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The GlobalEthicist

## A new era for governance in Latin America

By Andrea Bonime-Blanc

**High-profile recent scandals affecting Latin America reflect a changing landscape for accountability in the region**

**D**ramatic opportunities for better business are developing in Latin America. Accelerated by the eruption of the Petrobras and Fifa scandals of the past year, this trend towards greater accountability and transparency was already under way. And the trend is unlikely to be reversed. Much like the political turn towards democracy that took root in Latin America over the past two decades, a trend towards better governance, risk and integrity management is also occurring, even if imperfectly and unevenly. The movement is, arguably, inexorably in one direction, reflecting a global pattern linked to the rise of the age of hyper-transparency where everything is known and few can hide.

While focused on a region – Latin America – it is wrong to lump all countries in this region into one overall “Latin American” bucket with countries as different as Brazil and Guatemala or Chile and Venezuela. The regional view must also acknowledge the more specific picture that exists within each country – historically, culturally, ethnically, linguistically, geographically, economically and politically. Let’s first drill down to understanding the reputational impact of Petrobras and Fifa and then pan out to the bigger picture in which these developments are taking place.

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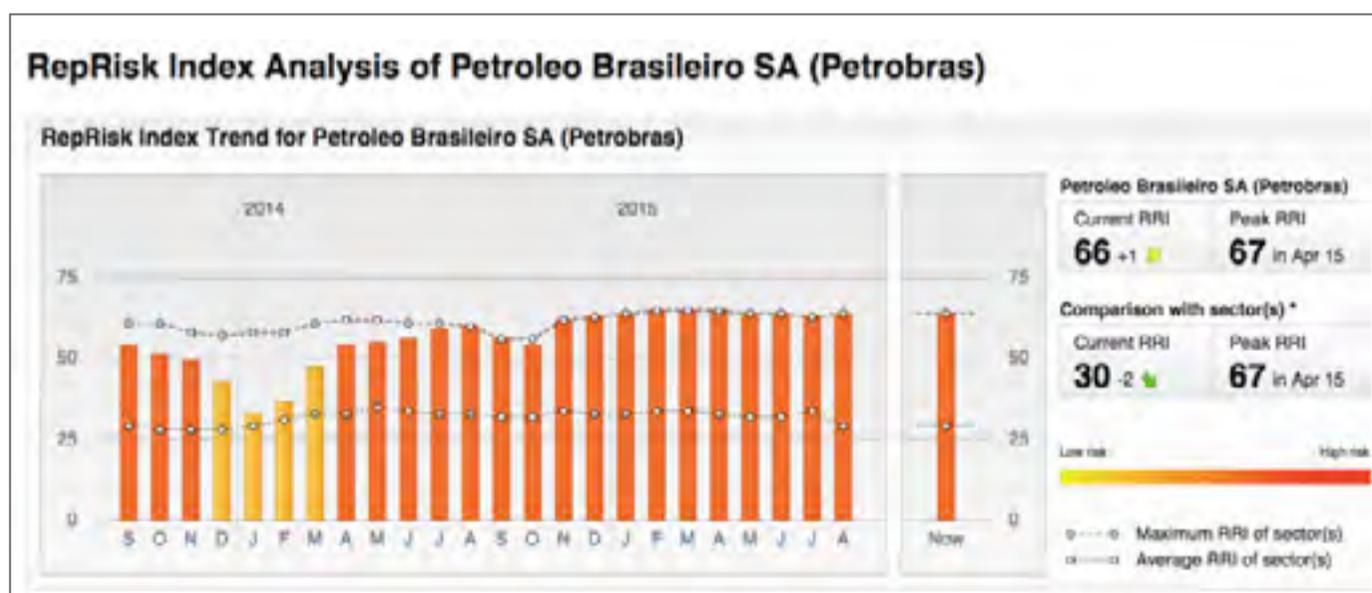
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Sacked workers protest outside Petrobras headquarters

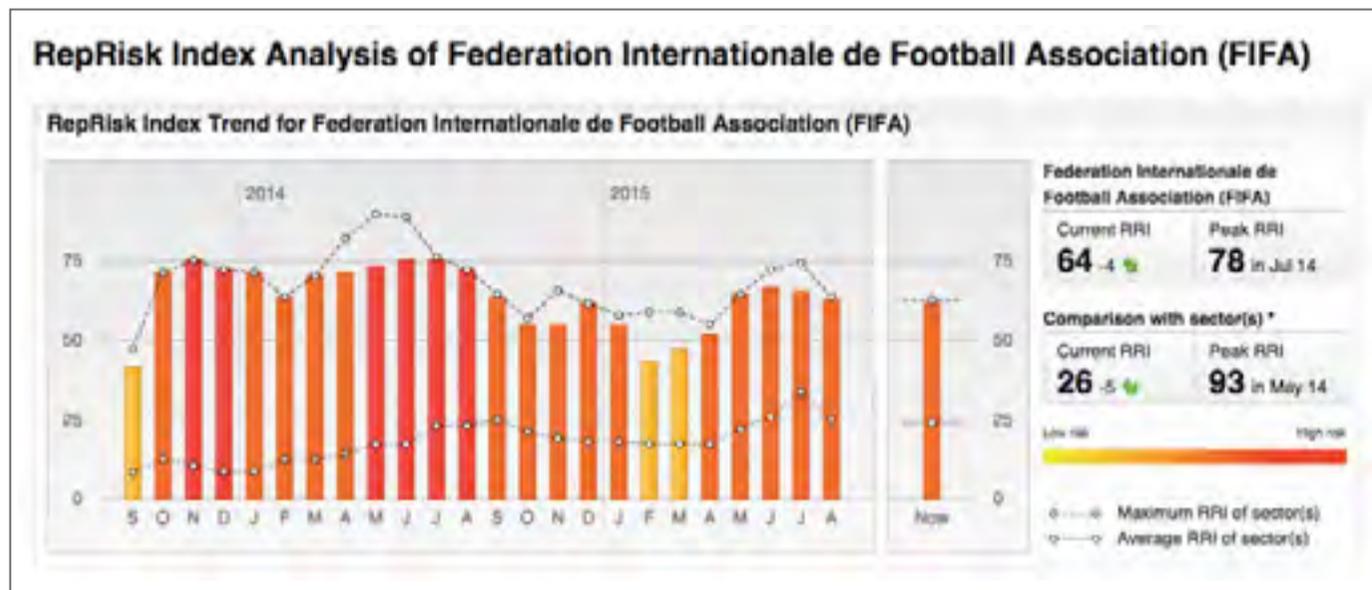
### Petrobras and Fifa – opportunity within chaos

The two charts below tracking the reputation risk exposure of both Petrobras and Fifa underscore the importance of this issue to stakeholders – whether the public, the voter, the consumer, the employee or the prosecutor. This is a data point that helps to explain how intense, impactful and prolonged an event might be with its key stakeholders, who can determine the sustainability, profitability and/or long-term viability of an organisation.

*It is evident how damaging the current corruption scandal is to Petrobras and its stakeholders*



According to the RepRisk Index (RRI)<sup>1</sup>, Petrobras is currently at its peak levels at 66 (its highest RRI has been 67, considered by RepRisk’s methodology to be “high”). As compared with its peers in the oil and gas sector today, which average an RRI of 30, it is evident how damaging the current corruption scandal



*Several countries in the region have adopted broader anti-corruption laws*

is to Petrobras and its stakeholders. While the Fifa scandal is not specifically Latin American, it is an unfolding global scandal with serious reverberations in Latin America given that the football World Cup took place in Brazil in 2015 and many national football bodies and government officials in the region are being dragged into investigations.

Fifa's RRI is in the high range (currently 64 though it was 78 at its highest). As compared with the sporting sector with an average RRI of 26, the negative reputational impact on Fifa is clear. This is not only about stakeholders' perceptions, but has serious financial implications, as global sponsors, for example, withhold their contracts, partnerships unravel and other economic impacts unfold.

### Putting Petrobras and Fifa in context: the bigger picture

Petrobras and Fifa are manifestations of a larger movement that is taking place in Latin America, which coincides with global trends. Six are outlined below.



Petrobras's reputation is in tatters

### The growth of the anti-corruption movement and related law enforcement:

- Over the past five years several countries in the region have adopted broader anti-corruption laws (and, in some cases anti-money-laundering laws) – Chile in 2009, Colombia in 2011, Peru in 2010 and Argentina in 2011.



- In 2007 the Organisation for Economic Cooperation and Development (OECD) and the Organization for American States (OPAS) signed a memorandum of understanding establishing a framework for co-operation on anti-corruption efforts, implementing the 1996 Inter-American Convention Against Corruption (IACAC) and the United Nations Convention Against Corruption (UNCAC).
- There are five Latin American parties to the OECD Convention on Anti-Corruption – Argentina, Brazil, Chile, Colombia and Mexico.
- Though enforcement is still spotty, the current Petrobras prosecution in Brazil is widely hailed as a textbook case of aggressive and professional prosecution encompassing not only the prime target (Petrobras) but related private companies and their executives (domestic companies Camargo Correa and Oderbrecht, and foreign companies doing business in Brazil) and the political establishment, many of whom, including Brazil's current president, are under suspicion and/or investigation.
- The Brazilian prosecutors in charge of the case demonstrate an important trend: the professionalisation of local regulators, government officials and other career professionals.

*The Brazilian prosecutors in charge of the Petrobras case demonstrate an important trend*

### **The impact of global corporate best practices:**

Many global companies are doing business in Latin America and as they become more established locally, their business practices and standards also become part of the local fabric as they bring with them their ethics, compliance, risk and corporate responsibility programmes to local operations, thereby directly or

indirectly influencing local and regional competitors, third parties and supply chains. This is evident in the work of such global companies with major Latin American presence as Siemens, Walmart, Microsoft, GE and others.

### **The customisation, “glocalisation” or “tropicalisation” of best practices:**

At the same time, larger national and regional corporations in Latin America are developing their own versions of governance, risk, ethics and compliance programmes – adapted and customised to their businesses, regions and



Global companies are influencing the business landscape



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### Rio 2016 will test business ethics

locations. This takes the shape, for example, of unique new forms of corporate training, adapting to local conditions and issues that may not have a parallel elsewhere. For example, in the autumn of 2014, Ecopetrol led an initiative in Colombia to influence its entire supply chain to sign a commitment to anti-corruption practices.

### **Growth of a profession – the ethics and compliance officer:**

Ethics and compliance programmes and certifications such as the ones offered by the Ethics & Compliance Initiative (ECI) in association with the IAE Business School of the Universidad Austral of Buenos Aires are starting to garner attention. More conferences are taking place regionally as well – for example the very successful and impactful Ethisphere's Annual Latin American Ethics Summits that took place in Brazil in 2014 and 2015. These trends demonstrate a continuing interest and growth by local, national and international businesses in spreading and deepening the adoption of such programmes in the region.

*More  
conferences  
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regionally*

**Corporate responsibility and stakeholder awakening:**

Local corporate responsibility causes and movements are growing around specific projects or scandals or more broadly around the needs of those adversely impacted by pervasive corruption and abuse, touching on such issues as human rights, indigenous people's rights, environmental pollution, health and safety, fraud and corruption.

**The power of the global supply chain:**

As local and national businesses compete for global supply chain clients, they are being increasingly asked to live up to higher business practice standards – whether ISO, code of conduct or quality-related. They need to elevate their standards or risk misrepresenting or defrauding their prospective clients. This is acting as a catalyst for change at the local, national and regional levels.

**Other catalysts and environmental factors.**

There are a number of other important factors that will continue to play an important role in the development of governance, risk and integrity programmes in Latin American countries. Among them are:

- the 2016 Rio Olympics, especially in light of the Fifa and Petrobras scandals;
- the continuing development of human rights and indigenous rights issues in several countries;
- environmental health and safety developments especially in the context of the oil and gas business; and
- political developments including upcoming elections in several countries and the continuing increase in public outrage against political corruption including in Brazil, Argentina, Guatemala, Honduras and Mexico.



**Dilma Rousseff, President of Brazil, is under public pressure**



## Creating opportunities for better business

In the midst of the scandals and challenges hitting emerging economies such as Brazil and Mexico, it is possible to muster a few strands of optimism for the longer term.

What follows are a few ideas for businesses – whether global companies investing in Latin America or Latin American based companies developing their own standards – to develop sustainable business opportunities in the region:

- Learn and adapt to local cultural, economic, historical and political conditions. Don't have a "Latin American" programme. Understand the specifics – historical, cultural, geographic, economic, political – of each country you are doing business in.
- Get to know your stakeholders well – locally and regionally – and understand their key expectations, concerns and requirements.
- Bring your global best practices to the table but adapt them locally without compromising your standards or applicable laws.
- Learn from local experience when designing your governance, risk and integrity management programmes.
- Hire and deploy local talent.
- Have your home-grown headquarters work closely with local personnel – make it a mutually beneficial empowered partnership.
- Have executive team meetings in the region periodically.
- Have a board meeting in the region to meet local leaders periodically.

By simultaneously globalising and localising ("glocalising"), local and global businesses will be able to take better advantage of long-term business opportunities and create sustainable value for their stakeholders.

### Footnotes:

<sup>1</sup> RepRisk Index, data, and chart courtesy of [RepRisk AG](#). The RepRisk Index (RRI) is RepRisk's proprietary algorithm that dynamically quantifies reputational risk exposure related to ESG issues. The RRI does not measure a company's overall reputation, but rather is an indicator of the company's reputational risk. The RRI ranges from 0 to 100 with 0-25 indicating low risk exposure; 25-50 indicating medium risk exposure; 50-75 indicating high-risk exposure; and 75-100 indicating very high-risk exposure. The "Peak RRI" signifies the highest level of criticism in the last two years.



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### Adapt best practice locally

**Get to know your stakeholders well – locally and regionally**

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