

Corporate Governance on Natural Resources: Lessons from the Past Years' Scandal, Fraud, and Corruption

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ABSTRACT

The recognition of corporate governance as one of the solutions to scandal, fraud, and corruption has generated interest among scholars who seek to comprehend the underlying theoretical mechanism of corporate governance practices. Using scientific literature from the Web of Science and news media, this research attempts to probe the conceptual basis for corporate governance in preventing crimes in managing natural resources. Based on the theories of corporate governance, this study reviews the framework and elaborates the challenges of implementing the practices of corporate governance in reducing scandal, fraud, and corruption. Agency and stakeholder theories are mostly used to scrutinize the practice of doing good business. We also evaluate how news media serve as an effective avenue for the public to receive unbiased information. Some major corporate cases reported in news media have indeed provoked scholars to shed light on the role of corporate governance in the presence of the crisis.

Keyword: Corporate Governance, Natural Resources, Scandal, Fraud, Corruption.

1. INTRODUCTION

Scandal, fraud, and corruption have historically impeded economic growth, hampered financial development, and deteriorated institutional quality. These subjects have attracted increasing debate and attention from public and academic scholars due to the multiplier and systemic effects of scandal, fraud, and corruption on society. The complexity of these subjects motivates scholars to investigate such

misconduct using a multidisciplinary approach from the perspectives of public administration, sociology, political science, criminal law, and history. Developmental economics have gained increasing attention in terms of its apparent connection among scandal, fraud, corruption, and economic development. Many empirical studies worldwide show an adverse relationship between corruption and economic growth (Ahmad et al., 2012; Amoh et al.,

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forthcoming; Borlea et al., 2017; Factor & Kang, 2014; Gründler & Potrafke, 2019; Habibov et al., 2017; Hakimi & Hamdi, 2017). Similar to corruption, fraud has a negative connection with economic growth. Omid et al. (2017) find that, in developing countries, poor economic performance tends to be associated with financial fraud, especially in the industrial and manufacturing sectors. Excessive costs due to scandal disturb financial development. In the case of Petrobras' Lava Jato, high financial cost creates a bottleneck within the growth of Brazilian oil industries (Lima de Oliveira, 2019). Eventually, the limited growth of industries weakens a nation's competitiveness and slowly limits economic growth.

This study examines the role of corporate governance in preventing scandal, fraud, and corruption for natural resources. There are still limited scientific studies that have been conducted on this topic. Many wonders whether natural resources wealth is a curse or a blessing for a country. Van der Ploeg (2011) observes that resource-rich countries tend not to be able to utilize their resources into productive assets that are beneficial for economic growth. Bad institutions, the deteriorated rule of law, high presence of corruption, and underdeveloped financial systems are among the determinants contributing to such economic windfalls due to the rent-seeking behavior of natural resources (Guan et al., 2020; Pendergast, 2007; Robbins, 2000; van der Ploeg, 2011). In the era of globalization, the presence of better corporate governance has a more pronounced impact on the effectiveness of the global anticorruption campaign. Firms with poor corporate governance practices tend to be involved in corruption during cross-boundary trading (Wu, 2005). A well-functioning corporate governance leads to properly articulate regulatory countermeasures in the corporate's code of practices and conducts and lowers the susceptibility of firms to corruption activities (Hirsch & Watson, 2010). Implementing such countermeasures, for

example effective management control and accounting practice, can curb opportunities for corruption among firms. Moreover, socio-economic variables influence how the framework of corporate governance is regulated (Davies, 2011; Merendino, 2013).

The corporate governance framework is mostly based on the OECD model, and as such, countries with different values and beliefs may find it unfamiliar and need to adapt the model in order to implement it (Davies, 2011). A cross-country analysis observes a moderate effect of culture on the nexus of corporate governance and corruption (Boateng et al., 2020). Cultural values and beliefs interact with corporate governance, both as a complement or substitution, thus determining the level of corruption. Risk-averse societies tend to be less tolerant of corruption activities, while risk-inclined societies tend to be more tolerant of corruption activities. This paper seeks to understand how corporate governance framework can be help preventing scandal, fraud, and corruption based on the existing practices of doing good business irrespective to the macroeconomics condition of the countries, i.e. the wealth of natural resource. Kolstad and Søreide (2009), however, suggest that public policy in resource-rich countries should be geared to address the proper institutional framework, for example corporate governance, to prevent rent-seeking and patronage that may cause scandal, fraud, and corruption.

This study also examines how the public perceives such misconduct by observing the reportage in the public media, even though financial journalism is sometimes perceived to be pro-corporate bias and full of reframing. A study, however, shows the negligence over the need to provide a sound report on the significance of financial and economic development to the public (Doyle, 2006).

2. LITERATURE REVIEW AND HYPOTHESIS

Fights against scandal, fraud, and corruption are associated with reforming

institutions and improving human capital. Corruption grows weaker under democracy regime (Rock 2008). The study suggests that it takes between 10 to 12 years for corruption to reverse direction under the mature lifetime of new democracies. Thus, governments do not have to wait to tackle corruption problems until the economy matures. Public policies that are more institutionalized and transparent and that apply a multi-stakeholder approach inhibit scandal and corruption (Kolstad & Søreide, 2009; Lima-de-Oliveira, 2020; Søreide & Truex, 2013). Reforming financial institutions by incentivizing industrial sector brings a more apparent combative impact against fraud (Omidi et al., 2017). The intertwined connection of corruption and human capital suggests that a high level of corruption can dampen the positive impacts of public investment in human capital in terms of the quality of institutions (Bryant & Javalgi, 2014). The researchers further argue that reducing corruption by any means can fortify institutions' capability of reforming public policies for the betterment of society. Another empirical study shows that the quality of human capital, in terms of education level, can reduce public corruption. Thus, better quality of human capital promotes the development of a democracy regime rather than an autocracy regime (Vieria & Teixeira, 2006). Misconducts like scandal, fraud, or corruption are not merely criminal activities; they create moral hazard and a mindset encouraging misconduct that eventually degrades the work of organizations (David, 2011).

At the firm level, many consider the quality of institutions to set effective and efficient mechanics against scandal, fraud, and corruption. Empirical studies find that corporate governance plays an important role in shaping corporate fraud and corruption. Using 327 Chinese listed firms, Jia et al. (2009) observe that supervisory boards react quicker to enforcement actions when fraud is detected. The firms must then reduce their exposure to such illegal misconduct

that can eventually diminish the trust of investors and the public. Establishing corporate governance with a stronger institutional framework, for example, with better quality board of directors (BoD) and transparency standards, can reduce the opportunities for managers and insiders to mask corruption (Wijayanti et al. 2015). Also, better coverage of financial analysts can diminish corporate fraud propensity (Chen et al., 2016; Lisic et al., 2015). This effect is more profound among non-state-owned firms in which enterprise valuation and trusts from investors and public are essential for financial development. Investors are attracted to financing non-state-owned enterprises with better corporate governance. The implementation of corporate governance in state-owned enterprises is deemed to be less effective in preventing corruption (Chen et al., 2016; Harahap & Riyanto, 2020). Using a state-owned enterprises sample, it is observed that the implementation of corporate governance, including risk management and compliance, has a positive influence on the capability of the firms to detect corruption (Siahaan et al., 2023). It is argued that the power extension of government allows state-owned enterprises to exercise various breaches to utilize the political influence or favoritism for the benefit of a group of people who share the same value in the government and state-owned enterprises (Baum et al., 2019).

Firms that operate in resource-rich countries may see a lack of opportunities to expand their business due to the presence of corruption leading to poor institutions. A good-quality institutional framework, therefore, is essential for firms to be able to navigate the business in such a challenging environment (Kolstad & Søreide, 2009). In reality, the quality of institutions is equally important in every country regardless of the inherited natural resources. For example, the EU releases the non-financial reporting directive (NFRD), Directive 2014/19/EU, that sets the disclosure of the rules of non-financial and other information by large companies operating

within the EU. An empirical study finds that this directive has a positive impact on the corruption disclosure (Carrillo et al., 2019). The presence of outside directors and CEO duality as obliged in the directive is suggested to play a significant role in improving the disclosure of corruption issues to the public.

Corporate Governance

To answer the research question in this study, this study uses the common contemporary corporate governance framework as a control mechanism that reflects the invisible hand of Adam Smith. Firms desire to maximize their own best interests. Firms' investment and consumption build the dynamic of economic system. The entire system then moves to a direction serving the best interests of the many. The extant research, however, suggests that introducing such a governance control mechanism doesn't maximize firms' performance in an optimum manner (Firth & Rui, 2012). Other factors besides corporate governance practices, also provide an influence. The theories included in this study comprise agency theory, stewardship theory, stakeholder theory, and political theory. The emerging trend of corporate governance theories and practices are not incorporated into this study; for example, the network governance used to explain how large complex firms changes in response to the dynamic of governance laws, regulations, regulators, and codes to prepare for a sustainable future (Turnbull, 2012). The theory resembles the architecture of nature (cybernetics) in which insignificant creatures with little intelligence can survive more readily in complex and unknowable dynamic environments than their creature counterparts with higher intelligence.

One of the most important mechanisms in this study is corporate control, which is performed either by internal or external stakeholders. Among firm executives, investors, and managers alike, the interests in controlling the firms' direction is uninventable. **Agency theory** relies on

the basic foundation between the firm's principals (i.e. shareholder and board of directors) and the agents for which there is a delegation of work to run the organization (Abdullah & Valentine, 2009; Davó et al., 2019). Boards of directors apply a firm's control mechanisms and thus offer sound advice before the firm makes any decision. The distribution of power in the firm influences the decision-making process. A firm's cultural background and demographic parameters can shape the distribution of power (Eisenhardt, 1989; Yusoff & Alhaji, 2012). This interaction often brings conflict between the shareholders and the agents. A neo-classical approach to resolve conflicts based on agency theory is applied through the co-alignment of incentives for the agent (Eisenhardt, 1989). However, some suggest that behavior theory should be employed to explain best how conflicts can be resolved in corporate governance using agency theory (Cyert & March, 1965; Simon, 1957; van Ees et al., 2009). For many years, the foundation of corporate governance principles, standards, codes, and best practices has been developed based on this theory to clearly segregate the function of firms' principals and agents to minimize conflicts when navigating the business realm (Yusoff & Alhaji, 2012).

When agents intend to perform well and collaborate with a firm's principals, their contribution to doing good jobs should be highly recognized among the firms. This behavior inhibits a strong social contract between the firm's principals and the agent and becomes a fundamental aspect of **stewardship theory** of corporate governance (Davó et al., 2016; Yusoff & Alhaji, 2012). Agents are given empowerment and trust to successfully satisfy their role as stewards of the firms (Yusoff & Alhaji, 2012). The board of directors provides trust to the firm's principals and agents so that they are capable of playing the role of facilitator between the firm's principals and agents (Merendino, 2013). Using this theory, it

is assumed that the agents in the firms are more motivated by intrinsic values than extrinsic values, and the interests of stakeholders are less problematic (Davó et al., 2016; Machado & Davim, 2019). The agents, acting as responsible stewards of the assets they control, are more satisfied and motivated when they achieve successfully the business objectives and increase shareholders' wealth. Such successful delivery of the stewardship function will maximize the utility function of the agents (Abdullah & Valentine 2009; Abid et al., 2014).

Managing firms might consider the interests of other parties from other boards of management; i.e. shareholders, investors, employees, and suppliers. These groups or individuals are called stakeholders, and they can become involved in or are eventually affected by the objectives of the firm. Corporations are expected to be responsive to the rights and wishes of the stakeholders (Demb & Neubauer, 1992). Under the OECD model of corporate governance, one of the corporate governance functions is to protect the rights of different stakeholders in such a way that mechanisms are put in place to ensure that these rights are not violated (OECD 2019). **Stakeholder theory** suggests that the agents have a network of interaction with other parties to serve the firms (Abdullah & Valentine, 2009). Firms focus on their accountability to broader stakeholders beyond just their board of directors (Abid et al., 2014). Balancing stakeholders' interests and firm needs is imperative for the sustainability of the firm. The board of directors bears this role, and the corporations with this kind of model will have stakeholder groups to elect or appoint the board of management members (Davó et al., 2019). Controlling is essential for firms, whereas their corporate governance is described using stakeholder theory (Hilb, 2016). Hilb (2016) asserts that the interests and needs of each stakeholder group are monitored in order to evaluate their expectations of, satisfaction with, and loyalties to the firm's objectives. The

monitoring and evaluation framework includes the following tools: (1) integrated audit and risk management committee, (2) auditing function, (3) risk management function, (4) communication function, and (5) evaluation function. The interests and needs of stakeholder groups are not expected to be compromised only to maximize shareholder profits (Merendino, 2013). Furthermore, Merendino (2013) argues that corporate disclosure is necessary to close the gaps of information asymmetry among all stakeholders so that the risks to the cost of capital can be minimized and the liquidity of traded securities can be improved. Yusoff and Alhaji (2012) mention that the flow of information inside the firms (for example, from the board of management to senior management) can be regarded as one of the critical measurements for a firm's performance.

In some countries, like Indonesia, the reformation towards good corporate governance in state-owned enterprises has occurred at the formal level only. Political parties cannot yet be held to standards of accountability and transparency (Habir, 2006). The influence of political parties within firms is recognized within **political theory** of corporate governance. The model focuses on the allocation of power, profits, and privileges for the corporate bodies that have been affected by the government's favors (Abdullah & Valentine, 2009; Yusoff & Alhaji, 2012). Politics enter into the governance structure for firms to put the needs and interests of the public first. Therefore, the notion of political influence is most common when discussing corporate governance for state-owned enterprises. Conflicts have emerged as the result of misalignment interest because political errands are resolved through negotiation and coalition (Eisenhardt, 1989).

Scandal, Fraud, and Corruption

Different regulatory ecosystems worldwide provide different approaches to scandal, fraud, and corruption. Many recognize that the quality of rule of law and governance

defines how severely the scandal, fraud, and corruption dampen economy and financial development (Gründler & Potrafke, 2019; Kusumaningtias et al., 2016; Mbaku, 2019; Nwabuzor, 2005; Ullah, 2020). Nwabuzor (2005) suggests that corruption and corporate scandal pose a dangerous threat to the legitimacy of the institutions. In some countries, therefore, the absence of the government's presence from the productive sector has a more pronounced effect on economic growth eventually. Scientific literature and popular writings provide distinguishable definitions between scandal, fraud, and corruption. Others conclude that a shadow economy in the context of an informal, black, illegal, or underground economy promotes scandal, fraud, and corruption (Maguire, 1993; Petersen, Thießen, & Wohlleben, 2010; Stankevicius & Leonas, 2015; Schneider, Raczowski, & Mróz, 2015). The practice of scandal, fraud, and corruption is widely recognized as forms of misconduct leading to serious criminal acts and misfortune within society. Institutional reform is effective for disengaging corrupt activities in certain countries, especially those with strong sociopolitical interactions in the public and private sectors (Mbaku, 2019). On the other side, the practice of good business conduct is often regarded as one acceptable mechanism by which to prevent corrupt activities (Kusumaningtias et al., 2016).

Corruption is a form of violation of rule that can be identified as an illegal transaction exercised by the corrupter and the corrupted. The parties involved in the corrupt activities can be cooperative. Transactive corruption occurs when one party offers help to another party with some kind of return, either for mutual or self-interest. For example, this occurs when businessmen pay public officials or politicians to help them secure a business contract. On the other hand, extortive corruption occurs when one party exerts power over another party; for example, when public officials or politicians force businessmen to pay a bribe to secure a

business contract (Mény & Rhodes, 1997). Transparency International (2020) defines corruption as the abuse of entrusted power for private gain that takes in any form, happens anywhere, and involves anyone. Kratcoski (2018) explains that corruption includes a variety of criminal acts involving payment of commissions including bribery, extortion, graft, and embezzlement. Engaging in corruption might require motivated wills, advantages, and opportunities to commit such act. Those with strong authority and power, such as politic figures, public service personnel, police, correctional officers, corporation executives, and officials in religious organizations, can easily engage in corrupt activities if truly motivated due to their competitive advantage.

Fraudulent activities could mean deceiving innocent parties, either individual or organizational, to gain some financial or non-financial advantage (Anti-Corruption Resource Centre, 2015; GIACC, 2014; Locatelli et al., 2017). Mény and Rhodes (1997) suggest that **fraud** is criminal conduct that takes place in private institutions involving fraudulent use, abuse of government funds, or evasion of tax. Ranging from public to private institutions, many institutions can be victims of fraud, including business firms, banking and securities institutions, public service and educational institutions, and governmental institutions.

Neckel (1989) mentioned that **scandal** is performed when society is in a phase of development such that the separation of the public and private is no longer considered private communication. It eventually happens regardless of the sound democracy and good public institutions in society. The most famous corporate scandal that changes the governance mechanism for corporate governance is the collapse of Enron in 2011 leading to the bankruptcy of the firm. Many recognized that the scandal was due to a clash of interests within the board management, fraudulent accounting acts, and a severe lack of integrity and leadership (Li, 2010; Rebeiz, 2006; Singh,

Table 1. **The PRISMA Method Used in This Study for Identifying, Screening, Assessing, and Analyzing the Suitable Scientific Articles**

PRISMA Phase	Description	Total Articles	Excluded
Phase-1 Identification	Identify scientific articles in the database	41	0
Phase-2 Screening	Screen the articles to remove any duplicates or those with missing information (i.e. author for scientific articles)	41	0
Phase-3 Eligibility	Assess the articles based on the relevancy with the objective of the study and exclude irrelevant articles	41	18
Phase-4 Included	Determine the number of articles included in the study	23	0

Source : Data Processed

2007). Banner (1997) further mentions, “when the bubble bursts, scandal follows, and eventually new regulation.”

3. METHODS

Our analysis uses a combination of systematic reviews and meta-analysis to provide answers to the questions from the research. The Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) method is employed to ensure that the scientific articles are relevant to the objectives of the research. This study employs the database from Web of Science to retrieve scientific articles related to the research objectives. As the oldest database for scientific publications, Web of Science offers more advantages to identify more high-quality scientific publications than other databases, for example SCOPUS (Boyle & Sherman, 2006; Chadegani et al., 2013). The PRISMA method consists of a number of checklists to scrutinize the scientific articles so that irrelevant topics and studies can be excluded from the scope of the study. This method, however, cannot be used to determine the quality of our studies (Moher et al., 2009). Our aim is to understand how the practices of corporate governance in the firms that are in the natural resources sector can be utilized to prevent scandal, fraud, and corruption for natural resources. The study by Zheng and Kouwenberg (2019) uses the PRISMA

method to review the articles, authors, and journals on corporate governance and board attributes. There are four steps of the PRISMA method presented by Zheng and Kouwenberg (2019), as described in Table 1 to follow when analyzing the scientific articles to conclude the objectives of the research.

In the identification phase, this study uses a set of specific keywords to find the scientific articles in Web of Science. During the identification, this study does not limit the publication years as the keywords that is developed already specific aim to meet the objectives of the research. The keywords consist of elements related to corporate governance, natural resources, and misconduct. The keywords for the element of natural resources are “natural resources”, “water”, “air”, “mining”, “energy”, “agriculture”, “ocean”, “sea”, “fish”, “tree”, “cotton”, “fuel”, “ore”, “metal”, “mineral”, “oil”, “gas”, “coal”, “fossil fuel”, “forest”, “land”, or “food”. The keywords for the element of misconduct are “scandal”, “corruption”, and “fraud”. The logic of the keywords is set, as described in Table 2. In the screening phase, this study excludes the scientific articles that are duplicated or contain missing information that may mislead the conclusion of the research. The scientific articles that passed the screening

Table 2. **Keywords for Identifying the Scientific Articles Related to the Objectives of the Research**

Element	Keywords
Corporate governance	Corporate governance
Natural resources	Natural resources, water, air, mining, energy, agriculture, ocean, sea, fish, tree, cotton, fuel, ore, metal, mineral, oil, gas, coal, fossil fuel, forest, land, food
Misconducts	Scandal, corruption, fraud

Source : Data Processed

phase are assessed to probe their relevancy to the objectives of the research. Finally, the outcome is the eligible and relevant scientific articles that are analyzed to answer the questions of the research (Table 1).

This study uses data from public news to compare the reported practices of corporate governance for specific cases related to the scandal, fraud, and corruption in the natural resource sector. The analysis of the content in the published articles is conducted to elicit the conclusion. This study employs reputable businesses and financial sources like *The Financial Times* and *The New York Times* for journalism investigation. Doyle (2006), in his study on financial journalism, concludes that the perceived interests of the public often shape how journalists acquire their ideas for stories on business and the economy. Furthermore, he explains that the attention of the journalists is focused primarily on large firms with well-recognized brands. When reporting the portrayal of firms, it is more likely that the journalists are interested in corporate crisis or failure. The study attempts to find patterns in scandal, fraud, and corruption and how they are perceived by the scientific communities and the broader public audience (Table 2).

4. RESULTS AND DISCUSSION

The intertwined correlation between good business practices and crimes in natural resources has led to an intensive discussion among scholars. The paradoxical conquest to understand whether natural resources is a curse or a blessing gives more dimension to the scientific discussion. In the sections below, it is detailed and discussed the

analysis of how corporate governance can be used to prevent scandal, fraud, and corruption for natural resources based on the past years' cases. Four sub-sections represent the analysis on the cases from the perspective of the corporate governance framework. This study is terminated by the evaluation of how the media is engaged in reporting such stories involving scandal, fraud, and corruption for natural resources. This too, is to paint a wider picture about the importance of doing good business for the firms in the time of crisis. It should be noted that there are indeed differences between the complex behavior of public and private enterprises. The exert of power from the close relationship between the government and public firms opens opportunities for the relevant party to corruption (Baum et al., 2019; Lopez Júnior et al., 2018). The dynamic between the two can be observed in the following sections.

The Value of Integrity of the Agents and Principles

When using the foundation of agency theory in which there is a delegation of works to the agents to run the firm, the quality of the agents is imperative to prevent scandal, corruption, and fraud in firms. The different interests between the principles and the agents can further illuminate how well the delegated works are performed (Bajo Davó et al., 2019). Singh (2008) suggests that the reliance of firms on the agents with high integrity and goodwill is a clear indicator for the performance of organization. The concern over integrity and goodwill cannot be taken for granted when determining the agents. The presence of agents at the

senior level of management with good leadership is contagious and can improve employee morale. Personal value from true leaders such as “walk the talk” can extract their peers and followers’ potential at the maximum level. Singh (2008) further suggests that entrusting organizations to the true leaders can prevent additional Enron-type disasters in the corporate environment.

Learning from the Shell reserve scandal, Taylor (2006) suggests that there are several explanations that can increase the opportunities for firms and their stakeholders to engage in fraudulent activities when the senior-level management stops to listen to the feedback from their shareholders, such as investors, employees, customers, and the public. Senior-level management decides to talk to the same circle of people and information sources, and they try to avoid people and organizations that disagree with or criticize them. Their siloed commitment to a particular objective, project, or product leads them not to consider other financial, ethical, or social aspects. This then leads to ignorance of financial risks, for example reputation risk. These leaders tend to think that ethical and social problems are not their responsibility to resolve. They ignore the problems and hand them over to governmental institutions. Shell improved its internal controls by setting up Group Audit Committee (GAC) and performed unification to the complex dual board structure in response to this disastrous scandal. Andrew Hill wrote the following in *The Financial Times*:

In the midst of Shell’s investigation into its reserve crisis, in April 2004, Lord Oxburgh, then chairman of Shell Transport and Trading, said “human failings, not structural deficiencies” were to blame for the problems. At the time, it seemed more likely to be a combination of both. But the US Securities and Exchange Commission’s decision this week not to take action against Sir Philip Watts, Shell’s former chief executive, means that regulators on both sides of the Atlantic

have now decided to punish the company rather than any individuals (Hill 2006).

It was, however, inevitable that the origin of the scandal was also influenced by external factors, i.e. the worldwide shortage of oil, in which Shell had difficulty finding new sources of oil (Taylor, 2006).

From Firm’s Accountability and Reputation Among Broader Stakeholders

In many cases, stakeholder interests can differ from the interests of the firms (Bajo Davó et al., 2019). In other cases, the objectives of the firms can be aligned or even in contract with the stakeholders. In the post-Enron scandal era, massive restructuring of corporate governance took place. The scandal demonstrated the inability and unwillingness of the board of directors to be accountable for their decision making leading to the insolvency of the firm and the disruption to financial markets in the US. An opinion column in *The New York Times* stated:

“It now appears that Enron’s tale may be more cautionary than epic. Enron envy has crashed, along with the company’s stock price, as serious questions emerge about its bookkeeping. Enron disclosed earlier this month that \$1.2 billion in market value had vanished as a result of a controversial deal it entered into with private partnerships run by its chief financial officer, Andrew Fastow” (New York Times 2001).

Rebeiz (2006), therefore, suggests that the presence of independent directors and the improved leadership structure might strengthen the board’s decision making and minimize the interference of any personal interest of the board of directors with the shareholder’s interests. He concludes that key and ad-hoc committee members play main roles in applying the directors’ expertise. In addition to the good business practices, Omotese and Yusuf (2017) also suggest a set of strong legal mechanisms for securing firms’ accountability to protect all relevant stakeholder from avoiding scandal, fraud,

and corruption. Often the governance institutions in developing countries are too weak to respond to the exercise of excessive power from transnational corporations that bring political and socio-economics disadvantages to the countries. Learning from the experiences of Nigeria's oil industry reforms, the study identifies that the transnational corporations tend to enjoy immunity from their accountability. Omotese and Yusuf (2017) argue that the establishment of international legal mechanisms to hold the accountability of transnational corporations is necessary to protect the relevant stakeholders. They point out that the adoption of a human rights-based approach might be essential to set the legal mechanisms.

Similar to Omotese & Yusuf (2017), Crusto (2003) and Martin (2013) also confirm that negligence of social and environmental rights can lead to firms' irresponsible behavior towards sustainability. It will always be a challenging business practice for firms to incorporate social and environmental rights into their business values and objectives. For example, the case of transnational oil firm, UNOCAL, demonstrates failure to obey environmental laws. The adoption of a model of corporate conduct, namely Corporate Environmental Principles is important to expose firms to environmental liabilities in case violations occur (Crusto, 2003). Firms often fail to recognize the needs of their stakeholders who believe that integrating social and environmental concerns can increase firms' competitive advantage. Martin (2013) gives an example case of Shell, which spent millions of dollars to clear the tension with the people of Nigeria. The case was worsened with the involvement of Nigerian authority in defending Shell's interest in Oginiland. Harvey Morris wrote in *The Financial Times*.

"The plaintiffs had alleged that, at the request of Shell, and with its assistance and financing, Nigerian soldiers used deadly force and massive, brutal raids against the Ogoni people throughout the early 1990s to repress a movement against the oil

company. The case was brought under the Alien Tort Statute, a 1789 law that gives non-US citizens the right to file suits in US courts for international human rights violations. The case had been due to go ahead after Shell failed to have the charges dismissed" (Morris, 2009).

Rudkin et al. (2019) conclude that firms often legitimize negative incidents, such as scandal, fraud, and corruption, on the basis of the business transaction that can occur within any ordinary course of business. In their observation, many UK firms that run businesses with natural resources use the legitimization strategies, in the form of corrective actions, to validate negative post-incident actions through association with external parties. The legitimization strategies of corrective action allow firms to acknowledge the incidents for the public and announce the measures (either imprecise or precise) they carry out to correct the incidents and minimize the impact. In the case of BP's oil spill in the Gulf of Mexico, *The Financial Times* reported that,

"Tony Hayward, BP chief executive, on Monday repeated the group's promise to meet all "legitimate" claims for damages. "It is indeed BP's responsibility to deal with this, and we are dealing with it," he told National Public Radio. "We will absolutely be paying for the clean-up operation." BP has posted claim forms on the disaster response website, and says it plans to pay all small damages claims quickly" (Crooks et al., 2010).

From the perspective of firms, reputation is an intangible asset and is necessary to be maintained as it gives a competitive advantage to compete with other competitors. The disclosure of such incident information, with or without intention to manipulate stakeholders' perceptions, is part of the firm strategies to safeguard and recover corporate reputation. A study shows that good reputation can ultimately strengthen relationships with stakeholders and further improve financial performance (Liu et al.,

Table 3. Companies that are the Subject of the Study

Company	Industry	Incident	Year when the incident happened	Scientific article studying the incident
Shell	Oil and gas	Scandal of community	1996	Martin (2013), Taylor (2006), Omotose nd Yusuf (2017)
Unocal	Oil and gas	Environmental, business, and community scandal	1998	Crusto (2003)
Enron	Energy	Accounting fraud	2000	Rebeiz (2006), Singh (2007)
PTT Public Company Limited	Oil and gas	Transactive corruption	2000	N.A.
Shell	Oil and gas	Fraud	2004	Taylor (2006), Rudkin et al. (2019)
Vedanta resources	Metal	Environmental and community scandal	2010	Martin (2013)
Lukoil	Oil and gas	Environmental scandal	2010	N.A.
BP	Oil and gas	Environmental scandal	2011	Rudkin et al. (2019)
Petrobras	Oil and gas	Transactive corruption	2014	Rudkin et al. (2019)
BPH Billiton	Oil and gas	Transactive corruption	2015	Rudkin et al. (2019)
Rosneft	Oil and gas	Transactive corruption	2018	N.A.

Source : Data Processed

2019). A study case in Italy of which many Italian transnational companies are active in the global market shows an attitude of paying close attention to their corporate reputation based on the quality of their non-financial information (Venturelli et al., 2019).

When Politics is on the Table

Due to the dynamic relationship between established political goals and managers' decision making, firms can accept political interference to maximize their commercial returns. Political institutions and actors play a crucial role in organizing the strategies of the firm. Silvester et al. (2018), in their study about Petrobras, use the chaos theory to explain the disturbances or bifurcations to the corporate governance system leading the system into a chaotic situation, especially in the absence of political institutions' will to restore equilibrium.

In general, the aforementioned scenario is inevitable for state-owned

enterprises that have a bold presence of government interests, and this can lead to a turbulent business environment due to the misallocation of interest and power (Abdullah & Valentine, 2009; Eisenhardt, 1989; Yusoff & Alhaji, 2012). In the case of Petrobras, Silvester et al. (2018) conclude that the global oil price drop was once associated with the corruption activities in the company leading to governmental institutional and organizational chaos. Anderson Antunes wrote in *Forbes*:

"When Petrobras was founded in 1953, its primary mission was to refine imported oil. The company has now become a machine for politicians to maintain their position in power at the expense of taxpayers. It has been involved in political scandals even before the Workers' Party rose to power in 2010 when Luiz Inacio Lula da Silva was elected. But it is ironic that the party, which has always accused opponents of wanting to hand Petrobras to foreigners, is the one that caused the most damage to the company" (Antunes 2014).

Does the Media Speak the Truth?

We evaluate the reports from the media on the corporate crisis involving scandal, fraud, and corruption. Media is interested more in large firms categorized as transnational companies. From our findings, there are several large companies that have become the epicenter of research in this study, as depicted in Table 3. Many companies in the table are running the business of oil and gas. It requires between two and ten years since the incident happened until the scientific communities picks the topic for their research in corporate governance. It seems that scientific communities are interested in large companies that have a well-known global reputation to protect, for example Enron, Shell, Unocal, and Vedanta. Doyle (2006) concludes that the selection of media coverage is most likely driven by the perceived interests of audiences. In this case, transactive corruption and environmental scandal seem to be newsworthy for the journalists within the mainstream media to publish. This study does not analyze how firms react to the scandal, fraud, and corruption. However, according to Rudkin et al. (2019), most firms engaging in natural resource sectors disclose information to the public with solutions to rectify the incidents so that the reputation can be safeguarded. Yet, the relevancy of doing good business is obvious when evaluating firm behavior using stakeholder theory. Studies show that bad exposure can lead to a deteriorating relationship with the stakeholders and poor financial performance (Jia et al., 2009; Liu et al., 2019; Venturelli et al., 2019) (Table 3).

5. CONCLUSION

We draw three main conclusions from this study. First, our study shows that, when discussing the practices of doing good business for the natural resources sector, most cases use the framework of agency and stakeholder theories to deal with scandal, fraud, and corruption. The efforts can be divided into two paradigms. The first paradigm is related to the internal

performance of the firms, such as, among other aspects, the quality of the principles and the agents. This includes the good use of the board of directors' expertise to identify and manage risks. Leadership is also among the internal aspects that can propel the implementation of good governance in firms. Other aspects are corporate conduct adoption and internal control improvement. The second paradigm is related to the external environment, such as legal mechanisms. In many cases, larger firms seem to receive immunity over their accountability against incidents due to the transaction arrangement from corruption activities. Our study reveals that transnational companies were engaged in transactive corruption with public officials or politicians involving bribery. Evidence from state-owned enterprises shows that corrupt public officials or politicians are likely to misuse their power to allow such misbehaviors.

Second, our analysis shows that the media is as interested as the scientific communities in reporting the crisis. However, it is mostly driven by the preferred interests of audiences. Most crisis is related to transactive corruption and environmental scandal. The wealth of natural resources is correlated with the environment, and firms tend to optimize the rent-seeking behavior of natural resources at any cost. Even though many studies suggest that misconduct depends on the quality of institutions, our finding shows that transnational companies also breach the law in countries where the institutional setup is better managed.

Thirdly, we suggest that reputation is the holy grail for firms to protect. With intangible assets such as these, any bad exposure against doing good business can severely hamper financial performance. The crisis needs to be managed, as does the public perception about the crisis. Studies show that firms employ legitimization strategies to lessen the impacts of corporate crisis. In the natural resource sector, firms are most likely to communicate the way

forward after a crisis to improve the trust of their stakeholders.

Implementing good governance is as important as managing the post-crisis to restore the credibility of firms. There is no universal model of corporate governance that can be easily adopted by firms across the globe, because cultural and socioeconomic barriers are evident when implementing the model. However, not only does strong corporate governance implementation affect the practices of doing good business, but the institutional setup also influences these practices. Based on our findings, we suggest that countries start to facilitate more internalized mechanisms to ease the immunity of the firm from accountability against the crisis. Experience shows that it requires more than fifteen years for firms to fully recover from their misconduct.

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