THE COMPANY THAT BRIBED THE WORLD:
A CASE STUDY OF THE INSTITUTIONALIZATION OF CORRUPTION IN A
MULTINATIONAL ORGANIZATION

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ABSTRACT

Although research on Multinational Enterprises (MNE) has added several interesting findings to the discussion of misconduct by complex organizations, these have largely focused on external sources of corruption, leaving behind the role of multinationals as central actors. Our paper addresses these voids by drawing upon a case study of corruption by one of the largest Latin American construction companies, Odebrecht. We try to understand the complex phenomenon of the institutionalization of corruption, chiefly how corruption occurs and persists within a multinational organization and via its subsidiaries. To do so, we explore why and how this emerging MNC created a unique model of corruption, by decoupling and internationalizing corrupt activities in a foreign subsidiary in a tax haven.
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INTRODUCTION

How and why multinationals enter different national contexts and thrive internationally are central questions in International Business (IB) research. Answers to these questions centre around two broad arguments: first defends the idea that multinationals from developed countries expand to foreign markets using their unique resources and capabilities (Peng, 2001). The second, argues that these multinationals avoid investing in countries in which institutions are weak and corruption is high (e.g. Meyer, Estrin, Bhaumik Peng 2009; Uhlenbruck, Rodriguez, Doh & Eden 2006; Lee, Yin, Lee, Weng & Peng, 2015).

More recently, the recognition of emerging market multinationals (EMNEs) as important actors in the global market has motivated questions and explanations of a different nature. For example, some scholars suggested that firms from emerging markets (EMNEs) quickly evolved into large multinationals due to their vision of the developing countries’ institutional voids, as opportunities to be achieved (e.g. Cuervo-Cazurra and Genc, 2008; Khanna & Palepu, 2010). In contrast with some multinational enterprises (MNEs) from developed countries that avoid investing in countries that accommodate corruption, many EMNEs tend to do the opposite - locating operations in countries in which corruption is facilitated by institutional environments (e.g. Cuervo-Cazurra, 2006; Uhlenbruck, Rodriguez, Doh, & Eden 2006).

The attention to EMNES has enriched this conversation by drawing attention to how multinationals use corruption to enter foreign countries (e.g. Puffer; McCarthy & Peng, 2013). Prior studies of EMNES have associated corruption with insertion into informal networks (London, & Hart, 2004; Marquis, & Raynard, 2015), business groups (Ghemawat, & Khanna, 1998; Kim, & Song, 2017) and with cartels (Brener, 2011). Such contexts are likely to facilitate trading favours across international borders (Verbeke and Kano, 2013), which in turn, easily provide the foundation for corruption relationships to flourish (Cuervo-Cazurra, 2019; Puffer et al 2013).
Current evidence available from reports on global business corruption does not exclude companies from developed countries (e.g. Cuervo-Cazurra, 2016). On the contrary, the so-called *Panama Papers* (ICIJ, 2016), publicly exposed how multinationals from several countries have participated in networks and created organizations specialized in illicit exchanges involving government elites of several countries. The evidence that both MNEs in general, and EMNEs in particular, are frequently involved in international operations involving corruption – the use of formal power for private gain – opened new territories for research exploration. Although IB theories have more recently directed attention to how corruption affects international business, contributions to this field remain limited as suggested by Cuervo-Cazurra, (2017). Such an effort would require the identification of key actors engaged in corruption and how they construct special structures that accommodate misbehaviour to capitalize on the opportunities abroad (Collins, Uhlenbruck, & Rodriguez 2009).

Our purpose is to understand the nature of systemic corruption in an EMNE and how it extends illicit practices across organizations and governments of different countries. To that end, we selected the Brazilian construction multinational Odebrecht as a case study. Odebrecht is widely known for its engagement in corruption activities in Brazil, Latin America, Africa, and even in the USA. This multinational not only formed a unique organizational structure to professionally manage corrupt practices, but it also created mechanisms to normalize corruption by starting a formal organization out of informal relationships, by institutionalizing corruption and then detaching it from the core, in order to conceal misconduct more effectively. Odebrecht created a unit specialized in illicit practices: The Department of Structured Operations (DSO). A department that co-existed for many years alongside legitimate departments. This unit was later decoupled from the core and transformed into an organization in its own right – an organization dedicated to replicate corrupt practices internationally.

The primary contribution of this paper lies in its potential to simultaneously contribute to IB theories of internationalization and the neo-institutional theories of organizations. The study enlightens how the company obtained multiple contracts for projects at home and abroad by building an enclave at its HQ – the Department of Structured Operations (DSO) - later transformed into a shell company located at the Dominican Republic, with the aim of housing corrupted practices in several countries.
Neo-institutional theories inform our discussion on the institutional work behind the constitution of a loosely coupled Department of Structured Operations (DSO), revealing how this work facilitated institutionalization and normalization of corruption practices at home and abroad. Our analysis involved identifying how top management actions led to the institutionalization of corruption and in doing so, enabled the international expansion of the company by decoupling the DSO from the HQ – issues underexplored by the literature by both IB and neo-institutional theory.

We start by discussing organizational decoupling and exploring how it is understood by drawing on the IB literature and the institutional work perspective. The former suggests that decoupling has a double function – to circumvent institutional tensions posed by the home country and host country (Kostova and Zaheer, 2008) and second, to bypass institutional policies and formal rules that compromise their competitiveness and economic positions (Papageorgiadis et al., 2013). The institutional work perspective informs how corruption practices became institutionalized, therefore considered normal.

Following the description of the methodology, we show how practices were encroached in informal institutions and evolved into a formal organization whose practices were later reproduced internationally. We develop this framework by building on both the IB literature and an institutional work perspective in order to theorize how a department specialized in corruption was transformed into a subsidiary to reproduce illicit practices.

**THEORY DEVELOPMENT**

**The use of corruption to enter institutionally weak markets: insights from IB research**

IB studies have stressed the role of institutions in providing support for, or impediments to, firms entering foreign markets (Jackson and Deeds, 2016; Aguilera & Grøgaard, 2019). Rigid and intensive regulations may strengthen risks and costs contingencies, which multinationals try to avoid in order to maintain their sources of competitive advantage. One way of doing this is by carefully choosing the countries and modes of entry (Jackson & Deeds, 2016; Brouthers, 2002; Meyer, 2001). An example is
by avoiding environments that are rife with institutional voids. However, this does not seem to fully apply to every multinational, and in particular, not to EMNEs.

Another line of thinking considers cultural "distance" as a decisive point in multinational's choice of locations for their operations. Cultural differences increase the cost of operations and hinder the ability of firms to transfer core competencies and practices (Jackson and Deegs Barkema & Vermeulen, 1997; Brouthers & Brouthers, 2001). However, this is different for EMNEs. They can often transfer practices more easily and then obtain advantages in exploring developing countries because of cultural similarity. The EMNE area is also more likely to view collusion between managers and politicians as normal (Cuervo-Cazurra & Gene, 2008; Ionascu, Meyer, & Estrin, 2004). For example, Puffer, McCarthy & Peng (2013) describe how business people from Latin America, Russia, and China defined nepotism and personal exchanges as a special way of doing business, but not necessarily as corruption.

Prior research has highlighted how multinationals engagement in political connections can be essential to the firm's success, especially where uncertainties concerning the boundaries between what is ethical and illicit behaviour are high (Chen, Ding, & Kim, 2010). Political criteria may override considerations of prices and costs in businesses choices (Bodewyn, & Doh, 2011; Shirodkar, Strange, McGuire 2020) when managers engage in political relations with government officials (Jeong & Weiner, 2012). For example, they may exchange bribes or financing political campaigns to win a competitive tender, in which case results are already decided in favour of the firm. Or, a bribe may be paid to avoid having to comply with regulations. However, with repeated deals, they may become dependent on these relationships for the continuation of the business and start seeing bribing as the usual way of doing business (Fisman, 2001). When existing institutions become too constraining by exposing firms to contractions and exemptions, these may find a solution in decoupling: constructing new structures whose function is to preclude the firm from formal obligations. In such cases, firms may resort to organizational forms that may be more efficient in delivering illegitimate or illegal projects or processes (Kostova and Zaheer, 2008) by decoupling, for example: delimiting an enclave or creating shell organization, specializing in misconduct, loosely coupled to the centre or even completely detached from it.
Although organizational decoupling has been long identified by organization theorists, (e.g. Pfeffer and Salancick, 1978; Meyer & Rowan 1977), it has only recently been brought to the attention of international business scholars (e.g. Tashman, Marano, & Kostova, 2019; Rabbiosi & Santangelo, 2017). The term was first used by organization theories to understand how organizations respond simultaneously to internal and external pressures or to a variety of inconsistent institutional pressures (Pfeffer and Salancick, 1978; Weick, 1984). In these seminal works, decoupling refers to strategies that dissociate organization policies and intentions from practices and implementation. It serves “to mask inconsistencies, irrationalities, and inefficiencies, which might undermine public faith in the organization” (Ingersoll 1993:8).

**Decoupling**

It is a well-known phenomenon in IB studies that multinational corporations maintain specialized units at home and host countries. What IB researchers do not know enough is how these organizations create organizational units specialized in illicit practices and yet, are able to maintain legitimacy at their home and host countries. As multinationals develop operations in multiple geographic spaces, institutional and cultural diversity imposes heterogeneous demands on these firms, which conflict with expectations at home, for example, they may have to respond to wider stakeholder scrutiny of their strategies and behaviour.

Recent studies suggest that multinationals deal with this diversity of demands by creating foreign units or subsidiaries separated from headquarters. They are distinctive in their identities, ethical understandings, and standards from their units at home. An important argument by these studies is that decoupling from the centre preempts illegitimate operations conflicting with those that are legitimate (Mandrinos et al. 2019; McGaughey, Kumaraswamy, Arun & Liesch, 2016). Scholars in this field have also argued that the more intensive the internationalization of the firm, the more the firm will face contradictory pressures and tensions about what constitutes ethical strategies and behaviour (Hitt, Ireland, & Hoskisson, 2007; Scherer and Palazzo, 2008).

Hence, EMNEs may be tempted to decouple their image from their actual practices, if their unethical behaviour at home is likely to interfere with their international reputation. As Pant (2012: 9) suggests, negative stereotypes about the country reflect the
institutional attributes from the home country, influencing how organizations are seen by stakeholders: "'where you are from' (location) shapes 'who you are' (organizational identity) and thereby, 'how you will be appraised' (organizational legitimacy) in international markets". Decoupling policies from actual practice enable the multinational organization to gain and sustain legitimacy with international shareholders and accommodate the interests of different constituents by symbolic adjustments rather than substantive conformity (Fiss and Zajac 2006). Thus, achieving institutional consistency can be a challenge for MNEs.

Prior research on offshore special purpose entities (SPEs), exposed this type of decoupling as a common financial practice by MNEs (e.g. Puck, & Filatotchev, 2018). SPEs involve the creation of shell companies to unconstrainedly shift money across the globe for money laundering and illicit payments in the private interest of politicians and the firms. After the release of the so-called Panama Papers (ICIJ, 2016) exposing collusions between those companies, politicians, and government elites in the practice of illegal activities, it became clear that multinationals frequently engage in creating separate structures as these exempt them from having to respond for unethical practices. A report by the Institute of Taxation and Economic Policy (2017) reported that at least 366, or 73 percent, of Fortune 500 companies, held offshore subsidiaries in tax haven countries, including newer multinationals such as Google, Microsoft, and Apple.

Many companies have been involved in offshores through different types of ownership (Nougayrède 2016). Most shell companies are registered in names of individuals for the purpose of maintaining their operations secret and insulate the core company from misconduct charges and protecting it against organizational and public exposure (Jancsics 2017). In his investigation of Hungarian companies, the author identified different types of organizations, specialized in corrupt practices. The first, which he coined as the "empty shell," includes firms that serve only as technical vehicles in a corrupt transaction, but do not have actual operations. "Live shells" are those that have real operations and genuine commercial activities, but exist with the purpose of providing a context for corrupt activities. Usually, “live shells” are functioning entities controlled by shadow owners; hence their personal assets are not traceable by creditors and other claimants. This form of organization is popular because owners can only lose the investments already made (Jancsis, 2017). Most studies in this theme are aimed to
understand tax evasion and money laundering under the umbrella of economics and accounting. These are issues largely bypassed by IB researchers (Yan, Zhu, Fan, & Kalfadellis, 2018).

Researchers in the field suggest that a combination of international pressures driving multinationals to comply with international norms and embedded pressures in personal and family relationships in politics constitute the perfect environment for decoupling policy from practice, constructing organizational structures specialized in illicit practices (Darendeli, & Hill, 2016). We argue throughout this paper that when confronting global competition, firms often find solutions in decoupling to control the effects of misconduct contaminating the core organization.

Decoupling makes possible dual coexistence between the ethical and unethical parts of the organization without the whole falling apart (Lawrence and Suddaby 2006), precluding the bad part of the apple from destroying the good part, to dominate the whole. It also preempts attempts of the good apple dismissing the bad one to survive (Ashforth and Anand, 2006). Hence, that strategy can be effective in maintaining the coexistence between the bad and good parts of the apple, mainly when key organization actors create unique structures that distinguish the identities of one part of the other (Ashforth, and Anand, 2006). For example, multinationals may support non-government organization activities (e.g. Battilana, 2011) by ceremonially participating in corporate social responsibility (CSR) activities or environment protection initiatives, while persisting in practices that do the contrary. They can also reinforce ethical values while constructing structures dedicated to contestable behaviour and processes (Westphal & Zajac 2001; Tashman, Marano, & Kostova, 2019).

Although IB researchers have offered a plethora of examples in which multinationals, in their struggle to maintain legitimacy in different international environments, engage in ceremonial practices that portray an ethical image to stakeholders, the field has not advanced much when this strategy of concealing involves corruption. We argue that in order to understand how this happens scholars need to bring the institutional work perspective to this discussion.

**The contribution of the institutional work perspective**
The institutional work framework explores how organizations are created, maintained, and de-institutionalized (e.g. Lawrence and Suddaby, 2006; Hampel, Lawrence & Tracey, 2017; Phillips & Lawrence, 2012). Although this perspective typically applies to unitary organizations in their natural context, more recently it has been adopted by scholars of multinational corporations to understand how the diversity and instability in international environments disrupt "normal" responses by these firms (e.g. McGauchey, Kumarasway & Liesch 2016; Mandrinos et al., 2019; Ahmadjian, 2016) as well as simultaneously motivating new strategies to circumvent institutional tensions posed by the home country and host country (Kostova and Zaheer, 2008). As previously argued, in inventing new structures to disguise the distance between the home and host country policies and practices; multinationals managers are able to divert attention from wrongdoings or for not doing the right things from an ethical point of view (Tashman, Marano, & Kostova, 2019; Rabbiosi & Santangelo, 2017).

Scholars in institutional work advocate the views that any major change or organizational transformation (e.g. decoupling) involves institutional disruption: work aimed at disconnecting current values and norms from the social control that sustain them over time (Marquis and Raynard, 2015; Tracey & Phillips, 2011). Typically, undermining prevailing assumptions and beliefs implies disassociating moral foundations from usual rewards and sanctions (Bromley and Powell, 2012; Meyer and Rowan, 1977; Oliver, 1991; Pfeffer and Salancik, 1978). Yet, disruption, if happening in the context of restructuring, occurs parallel to a process of socially redefining, recategorizing, and reconfiguring the new structure and its symbolic boundaries (Ahmadjian and Robinson 2001; Lawrence and Suddaby, 2006).

An important stream deriving from this perspective is the institutional agency theory that draws attention to the role of actors in bridging different sets of values, which contradict prevailing values and practices (Greenwood and Suddaby, 2006; Saka-Helmhout, 2020). Taking this literature as a basis, we argue that decoupled structures emerge and persist because of the support of powerful actors: a CEO capable to strategically maintain the Janus face of corporations, for example. One that admits dual identities and moral standards. In the interpretation of institutional theory, grand corruption, defined by Pinto et al (2008) as corruption on behalf of the organization, requires a strong institutional agency – the participation of powerful agents enabling inter-
level and international connections that include both the idealizers and the designers of corruption systems (e.g. CEOs, governments of home and host countries), and peripheral experts for illegal operations (Banfield, 1975; Henisz, 2000; Lange, 2008). Other studies add to the understanding of these complex business relationships by suggesting that in cases where organizational leaders are protected by family ownership, unethical behaviour may be viewed not only as normal, but also normative (Ashforth & Anand, 2003; Giacalone, Riordan, & Rosenfeld, 1997; Greenberg, 1998). From a normative point of view, the former argue that institutionalization of corruption requires embeddedness of decisions and practices in routines; formalization of procedures (codification and registering transference of funds across countries) and the establishing of a clear hierarchy (chain of command, specialization, and division of responsibility).

Pant and Ramachandran (2017) also highlight the role of powerful actors in the use of their position in the organizational hierarchy to build networks across national and international spheres to gain competitive advantage. In addition, Regner and Edman (2014:297) describe how managers may purposefully respond to contradictory pressures by "shaping, transposing, or evading institutions". Similarly, Perez-Batres & Doh, (2014) argue that managers, when confronting complex global contexts, may re-shape their organizations by constructing detached structures, rearranging values and escaping rules, to sustain legitimacy in international settings.

METHODS AND DATA

Methods and Data

We use qualitative methods because of its potential to provide insights for theory building (Doz, 2011), its ability to consider the complexities of a phenomenon (Bettis, Gambardella, Helfat, & Mitchell, 2014), and explore the underlying mechanisms that maintain institutions (Anteby, Lifshitz, & Tushman, 2015). More important, is its value in research field where theory is thin or fragile. A point worth mentioning is the gradual acknowledgement of the value of this method as a means to deal with the field complexity and the frequent calls for more qualitative research work in this field (McGaughey et al., 2016, Birkinshaw, Brannen, & Tung, 2011).

The lack of a framework on how qualitative data should be presented or analyzed has led to an epistemological debate in the IB field of study (Bansal & Corley, 2012;
Cuervo-Cazurra, Andersson, Brannen, Nielsen, & Reuber, 2016), which encourage us to use different alternatives of qualitative analysis and usages of data sources (Stigliani & Ravasi, 2016; Hsu & Grodal, 2015, Eisenhardt, Graebner, & Sonenshein, 2016), and apply a qualitative methodological “bricolage” (Pratt, Soneshinein & Feldman, 2020).

A major challenge in studying corruption is the struggle to collect reliable data. The “corrupt” respondents may lie because they do not want to provide evidence that could incriminate them, and much of the corruption operation leaves little-registered data. In principle, legal data, particularly evidence-based plea agreements, offers unique opportunities to tap into firms’ hidden practices and strategies of executives and multinationals. Thus, inspired by Haley and Boje (2014), who used transcripts of legal disputes and videos also used these kinds of judicial data (Gephart, 1993; Gabbioneta, Greenwood, Mazzola, & Minoja, 2013, Cappellaro, Compagni & Vaara, 2020). Although other management studies have used the court data proceedings and legislative public commissions of inquiries, IB scholars have traditionally ignored this corpus of data. This is surprising given the current sources of litigation data accessible to scholars (i.e., the Siemens case, https://www.siemens.com/press/pool/de/events/2008-12-PK/DOJ1.pdf).

Given the rules controlling the production of legal proofs, their validity is associated to the legitimacy of the juridical process, in which truths emerge from an iterative process of formal checking and re-checking of the meanings of discourses and narratives by actors located in different national and international contexts (i.e., Cappellaro, Compagni, Vaara). Thus, the collection of evidence by prosecutors has been collected and structured as foundational investigative blocks to build cases against corrupt individuals and companies. In this sense, the legal court investigation process has analogies to some qualitative methods. As such, prosecutors also have to collect reliable information, based not only on narratives but also facts and material evidence. The individual-level data on the plea agreement offer insight into the motives, rationalizations, and cognition of top management teams, and why they adopted such strategies. The value of our analysis lies in the identification of the processes in which firms cultivate corruption that is materialized into structures, practices, routines and behaviour. Such rich data offer the chance to "peer" inside a corrupt network and view some of the practices that were not publicized.
We started the research by examining the data of corruption investigation regarding the Brazilian oil and Gas Company Petrobras started in 2014 and was named Car Wash. The data of this case was provided by the Brazilian Federal Prosecution Agency, the Ministerio Publico Federal (MPF), and the USA Department of Justice and have been verified by judges at different levels (state and supreme court) and the American Department of State. In this investigation, a company that stood out in the investigation was the largest construction company multinational in Brazil, Odebrecht SA. Odebrecht was also the largest construction company campaign donor of the political system (2002-2014). Odebrecht CEO Marcelo Odebrecht and 77 high executives signed a plea agreement in 2017 to reduce their punishment. In Brazil, executives admitted paying bribes to all the main political parties, executives of client companies such as Petrobras, and fixing prices in a cartel. Internationally, Odebrecht has admitted paying bribes in twelve countries.

TABLE 1 Data Sources

<table>
<thead>
<tr>
<th>Court Proceedings</th>
<th>USA Department of Justice - Criminal Division’s Fraud Section Total (197 pages)</th>
<th>Summary</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Odebrecht - Information</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Braskem (Petrochemical Subsidiary of Odebrecht group) – Information</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Braskem (Petrochemical Subsidiary of Odebrecht group) – Plea Agreement</td>
</tr>
</tbody>
</table>
| Brazil Federal Prosecution and Court 4th Region (482 pages) | Car Wash Listing of Cases Repositories | http://www.mpf.mp.br/grandes-casos/lava-jato/acoes/lavajato-acoes-view
Specifically cases
5036528-23.2015.4.04.7000 (Ação Penal Odebrecht)
5019727-95.2016.4.04.7000 (Ação Penal Setor de Operações Estruturadas);
Case 5013130-08.2019.404.7000
Case 427388652519
| Testimonies (270 minutes and 6 seconds) | Marcelo Odebrecht Testimony
https://www.youtube.com/watch?v=Zxr08iaeORc (56:19 Minutes)
https://www.youtube.com/watch?v=_3MKTXG0Y7Y (29:45)
Hilberto Mascarenha Testimony
https://www.youtube.com/watch?v=GHBbkmj7CY (27:52)
https://www.youtube.com/watch?v=589-uEcYqEc (29:30)
https://www.youtube.com/watch?v=eDWrzoztPYU (17:20)
https://www.youtube.com/watch?v=HLb4A0Fw7Ow (13:42)
Fernando Miggliaccio
https://www.youtube.com/watch?v=5j7KyJr1hGc (28:43 minutes)
https://www.youtube.com/watch?v=4UIp6YHPoUc (30:08)
https://www.youtube.com/watch?v=BJJdwPoRhhq (7:05)
Maria Lucia Tavares
https://www.youtube.com/watch?v=8kRjF3ssN8 29:42 minutes
| Annual Reports (500) pages | 2014- 78 pages
2013- 82 pages
2012- 98 pages
2011- 66 pages
2010- 62 pages
2009- 66 pages
2008- 48 pages
Data collection

Two of the authors, a native Portuguese speaker, performed the initial analysis with the help of Brazilian research assistants. They read the plea agreements and listened to the deposition recordings of the executives of Odebrecht. They analyzed and reconstructed several corrupt contracts, relationships, and relationship webs of the Odebrecht executives. The case itself motivated understanding it better and looking for a theory which could provide the concepts that explained the paradoxical pressures and processes. We found that the institutional work had focused on the institutionalization processes inside firms (Lawrence & Suddaby, 2006; Zietsma & Lawrence, 2010). This theory then provided us with a starting point for our data given the authors’ insights on institutional work. Their framework draws attention to the importance of contradictions in the process of institutionalization which involved not only institution building but also disruption.

In analysing the judicial pleas, we also tried to make sense of the broader Brazilian and Latin American context during the period. To do so, we checked the country’s and construction sector’s economic data. The analysis also involved a visual mapping, and temporal bracketing (Langley, 1999). Finally, for the sake robustness, we double-checked testimonies, financial data, judicial condemnations (Cappellaro, Compagni & Vaara, 2020), against apprehended documents of the companies, and general publicly available financial reports. We then established the temporal development of Odebrecht in the timeline below.
CASE STUDY

The organization

Odebrecht S.A. is a privately held Brazilian conglomerate founded in 1944 that operates mainly in the construction and petrochemical industry. For the last decade, it has been the largest engineering and contracting company in Latin America and one of Brazil’s largest companies. The group currently is under administration and comprises of 12 business units over 300 smaller subsidiaries and has exported services to more than 100 countries.

International growth

Since its early years, Odebrecht has been involved in projects in Brazil and abroad; for example, the company’s first project in Peru was in 1978, and Angola, in 1984. Both projects involved building a hydroelectric power plant. Odebrecht also built these power plants in Paraguay, Argentina, and Mexico. In Latin America, Odebrecht has been particularly strong and has subsidiaries in Chile, Colombia, Cuba, Ecuador, Guatemala, Panama, Peru, Mexico, Dominican Republic, and Venezuela.
By the end of the 1970s, Odebrecht shifted its strategy, opting to diversify its business and minimize its exposure to big public-works projects. In 1979, it became involved with the petrochemical industry when it bought the petrochemical group Petroquisa, and in the same year started servicing Petrobras offshore oil platforms in the Atlantic. This petrochemical diversification proved to be a wise investment and accounted for around 30% of its assets by the 1990s.

In 1988, Odebrecht bought a Portuguese engineering company, and in 1991, it purchased a British engineering firm and got a foothold in Europe. By the 1990s, Odebrecht Contractors was also in the US and was involved in building the Miami International Airport, and has been involved in more than 40 US projects since. By 1994, foreign projects accounted for US$811 million of Odebrecht’s US$2.18 billion in consolidated revenues. In 1991, Norberto Odebrecht yielded control of the group to his son Emílio. In 2008, Marcelo Odebrecht, Emílio’s son, who was then head of the construction company, was appointed the new CEO and led it during the company’s greatest expansion, until 2014 when he was arrested on corruption charges, among several accusations, paying bribes to politicians in exchange of constructions contracts to Odebrecht.

In 2003, the newly elected government in Brazil changed the country's development policy and started once more emphasizing public spending on infrastructure thus, Brazil began to see the growth of megaprojects. There was an emphasis on national companies and the key projects approved involved ports, shipyards, roads, oil production, and refining. Since then, Odebrecht has become a key player and developed into the largest engineering and contracting company in Latin America and one of Brazil's largest companies.

_Corruption in international businesses_

Trouble started to the company in 2014 and in December 2015, Marcelo Odebrecht resigned as CEO and was initially sentenced to 19 years because of crimes including corruption and money laundering. In exchange for his cooperation, the sentence was reduced to two and a half years in prison and five years of house arrest. His father, Emílio, was sentenced to four years of house arrest. The main executives of the company
were arrested during the Car Wash Operation, and in March 2016, and then convicted by a federal court.

The company was also under investigation in the US. In 2017, Odebrecht made a plea agreement with the US prosecution. It paid 2.6 billion dollars to several governments that hosted its subsidiaries (US$2.3 billion to the Brazilian government, US$ 116 million to the USA, US$93 million to Switzerland). By signing such a deal, it admitted guilt but kept its business license and activities in the US. In the deal, the company provided additional evidence of corruption involving politicians, political parties, business executives, and civil servants in at least 12 countries. Of these 12 countries, 10 are in Latin America: Argentina, Brazil, Colombia, Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Peru, and Venezuela. Therefore, Odebrecht shared information on how they operationalized and maintained the corruption and how much was paid. In total, they admitted to paying US$439 million in bribes. Overall the investigation had a great impact in Odebrecht's financial performance and currently, it is under judicial administration (Table 2).

Table 2 Odebrecht key indicators at its peak and after the corruption investigation

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>44,358 bi</td>
<td>27,721 bi</td>
</tr>
<tr>
<td>EBITDA USD</td>
<td>6,322 billion</td>
<td>USD 5,104 billion</td>
</tr>
<tr>
<td>Staff</td>
<td>276,224 (168149 direct, 108075 third parties)</td>
<td>96160</td>
</tr>
</tbody>
</table>

Source: Odebrecht annual statement

**Department of Corrupt Operations**

**Decoupling at home.** The Brazilian Federal Prosecutors (MPF) identified three key units dealing with corruption within Odebrecht: a political unit that dealt directly with politicians, an economic unit that would raise funds for the political unit, and a financial unit that operationalized the payments. In this paper, we focus on this financial unit, and how the corruption process became institutionalized. This unit was officially named the *Department of Structured Operations* but was known colloquially as the “bribe department” in Brazil.
Decoupling internationally. As the scale of bribes grew across time, CEO Marcelo Odebrecht, pushed towards even more specialization of the corrupt payment within Odebrecht and transferred these responsibilities to a newly created subsidiary abroad in charge of the bribe payments that used shadow accounting in Brazil and at least 12 countries. This was a small department, with less than 10 employees even at its prime, and would sit below the general holding of the group.

**Formalization.** The internal infrastructure of the department developed over time, and eventually, it had its unique accounting system known as *MyWebDay*, which registered all the illegal payments and accounts. Additionally, they had a secret messaging system called *Drousys* used to communicate among members of the department, with other money launderers and created cryptographic messages and emails. They mastered such advanced cryptography techniques that investigators in the USA and Brazil were not able to initially access its servers and data since it had so many layers of protection.

Specialization and division of responsibilities. Also due to the growth and specialization of the department, when Odebrecht started paying hundreds of million US dollars in bribes a year it bought a bank called Meinl Bank in Antigua and Barbuda. The bank in partnership with the *Department of Structured Operations* could enable transactions by transferring money among its branches without leaving a trail, contrary to traditional payments that need to include a SWIFT code (international transfer code).

By late 2010, the Structured Operations Department had run more than $1 billion through offshore accounts, mainly through the Antigua Overseas Bank. They also used 33 banks and 71 different accounts to handle Odebrecht’s money. In total, the department admitted operationalizing the payment of US$439 million in bribes. (Table 3 below)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Years</th>
<th>Bribes Paid (US$ Millions)</th>
<th>Profit in the projects (US$ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>2003-2016</td>
<td>599</td>
<td>2365</td>
</tr>
<tr>
<td>Angola</td>
<td>2006-2013</td>
<td>50</td>
<td>261.7</td>
</tr>
<tr>
<td>Argentina</td>
<td>2007-2014</td>
<td>35</td>
<td>278</td>
</tr>
<tr>
<td>Colombia</td>
<td>2009-2014</td>
<td>11</td>
<td>50</td>
</tr>
<tr>
<td>Country</td>
<td>Period</td>
<td>Amount</td>
<td>Total</td>
</tr>
<tr>
<td>------------------</td>
<td>------------</td>
<td>--------</td>
<td>-------</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>2001-2014</td>
<td>92</td>
<td>163</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2007-2016</td>
<td>33.5</td>
<td>116</td>
</tr>
<tr>
<td>Guatemala</td>
<td>2013-2015</td>
<td>18</td>
<td>34</td>
</tr>
<tr>
<td>Mexico</td>
<td>2010-2014</td>
<td>10.5</td>
<td>39</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2011-2014</td>
<td>900</td>
<td>N/A</td>
</tr>
<tr>
<td>Panama</td>
<td>2010-2014</td>
<td>59</td>
<td>175</td>
</tr>
<tr>
<td>Peru</td>
<td>2005-2014</td>
<td>29</td>
<td>143</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2006-2015</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>Other countries</td>
<td>2001-2016</td>
<td>439</td>
<td>1400</td>
</tr>
</tbody>
</table>

Source: Odebrecht agreement with American State Department 2018

ANALYSIS

Inside the Corrupt Organization

The Department of Structured Operations of Odebrecht’s was officially part of the multinational holding organizational structure of the legitimate company, while concurrently was enacting shadow financial operations pay bribes. Yet its existence and creation were not spontaneous and its maintenance required active work of the different involved parts.

Internal Pressures and Normalization of Corruption

The creation of the department happened from pressures to organize and systematize the bribes from top executives that saw "waste" and "chaos" in the payment of illegal activities. As the former CEO stated:

In the 1980s, the non-accountable payments were done within the projects (accountability). That was a risky model and contaminated the whole accounts of the companies (…) It was (also) thought that people were stealing from the company within the company. So from the 1990s, it was decided that a model/way of payment should be non-accountable and done by money launderers and there would be people within the group in charge of that… he (the executive Hilberto Silva) asked for the creation of a department…”

Marcelo Odebrecht Former CEO Odebrecht testimony to Brazilian Prosecutors (2016) Italics added by authors

Before the creation of the department, executives had more discretion in paying and organizing bribery payment. International executives of the company would manage both commercial activities of the firm but also authorize such corrupt payments. The manager
Luiz Mameri, for example, had the following countries under his management: Argentina, Peru, Ecuador, Colombia, Panama, México, RD Congo, Guatemala, Cuba, and Angola (until 2012). During his tenure, there was the exponential growth of business and projects and parallel the growth of bribe payments and he stated that this created chaos (Mameri, 2017). As the future head of the department of structured operations stated:

“Well, when you are working with cash that’s off the books, it can disappear. So, they needed someone who could guarantee that it could be traced out. All the payment had to be done via the Department of Structured Operations for reasons of control and security. That was Marcelo’s order since he decided to create this department. I didn’t worry about the origin or destination of the money. The order arrived and I paid…”

Hilberto Silva- Head Structured Payments Department Deposition to Brazilian Prosecutors (2016)

In the view of CEO Marcelo Odebrecht, this discretionary power of executives and the operationalization of payments only by money launderers created instability and less accountability of what happened to the bribes. So paradoxically, the CEO interpreted this situation as a “need” and “pressure” to create an orderly and efficient department to control the accounting of payments, reduce losses, and centralize the risk.

*Formalization and institutionalization of corrupt practices.*

The department needed to maintain the functioning and reliability of the work of the department for a sustained period. To do so there was the establishment of common rules on bribes, a clear hierarchy, controlling processes, and payment. These different kinds of work required formal structures that, at the same time, could increase the risk of being caught providing material evidence of the illegal practice. The DSO had a clear hierarchy and standard routines to pay bribes and hide their origin so after a few years it was fully formalized. Leaders had a clear position within DSO; two staff members were usually required for the approval of the transactions, one in charge of contacting money launderers, and the other responsible for transfers to offshore entities.

Migliaccio, Silva, and Soares, the core staff of the department, did most of the job in a small office in Santo Domingo, Dominican Republic—to minimize the risk of getting spotted by US investigators. Maria Lúcia Tavares worked from Salvador, the headquarters in Brazil. She made sure all payments were encrypted in an online
accounting system and were one of the few people with access to the system. An overview of the hierarchy of the Department is shown in Figure 2.

Figure 2. Hierarchy of Structured Operations Department

With these institutionalized practices, there was even a specific logistics created to pay the bribes for campaign finance in Brazil and abroad. The political campaign consultant hired by Odebrecht described part of the logistic of corruption:

It was delivered (the payment) in hotels, several places. Each campaign had a logistics that they created. Then they said to me: “The next delivery is going to be at a hotel. Choose a hotel and give me the address.” Then, I would go to the hotel and wait. They gave me a password, it was usually a name or word related to something, and a person was going to deliver it, I imagine he was a money changer, each day he was a different person. So, I had the address, the date set, the password, and the amount I was going to receive that day.

Monica Moura –Political Consultant of Odebrecht in Brazil and Abroad-2017

*Enabling work*

The company created the department and different routines to generate and enable
the payment of bribes. Odebrecht’s economic unit that partnered with the department of structured operations used to generate illegal money that would enable the corrupt operations, figure three exemplifies some of the ways The corruption money was generated by doing deals with non-rival companies, creating receipts via fake consultancies, and overpriced contracts. It provides two common examples of how Odebrecht generated money that could be used to pay bribes without it appearing in the regular accounts. Point A refers to doing a deal with a non-rival company of a non-rival sector, i.e beer production. The beer company produces an extra beer that is then used to pay Odebrecht's bribes. In a completely different operation, Odebrecht pays the amount required in an offshore to offset the beer production used to pay the bribe. Example B shows the use of fake consultancies generating invoices for fictitious services that they are used to pay corrupted executive or official. Figure 3 describes some examples of enabling work

FIGURE 3 - Enabling work- Examples of the generation of untraceable cash for bribe payments

Source: Described by Brazilian prosecution (2017) files, adapted and developed by authors
Collaborative work in the Corrupt (net)work and Trust

To generate the money, the department partnered with the corruption economic unit of Odebrecht that used consultancies and non-rival companies, among others, to generate the money for bribes. Operationalize the payment. For example, it often subcontracted with the law firm Mossback Fonseca, as emerged during prosecution and in the Panama papers.

Below, we have an example of a Panama law firm helping to structure the company by creating real estate investments, but in reality, the firm was helping Odebrecht in money laundering. These firms had a strong influence in aiding to hide paper trail and to attempt to minimize the risk of exposure of the corruption. Although institutionalize, trust was still needed among members since any wrong deal or transaction could not be settled by established legal norms.

FIGURE 4 Certificate of incorporation of a shell company at a tax haven used by Odebrecht SA

Source: Car Wash Operation 2017. Declassified by Justice Luiz Edson Fachin of the Brazilian Supreme Court
Decoupling

Over time, there was a selective specialization and decoupling of the illegitimate activity performed by the department and the well-known official existence of the department per se. So The company performed several different kinds of institutional work to ensure that the corrupt practices were not discovered by external stakeholders.

The department was paradoxically a “known” secret, whose routines were only known to top managers and the team itself. The CEO wanted to make sure that different units of Odebrecht had limited interaction. So there was an active work that the legitimate cash flow of the firm wouldn’t be contaminated by the illegal money transfers. As the head of the department said: “There are those on in charge of cash generation and those who just pay” (2017).

Having a unit that was at the same time composed of Brazilian nationals but headquartered and operating in international tax havens, helped to decouple these illegal activities from the core business. The staff in the department did not know who was being paid or negotiated the bribes. This was done directly by the top executives of the project and approved by the CEO Odebrecht Marcelo who, later, authorized the payments.

(Immoral) Rational Economic Behaviour/Values and Symbolic Value

Although having a subsidiary abroad avoided contamination of illegitimate practices and accounting in the regular day to day activities, there was an "efficiency" argument to have an international subsidiary. As stated by the head of the department:

MPF Prosecutor -Why did the payments happen abroad?
Luiz Mameri- In several countries abroad we had phenomenal results. Including countries where “tax planning” was allowed. So you could do the fiscal/tax planning there, this would reduce the “taxable profit”, creating a surplus that you could use however you wanted. And additionally, you didn't have to do any (additional fake) operation with subcontractors. (MPF, 2017)

So even when dealing with illegal activities that could lead to the demise of the company, executives were still thinking about "tax-efficient" ways to pay bribes and increase the profitability of the firm.

However, the efficiency argument was only part of the rationale and reasons that led to the institutionalization of corruption. There were clear signs that with the growth
of the scale that paying bribes to many different active started to happen beyond rational
calculation. As a former executive of the company stated:

It seemed that instead of the payment happening out of extreme necessity, they started to happen for the pleasure of buying people, to show the company's power. The opposite of what we thought when we planned the department

Luiz Mameri- Regional Manager-, 2017

DISCUSSION AND CONTRIBUTION

By investigating the case of corruption by Odebrecht, one of the largest construction multinationals in the world, this paper makes important contributions to theories of corruption in and by organizations. First, are the insights on the process of decoupling, and how it housed both institutionalization and de-institutionalization of deviant practices and behaviour. Second, we developed a point not so well-understood in international business, which is the EMENEs use of corruption to compete in countries where institutional and cultural distance is low.

Our analysis of Odebrecht drew our attention to tensions inherent to managing illegal institutions, and the creation of an internal unstable balance. We found that such instability can lead to a breakdown of the arrangements that maintained the internal coherence of the corruption system. Below we trace the lines that of a possible conceptual framework that could explain how and why a disruption may necessarily occur in illegal systems. We first propose that executives of an organization seem to have an urge to create a set of rules and practices to enact their strategies against this uncertain backdrop even if it is illegal. Established norms, rewards, and rules become essential for a coordinated existence and the maintenance of such corrupt practice. So even when it is illegal, there is a push towards the formalization of illegal practice since managers think of the efficiency and effectiveness of such structures versus the risk of being caught (Efficiency vs Risk Tradeoff.)

More importantly, is the identification of the dilemmas confronted by managers directly involved in home and host country corruption, and this can be summarized in three interrelated arguments about the corruption dynamics and evolution over time. While managerial agents can potentially reduce uncertainty in market transactions by
institutionalizing illegal strategies as a pragmatic solution to effectively confront national and international competition, institutionalization can - unexpectedly - create the conditions for public exposure of deviant behaviour. As corrupt operations have a positive impact on profits and organizational prestige (Anand, Ashforth & Joshi, 2004), it can bring about other uncertainties. Thus, another insight this research brings to fore is the argument that formalization of corruption may give rise to different types of dualities with paradoxical dynamics and outcomes related to legitimacy, secrecy, and trust relations.

Furthermore, our findings corroborate with Klinkhammer, (2013:194) argument that "every complex organization with a rational, consistent norm structure has to resort to illegal behaviour – at least to some extent – to "keep the organization going". Due to the domination of economic values in defining the organizational purpose and culture, illegal operations as a means, are most likely to prevail in situations of value conflict between the participants of the scheme. Because the effectiveness of organizational illegal strategies is linked to the usefulness of such behaviour, one of the greatest challenges in managing their expansion nationally and abroad is to control the social boundaries of the process, for example, levels of secrecy, trust and formalization. An important question that could inspire future studies refer point for further studies is the extent to which decoupling and formalization can sustain corruption, given that deviant behaviour itself cannot be formally limited, as stated by Klinkhammer, (2013).

Our research permitted the identification of tensions affecting managers' engagement in corruption and the mechanisms that pull deviant relationships together and break them apart. We illustrate how the normalization and formalization of corruption, reduce uncertainties associated with social and economic transactions but, institutionalization creates fragilities that culminate in the dismantling of the system. In defining corruption, as usual, managers create an environment of ambiguity and contradiction for those close collaborators, whose challenge is working under inconsistent institutional logics and moral regimes. For such a deviant group, the solution may lie in the creation of mitigation mechanisms based on informal and restricted legitimacy. However, provisional, and conditional legitimacy can be highly vulnerable to changes in organizational power and is also sensitive to hierarchical re-structuring and re-definition of responsibilities.
Finally, our study also enlightened the dynamics of corrupt networks and the role of secrecy and trust relations, conditions not much on the radar of international business studies, and only thinly examined by research on deviant and illegal behaviour in and by organizations (e.g. Aven 2015). In discussing the relevance of secrecy in the corruption dynamics we call attention to the need to understand how institutionalization sets limits on the duration of deviant operations. For example, trust matters for corruption duration not only where informal relations prevail, but also gives rise to formalization. Whilst the main condition for secrecy lies in building trust relations; their sustainability depends in turn, on members’ ability to develop regular communications and information sharing. Notwithstanding that, repeated interactions may encourage formalization and normalization of corrupt practices. The escalation of all these events may require controls’ flexibilization, which paradoxically leads to the discovery of deviant schemes. Thus, the combination of several mechanisms that feed the institutionalization of corrupt behaviour - formalization associated with trust and legitimacy building – constitute the central reasons for its destruction.

**Initial Process Model (Work)- Corrupt subsidiary of the MNE Functional Dimension**

The figure below illustrates the dynamic processes and tensions that arise from corrupt relationships and how they are successfully maintained over time.

FIGURE 5 Tentative Process Model of the Institutionalization of Corruption within organizations
The different pressures together increased and maintained the corruption cycle. The arrows in the process model have been included to show such enactment. Therefore, there is a drive toward formalization of work, an attempt to copy and emulate formal legitimate institutions. Such an attempt might increase the probability of informal institutions lasting over long periods. So there is an internalization of corruption to mitigate risk by creating a subsidiary responsible for illicit activities. This per se is an interesting and counterintuitive finding; formalization that brings structure and predictability to such payments – and hence allows the scaling up of corruption – can also lead to the downfall of the organization. It allows scale but also creates traces of misconduct that prosecution can use when the corruption is uncovered. Also, this creates double embeddedness: the tension between concealing the group’s corrupt activity while sharing essential information is crucial for understanding the evolution of organized crime. (Aven, 2015)

**Contribution to Empirical Research and Policymaking**

There have been calls for IB scholars to address grand challenges (Buckley, Doh, & Benischke, 2017) and corruption is one of them. Although widely accepted as a relevant topic in IB, studying corrupt informal institutions faces several challenges regarding data collection. IB scholars should be more creative in their use of widely available data, for example, reliable court proceedings. Thus, we offer pathways that enrich IB scholars’ empirical research, using widely available non-conventional data from legitimate sources. Using this material led to an unprecedented understanding of how executives and their firms work, the process of paying bribes, insider dealing.

Empirical examples might abound in the MNC context about the formalization of such corrupt practices. Such dichotomy starts when the organizations' top executives deal with their compliance departments and have to follow international rules such as the SEC. In order not to "contaminate" their main accounts, MNCs such as Odebrecht create a parallel system initially informal. Siemens, for example, opened several parallel offshore accounts in Panama and the Caribbean to operationalize its bribe payments in Latin America (Panama Papers, 2017). In this way, corrupt practices in the companies appear to co-exist alongside legitimate departments. However, with time, executives with their
formal institutional mindset end up structuring more frequently such practices in formal departments.

By understanding and explaining the behaviour of corrupt MNC managers we can better understand the persistence of problematic corrupt practices. Policymakers across the world need to coordinate their anti-corruption efforts better and develop the anti-corruption tools based on the understanding of how these operations were structured. This means closing offshore loopholes and incentive packages that incentivize managers to pursue deals at any cost, including the use of bribes. Finally, within the MNC compliance professionals should be empowered.

**CONCLUSION**

This study focused on the construction company Odebrecht and tried to understand the complex phenomenon of the institutionalization of corruption, chiefly how corruption occurs and persists within a multinational organization and across countries. To do so, we analyzed their specific department of corruption called structured operations, how corruption is maintained over time, and what institutional mechanisms underpin this phenomenon. We find that the organization needs to organize the flow of bribes to the agents via a complex network of intermediaries that lead to an “efficiency” a push towards formalization arises from such activities. We contribute to the understanding of neo institutions and corruption literature by studying a phenomenon relevant to all MNCs.
REFERENCES


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