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The GlobalEthicist

Corruption: Reputation risk and opportunity

The way a company manages its exposure to corruption can lead to either disaster or triumph

Dr Andrea Bonime-Blanc

Q: What elements should global oil and gas companies take into account to manage reputation risk and corruption risk? What are the necessary due diligence themes that need to be addressed to mitigate these risks?

Ingrid Lorena Dumas, chief compliance officer of Ecopetrol, Colombia

A: Corruption risk and associated reputational risk are at an all-time high for businesses globally as governments apply multiple and sometimes contradictory laws to companies doing business in different jurisdictions. As recent high-profile scandals show, corruption and bribery run especially deep in the

In this monthly column, Andrea Bonime-Blanc, 'The GlobalEthicist', answers readers' strategic governance, risk, ethics, compliance and reputation related questions. Submit your questions to Ethical Corporation's editor, Zara Maung, at Zara.Maung@ethicalcorp.com. Each month a question will be selected for a response.

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Petrobras is facing its biggest corruption scandal in history

Being prepared for corruption risks means protecting or even enhancing the company's reputation

oil and gas and extractive industries, where economic gains are potentially high and value chains are long and complex.

Put simply, corruption entails paying or promising to pay money or other valuable items to public or private officials in exchange for favours. Recently, several jurisdictions, such as the UK and Brazil, have expanded the traditional definition of corruption – the US Foreign Corrupt Practices Act only targets public officials, for example – to also include private corruption.

Reputation risk is "an amplifier risk that layers on or attaches to other risks – especially environmental, social and governance (ESG) risks – adding negative or positive implications to the materiality, duration or expansion of the other risks on the affected organization, person, product or service." (Andrea Bonime-Blanc. The Reputation Risk Handbook: Surviving and Thriving in the Age of Hyper-Transparency. DÒ Sustainability, 2014).

The reputation risk from corruption goes along with other risks, especially ESG risks. Reputation damage typically arises when a company pretends to have proper anti-corruption measures in place but gets caught in a corruption scandal. As a result, the company incurs fines and suffers business losses, such as plummeting stock market prices. For example, last year the French industrial group Alstom agreed to pay a record $772.3m fine for bribing officials to win power and transportation projects from state-owned entities around the world.

The corollary to such risks is the reputation opportunities associated with corruption – where a company has proper anti-corruption programmes and detectors in place that systematically investigate and report corruption incidents, when necessary, to the authorities. In this case, companies both meet their stakeholders' expectations and enhance their reputation and business value. In 2012 Morgan Stanley and in 2013 Ralph Lauren, for instance, investigated bribery incidents within their companies and voluntarily disclosed their findings to the government.

There are two critical measures that allow any company to protect and enhance its reputation in the face of a corruption incident: a demonstrable commitment from the C-suite and the board to doing ethical business and the use of effective internal programmes to detect and prevent corruption.

Turning the corruption challenge into a reputation opportunity

There are many and different opportunities for bribery and corruption in the oil and gas industry, each of them with related reputation consequences. Being prepared for corruption risks means protecting or even enhancing the company's reputation.

First, the central role of government agencies in overseeing virtually all aspects of the oil and gas sector presents multiple risks and opportunities for

Oil and gas companies are especially prone to suffering reputational losses

Anti-corruption risk tools for better reputation resilience

Tone from the top: boards and C-suites need to commit to anti-corruption not just through branding and marketing, but also in core business activities. This includes voluntary disclosures to government and enforcement agencies.

Global anti-corruption policy and plan: coordinating with all relevant internal functions: legal, compliance, finance, PR, external relations, HR and communications.

Anti-corruption due diligence for mergers and acquisitions: coordinating with legal and finance departments to incorporate ethics and compliance measures into due diligence.

Proactive third-party management: if a software or other third party management tool is in place, ensure that it is well understood, thoroughly tested, properly implemented and shared across the business.

bribery and corruption. As governments at all levels grant or deny rights to oil and gas companies, businesses have an opportunity to improve their reputation by implementing an effective and predictable due diligence coordination and execution protocol that understands the role of the government. In practice, this means coordination of the legal, compliance, finance, project and business development aspects of the business.

Second, the complex, extensive and diversified oil and gas supply chains mean that the sector is well exposed to third-party corruption. To mitigate these risks, companies should implement well-defined policies and effective platforms to proactively manage and oversee third parties in all aspects of the business.

Third, oil and gas companies are especially prone to suffering reputational losses from environmental, health and safety (EHS) corruption-related incidents. Again, there is an opportunity to enhance reputation by putting in place strong auditing and other EHS controls.

Finally, community relations at the local level can be fraught with human rights, labour rights, security and corruption issues. To mitigate these risks, businesses should develop comprehensive community engagement strategies that work in parallel with their corporate anti-corruption policies.

A widening corruption scandal is swirling around Brazil's state-run oil giant Petrobras

The Petrobras case: corruption reputation risk in action

A widening corruption scandal is swirling around Brazil's state-run oil giant Petrobras amid allegations that former senior executives, construction companies and politicians funnelled kickbacks from hefty oil contracts.

According to the police, federal prosecutors and the testimony of former company executives involved in the scheme, Petrobras officials conspired with service companies to overcharge for goods and services. Some of the extra revenue from the inflated contracts was then kicked back to executives and politicians as bribes and campaign contributions. Brazilian authorities said on 29 January that the kickback scheme involved at least $800m in bribes and other illegal funds, but the figure could change as the case develops. Several top executives from some of Brazil's biggest construction and engineering companies remain jailed as the investigation continues.

The scandal has dealt Petrobras a heavy financial blow. The company said it would cut its investments in 2015 because of its current financial situation and losses resulting from the corruption case. In an effort to repair its reputation, Petrobras has also hired a compliance officer to head the company's first compliance programme.

Yet, a smart, long-term strategic solution would require the CEO and the board to proactively lead the anti-corruption effort in a broader, holistic manner, investing in creating a sustainable culture of integrity – with all the right policies, incentives and performance metrics in place for the long term.

Dr Andrea Bonime-Blanc is chief executive of GEC Risk Advisory (http://www.gecrisk.com), recently authored The Reputation Risk Handbook: Surviving and Thriving in the Age of Hyper-Transparency (http://bit.ly/1284TMR) and tweets @GlobalEthicist.