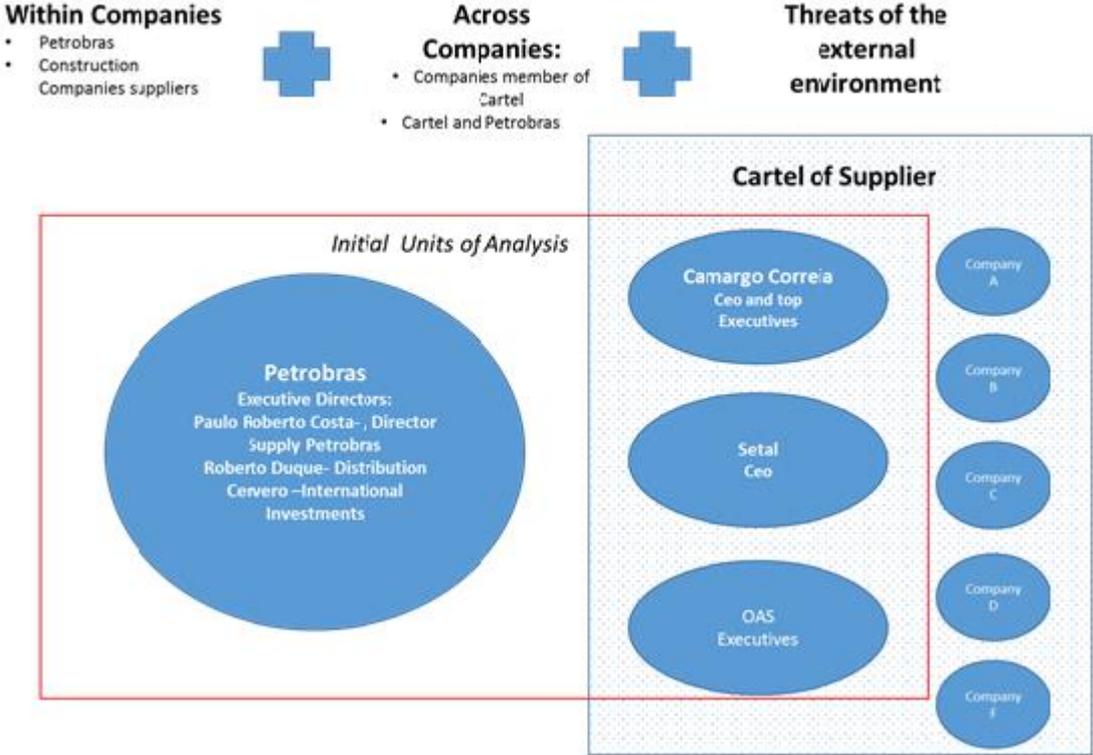


FIGURE 2

Process of analysis

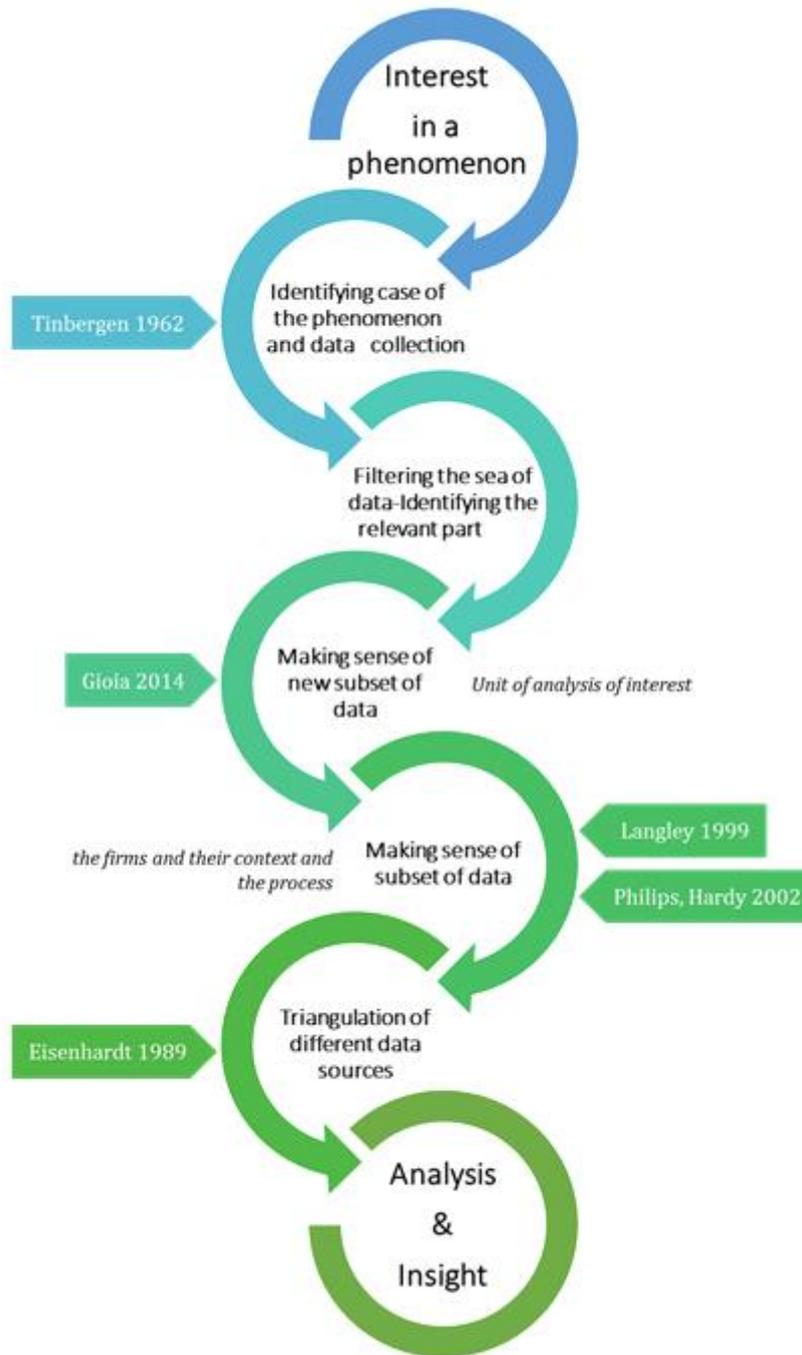


FIGURE 4

Timeline of the Corrupt Cartel Duration

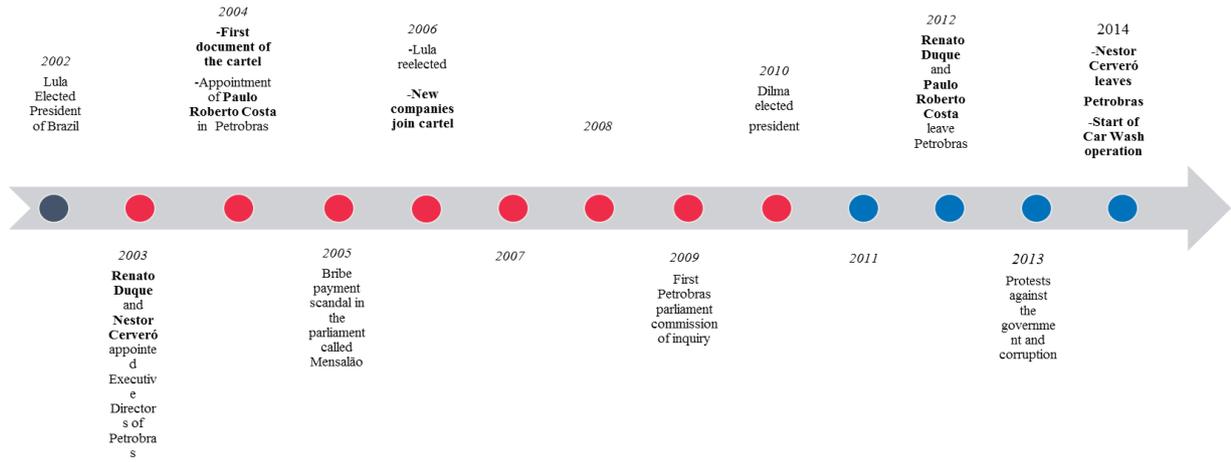


FIGURE 5

Scheme of corporate and political influence in Petrobras 2004-2014

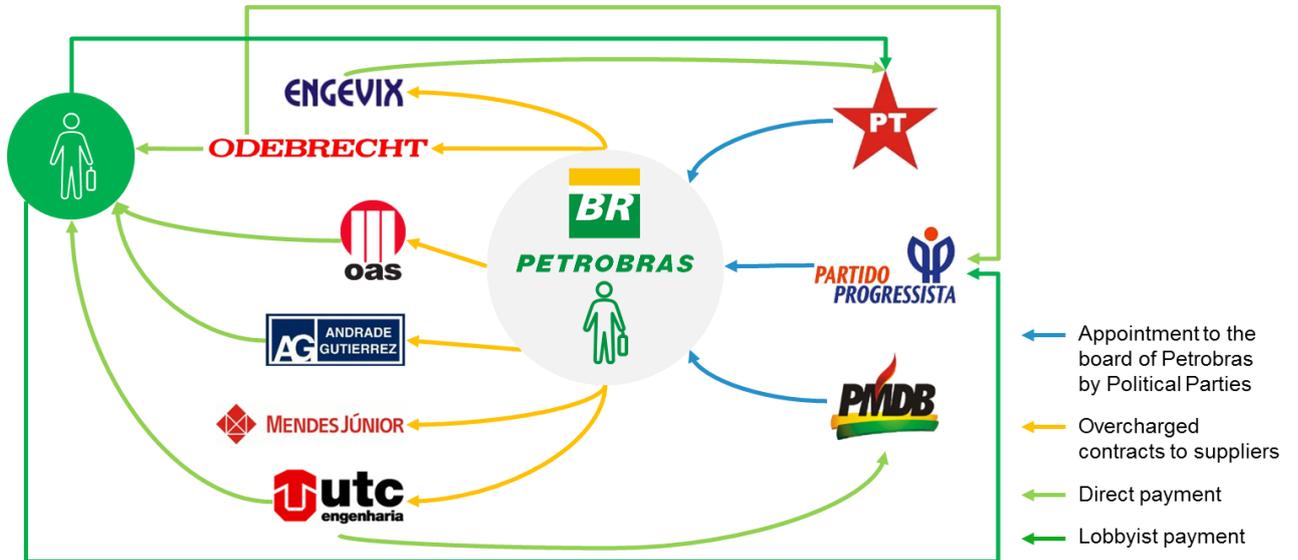


FIGURE 6

Printed rulebook of the cartel apprehended by investigators

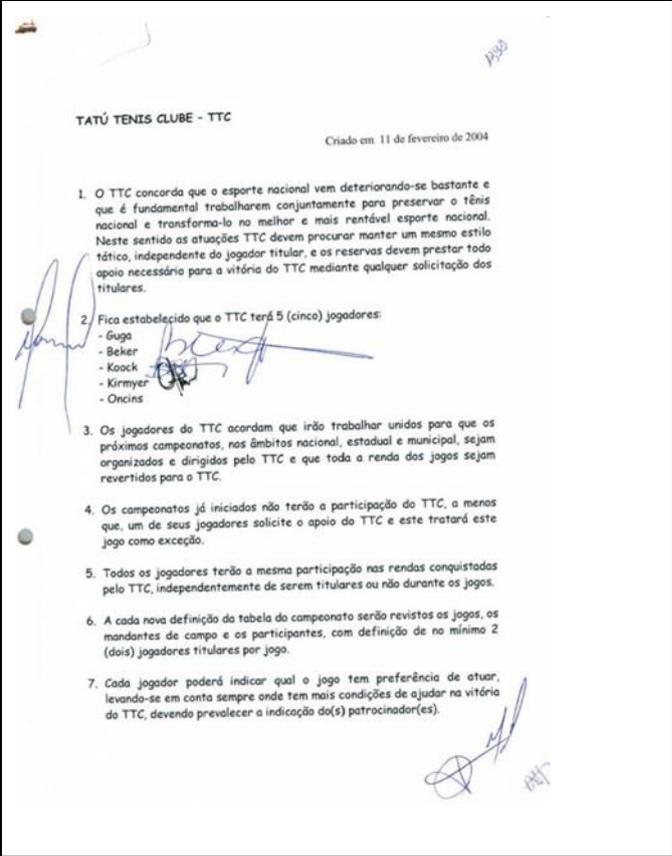
 <p>TATÚ TENIS CLUBE - TTC</p> <p>Criado em 11 de fevereiro de 2004</p> <ol style="list-style-type: none">1. O TTC concorda que o esporte nacional vem deteriorando-se bastante e que é fundamental trabalharem conjuntamente para preservar o tênis nacional e transformá-lo no melhor e mais rentável esporte nacional. Neste sentido as atuações TTC devem procurar manter um mesmo estilo tático, independente do jogador titular, e as reservas devem prestar todo apoio necessário para a vitória do TTC mediante qualquer solicitação dos titulares.2. Fica estabelecido que o TTC terá 5 (cinco) jogadores:<ul style="list-style-type: none">- Giuga- Beker- Koock- Kirmyer- Oncins3. Os jogadores do TTC acordam que irão trabalhar unidos para que os próximos campeonatos, nos âmbitos nacional, estadual e municipal, sejam organizados e dirigidos pelo TTC e que toda a renda dos jogos sejam revertidos para o TTC.4. Os campeonatos já iniciados não terão a participação do TTC, a menos que, um de seus jogadores solicite o apoio do TTC e este tratará este jogo como exceção.5. Todos os jogadores terão a mesma participação nas rendas conquistadas pelo TTC, independentemente de serem titulares ou não durante os jogos.6. A cada nova definição da tabela do campeonato serão revistos os jogos, os mandantes de campo e os participantes, com definição de no mínimo 2 (dois) jogadores titulares por jogo.7. Cada jogador poderá indicar qual o jogo tem preferência de atuar, levando-se em conta sempre onde tem mais condições de ajudar na vitória do TTC, devendo prevalecer a indicação do(s) patrocinador(es).	<p>Tatu Tennis Club Rulebook</p> <p>a) LIST of 5 companies participated in cartel</p> <p>b) 7 rules of the cartel</p>
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FIGURE 7

Examples of corrupt non-market strategies

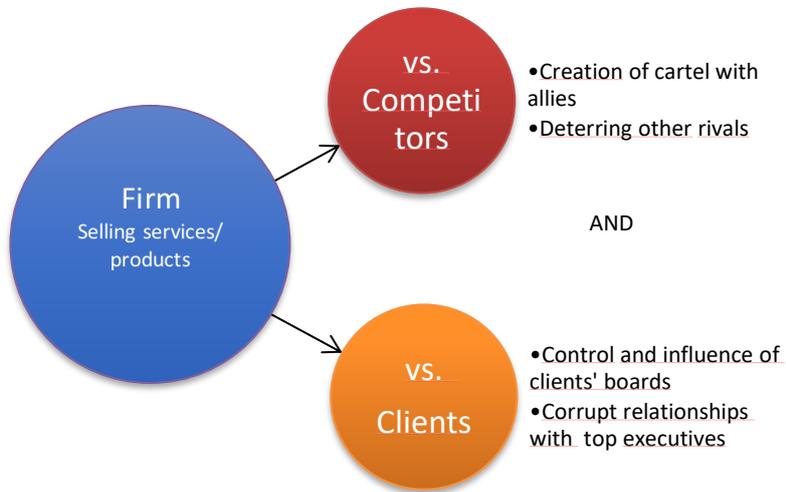


FIGURE 8

Institutional Anchors of Trust

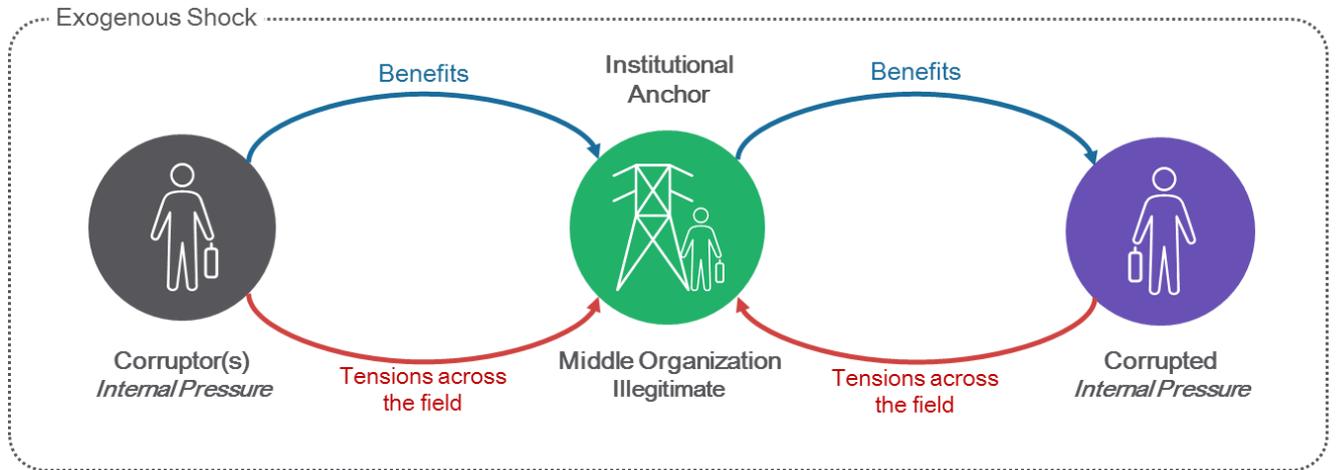


FIGURE 9

Corrupt pressure on individual firms and managers in a cartel

