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## The JBS Corruption Scandals in Brazil and Lindblom's Organizational Legitimacy Strategies

### ABSTRACT

**Objective:** Evaluate the narrative financial reports released by the Brazilian meatpacker JBS SA and identify how the company has sought to influence its information user while coping with its recent corruption scandals.

**Method:** A qualitative analysis of narrative financial reports – Market Notices, Material Facts, Management Report, and Reference Form and Prospects – was carried out for the base year 2017 based on the Legitimacy Theory (Lindblom, 1994).

**Originality/Relevance:** Parameters are shown that could be used by managers, separately or concurrently, intentionally or unintentionally, to achieve, preserve or recover the company's legitimacy. Mechanisms of manipulation are also shown as used in corporate reports.

**Results:** JBS used Lindblom's (1994) first legitimacy strategy in all reports, but more frequently in the Material Facts. Such a strategy was used for regulatory and penal reasons (i.e., the Securities and Exchange Commission of Brazil, and the Federal Public Prosecutor's Office) as JBS acknowledged the impact of the negative event (i.e., the corruption scandals covered by the media) and provided information related to how it has addressed such a legitimacy-threatening problem.

**Theoretical/Methodological contributions:** Lindblom's (1994) 2nd and 3rd legitimacy strategies were not as frequent (9% and 12,5% respectively) as reported in the literature. Adding to the literature, this study provides a better understanding of financial reporting as an instrument of legitimacy and manipulation within the political and economic environment.

**Keywords:** Legitimacy; Strategies; Reporting; Lindblom; JBS.

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## 1 INTRODUCTION

Over two-thirds of the countries, including Brazil, have faced a high level of corruption as engaged in by political, economic and bureaucratic elites (Garcia & Theodosius, 2020). Coupled with the legal weaknesses of emerging democracies, this level results in low guarantees for private investors (Barros, Rodrigues, & Panhoca, 2019; Koprowski et al., 2019). In Brazil, the corruption probe Operação Lava Jato [Operation Car Wash] has since 2014 pointed to the involvement of important civil construction companies in corruption scandals.

This paper analyzes one of the companies exposed by such a corruption probe – JBS SA, which started out as a small butcher shop and now is the world's largest meatpacker (BBC, 2017). More specifically, it aims to 1) assess how the narrative content of the financial reports were used by JBS as a legitimacy instrument in the base year 2017 and 2) identify how the company sought to influence the information user in response to its corruption scandals. In 2017 JBS was targeted by the Brazilian Federal Police on account of alleged extortion, package counterfeit, sale of overdue meat, illegal addition of substances and engagement in influence-buying corruption, bribery, and illegal financing of political campaigns (Portal G1, 2017; Valor Econômico, 2017).

The assumption underlying this study is that research on companies engaged in fraudulent schemes is likely to provide answers to some questions related to the complex organizational behavior (Ozili, 2020). Studies addressing such questions are based, among others, on the Legitimacy Theory (e.g., Campbell, 2003; Koprowski et al., 2019). However, few studies, such as Archel et al. (2009), have sought to identify the use of legitimacy strategies in the light of the political environment.

Legitimacy is one of the factors accounting for the survival of organizations and their use/acquisition of resources (Mathews, 2000). To achieve legitimacy, companies tend to adopt strategies for disclosing information in response to the society's or certain stakeholders' requirements or expectations (Dowling & Pfeffer, 1975), especially in times of crisis that can damage their reputation and commercial relations (Deegan, 2002). Such strategies can show through in mandatory or voluntary accounting narratives (Baum & Powell, 1995; Neu, Warsame, & Pedwell, 1998).

Revealing the organizations' disclosure motivations is a topic that has attracted considerable academic attention (Deegan, 2002). The Legitimacy Theory provides several insights into such motivations (Gray, Kouhy, & Lavers; 1995) by assuming that an organization not only influences, but is also influenced by the surrounding society (Gray, Kouhy, & Lavers, 1995; Guthrie & Parker, 1990).

This study resorts to Lindblom's (1994) proposal to assess organizational legitimacy strategies. Considering that the crisis in Brazil is both a crisis of legitimacy driven by Operation Car Wash and an economic crisis (Garcia & Teodósio, 2020), the present analysis sought to pinpoint narrative contents that could be indicative of JBS' intention to: 1) preserve or gain legitimacy; 2) change the society's perception, without changing its own essence; 3) divert attention, and 4) change future expectations.

The underlying question is if the actions taken by JBS to respond to corruption probes could influence the Brazilian political and business context in general and the investors' decision making in particular. A complementary question is if the JBS case could provide behavioral responses to be adopted by other organizations involved in corruption scandals (Ozili, 2020).

This article is divided into six sections including this Introduction. Section 2 revisits the Legitimacy Theory and publications that have drawn on Lindblom (1994). Section 3 describes the criteria set for analyzing the narrative financial reports. Sections 4 and 5 provide the results and discussion, respectively. Section 6 concludes this article, resuming the objectives and providing limitations and suggestions for further research.

## 2 REVIEW OF THE LITERATURE

Corruption has played an important role in scientific, political and economic debates worldwide (Garcia & Theodosius, 2020). In the corporate context, several publications have analyzed the relationship between the company's reputation and the contents of social and environmental reports (e.g., Koprowski et al., 2019; Odriozola & Baráibar-Diez, 2017). Other types of reports can also be included when addressing, for example, the image of a "corrupt" company and its relationship with interest groups (e.g., Barros, Rodrigues, & Panhoca, 2019; Etxeberria & Odriozola, 2017).

Analyzing the contents of financial reports based on the Legitimacy Theory is an effective method to understand how a company strive to survive (Baum & Powell, 1995). The underlying assumption is that companies adopt communication strategies in their financial reports to assure their survival (Dowling & Pfeffer 1975; Odriozola & Baráibar-Diez, 2017). Such strategies are particularly aimed to: 1) influence the society's perceptions (Barros, Rodrigues, & Panhoca, 2019; Deegan, 2002; Guthrie & Parker, 1990), 2) lead interested parties to support the company with positive responses (Barros, Rodrigues, & Panhoca, 2019), and 3) consequently, gain or preserve social legitimacy (Etxeberria & Odriozola, 2017; Neu, Warsame, & Pedwell, 1998).

Legitimacy is defined by Lindblom (1994, p. 2) as "a condition or status that exists when the entity's value system is congruent with the value system of the larger social system of which the entity is a part". In a system-oriented perspective, legitimacy can be manipulated and influenced in several ways (Woodward, Edwards, & Birkin, 2001). In other words, social norms and rules (i.e., the value systems) are parameters to create patterns that shape individual and organizational behavior (Deegan, 2002).

Several questions related to financial reporting still require in-depth understanding within the Legitimacy Theory (Deegan, 2002). One of such questions is: What are the managers' motivations in disclosing certain pieces of information about a given company? To answer questions like that, several studies have examined accounting information based on organizational legitimacy strategies. A number of authors have drawn on Lindblom (1994), including: Archel et al. (2009), Beuren and Boff (2008), Gray, Kouhy, and Lavers (1995), Sancovschi and Silva (2006), and Silva et al. (2009).

Some studies are also relevant because they analyze organizational legitimacy in Brazil even though they do not draw on Lindblom (1994). Fank and Beuren (2010) and Frank, Wernke and Zanin (2018) used Schuman's (1995) typology to assess legitimacy in the management reports of Petrobras and Vale, respectively. Sancovschi and Silva (2006) described how Petrobras managers voluntarily disclosed social information in its annual reports from 1993 to 2002 to address negative aspects of its activities that could threaten its legitimacy. Koprowski et al. (2019) focused on the socio-environmental aspects of reports from 370 companies listed on B3; they found that the weak institutional environment in Brazil, with deficient rules and regulations, favors corporate interests and political connections between companies and the government.

Despite the significance of the aforementioned studies, only Archel et al. (2009) have similar objectives as this study as they also sought to identify the use of organizational legitimacy strategies in the political environment. Specifically, Archel et al. (2009) expanded the scope of the Legitimacy Theory through a detailed analysis of Lindblom's strategies (1994) and the characteristics of the political environment in which they are developed. They investigated a company that used strategic social and environmental disclosure to manipulate social perception and eventually legitimate a new manufacturing process. This strategy was implicitly and explicitly supported by an ideological alignment with the government.

Such a manipulation of social perceptions has been corroborated in Brazil by Barros, Rodrigues and Panhoca (2019). The authors coined the phrase "organized hypocrisy" to refer to the discrepancy between the discourse and the anti-corruption actions adopted by companies involved in corruption scandals in Brazil.

### 3 METHOD

According to the Public Prosecutor's Office, Operation Car Wash is the largest initiative against corruption and money washing in Brazil's history. This ongoing corruption probe started in March 2014 and has already resulted in the arrest and liability of several individuals of political and economic importance in Brazil. The volume of resources diverted from public coffers is estimated to amount billions of dollars.

Even so, JBS SA has continued its activities and improved its numbers consistently since the unfolding of said probe. Its market value has even returned to parameters prior to the scandals (Exame, 2018).

This article investigates the JBS' narrative financial reports from the base year 2017, when the media started to cover the scams involving the company. As the probes were disclosed in 2017, the assumption is that the company could have potentially taken more actions and released more information to the society with a view to responding to such scandals (Baum & Powell, 1995; Deegan, 2002).

The study was limited to the analysis of the probes involving the company as conducted by the Federal Police, namely: Cui Bono? (Estadão, 2017; Portal G1, 2017), Carne Fraca [Weak Flesh] (BBC, 2017b; El País, 2017; Portal G1, 2017; Portal R7, 2017), Bullish (Portal Correio, 2017; Portal G1, 2017), Lava Jato [Car Wash] (Folha de São Paulo, 2017; Portal G1, 2017), and Tendão de Aquiles [Achilles Tendon] (Portal G1, 2017). Other probes also included the name of JBS SA, but they were part of secret legal proceedings during the present study.

Official information from different sources (e.g., business reports, legal reports) was triangulated to validate the news about such probes. As these probes are currently in an advanced stage, information can be more easily accessed to support document analysis.

Data collection targeted the 2017 financial reports mentioned in Figure 1, deemed as primary sources as available on the company's website: Notice to the Market, Material Facts, Management Report, Reference Form and Prospects. The universe and sample of reports are provided in Figure 1. Such reports were analyzed in Portuguese language, but English translations are provided to all of them but the Management Reports on the company's website.

Reports	Description	Universe	Sample	Documents
Notices to the Market	These are occasional explanations intended to provide the market with information on a subject that the Investor Relations Officer or the company deems as important. <sup>(1)</sup>	35	7	03.17.2017; 05.12.2017; 05.15.2017; second notice released on 05.18.2017; second notice released on 05.19.2017; and both notices released on 06.14.2017.
Material Facts	These are reports that publicly traded companies are required to release, in accordance with CVM Instruction No. 358. They include events that can: impact share price; influence the shareholders' decision to buy, sell or maintain assets; and influence the investors' decision to exercise any of their rights as asset owners. <sup>(1) (2)</sup>	32	8	05.26.2017; 05.31.2017; 06.05.2017; 06.09.2017; 06.28.2017; 08.11.2017; 08.28.2017; and 09.06.2017.
Management Report	It provides a company's major results, goals and policies, as well as its management performance, resources allocation, among other qualitative information. It is mandatory, according to Act No. 6404 as of 1976, but its content is flexible, as its preparation is under the company's responsibility. <sup>(1)</sup>	1	1	-
Reference Forms and Prospects	These are documents that publicly traded companies are required to release in accordance with CVM Instruction No. 480. Their information must be a complete, faithful description of the company's economic and financial context, as they are an important source of accountability and assist investors in their decision making. <sup>(1) (3)</sup>	19	1	Version 19

**Figure 1.** Description and sample of reports under scrutiny

Note: CVM – Comissão de Valores Mobiliários (Securities and Exchange Commission of Brazil).

Source: based on <sup>(1)</sup>The Media Group (2018); <sup>(2)</sup>CVM (2002); <sup>(3)</sup>CVM (2009).

The particularities and characteristics of such reports allowed for examining the legitimacy strategies adopted by the company. Figure 2 shows the four strategies that were used as parameters in this study. According to Lindblom (1994), they can be used by managers separately or concurrently, intentionally or unintentionally (Sancovschi & Silva, 2006), to achieve, preserve or recover legitimacy.

Strategy	Company's goal with the report
1st	Show its stakeholders the changes the organization has made to its activities to improve its current performance.
2nd	Change the perception of the public about certain events without actually changing its own performance.
3rd	Manipulate the perception of the public about certain events by diverting attention away from the issue of concern to something else or even by highlighting past social accomplishments instead of informing the public.
4th	Change external perception about its performance.

**Figure 2.** Lindblom's organizational legitimacy strategies

Source: From "The implications of organizational legitimacy for corporate social performance and disclosure: critical perspectives on accounting", de C. K. Lindblom, 1994, *Critical Perspectives on Accounting Conference*.



Following Archel et al. (2009), Gray, Kouhy, and Lavers (1995), and Sancovschi and Silva (2006), data collection and content analysis (Bardin, 1977) were carried out targeting all probes under scrutiny. Drawing on Abed, Al-Najjar, and Roberts (2016), the selection targeted those excerpts (clauses or paragraphs) that evinced Lindblom's (1994) legitimacy strategies. Content analysis is pointed out by Abed, Al-Najjar, and Roberts (2016) and Silva et al. (2019) as the most applied qualitative research technique in studies of business reports.

The documents sometimes did not provide explicit mention to the probes carried out by the Federal Police. In such cases, following Kolbe and Burnett (1991), a preliminary semantic analysis of the reports was carried out to understand the terms used in the text and then identify those parameters in Figure 3. In the examples provided in said figure, terms/categories (column 1), if absent, were inferred by using indirect words and/or phrases in the narrative. Based on these parameters, further readings of the documents were performed to content analyze them.

Some excerpts of the reports are transcribed and partially underlined in Section 5. The underline provides evidence of the use of each legitimacy strategy (see Lindblom, 1994) as identified following Archel et al. (2009). Besides, as Section 5 is aimed at discussion, such excerpts are consistent with the intended argument about each strategy adopted by JBS to respond to the Federal Police probe that they explicitly or implicitly mention.

**4 RESULTS**

The content analysis of the narratives in the financial reports disclosed by JBS SA that included implicit or explicit mentions to the probes carried out by the Federal Police aimed to identify the company's intention to: 1) show its stakeholders the changes it has made to its activities to improve performance, 2) change the perception of the public about its current performance and activities without actually changing its own performance, 3) manipulate the perception of the public about certain events by diverting attention away from the issue of concern to something else or even by highlighting past social accomplishments, and 4) change the external perception about its performance.

Table 1 shows the frequency of Lindblom's (1994) legitimacy strategies as identified through the content analysis of narrative financial reports released by JBS for the base year 2017.

Table 1  
**Frequency of the strategies used**

<b>Financial Reports</b>	<b>1st strategy</b>	<b>2nd strategy</b>	<b>3rd strategy</b>	<b>4th strategy</b>	<b>Total</b>
Notices to the Market	3	3	-	2	<b>8</b>
Material Facts	10	-	-	4	<b>14</b>
Management Report	4	-	4	-	<b>8</b>
Reference Forms and Prospects	2	-	-	-	<b>2</b>
<b>Total</b>	<b>19</b>	<b>3</b>	<b>4</b>	<b>6</b>	<b>32</b>

The highest number of strategies was identified in the Material Facts. This can be explained by the fact that the CVM (Securities and Exchange Commission of Brazil) has specific requirements for this type of report, especially in cases like the one involving JBS, whose measures to respond to the probes may influence the share prices and eventually the investors' decision making.

Terms/Categories	Description	Examples
Date	The date mentioned in the reports were used to make inferences about the topic. For example, Operation Weak Flesh burst out on March 17th, 2017, date of the report.	“ <u>The operation conducted today</u> involves companies located in several regions of Brazil, and also involves three of JBS’ facilities [...].” (Notice to the Market – JBS, 2017, underline added)
Federal Police	The phrase “Federal Police” was used to relate the excerpt to the probes investigating JBS. However, complementary textual elements were needed to link the information to the specific probe. The example on the right refers to Operation Achilles Tendon.	“[...] JBS’ headquarters was the subject of a <u>probe coordinated between the Federal Police and the CVM</u> this Friday morning in connection with the investigations related to the administrative processes filed by the CVM [...].” (Material Facts – JBS, 2017, underline added)
Plea Bargain	The phrase “Plea Bargain” was used to identify Operation Car Wash, as this probe involved plea bargains with the Public Prosecutor’s Office.	“In addition, <u>plea bargains</u> signed by JBS executives provided the names of over 500 third parties or related parties.” (Management Report – JBS, 2017, underline added, free translation)
Leniency Agreement	Said “Leniency Agreement” was signed with the Public Prosecutor’s Office in the scope of Operations Cui Bono?, Bullish, and Weak Flesh.	“As already announced as material fact, the <u>Leniency Agreement</u> foresees certain pecuniary obligations to be met exclusively by J&F. By adhering to the <u>Leniency Agreement</u> , JBS will only need to meet non-pecuniary obligations [...].” (Material Facts – JBS, 2017, underline added)
Compliance	The term “Compliance” was used for those probes involving Plea Bargain and Leniency Agreement, as mentioned in the reports.	“Presentation of the set of measures adopted by the Management of the Company, in light of the issues related to the Leniency Agreement with the Federal Public Prosecutor’s Office executed by managers and executives of the Company, in order to assure the adoption of the best corporate governance, compliance practices and the protection of the Company’s interests, including the assessment of potential losses that have been caused to the Company.” (Material Facts – JBS, 2017, underline added)
BNDESPar or BNDES	In the context, “BNDESPar” or “BNDES” are terms that may be related to Operation Bullish.	“All investments made by <u>BNDES</u> in JBS were executed through <u>BNDESPar</u> , the bank’s investment division, at a time when the Company was already publicly listed, are fully compliant with the Brazilian capital markets legislation and devoid of preferential treatment or benefits to JBS.” a legislação do mercado de capitais brasileiro, sem qualquer favorecimento à Companhia.” (Notice to the Market – JBS, 2017, underline added)
Foreign Currency Operations	In the context, “Foreign Currency Operations” is a phrase that may be related to Operation Achilles Tendon.	“JBS S.A. [...] announces to its shareholders and the market in general, in relation to recent media reports regarding <u>foreign currency operations</u> , that the Company manages its foreign currency and commodities exposure on a daily basis.” (Notice to the Market – JBS, 2017, underline added)
Quality Standard, Food Safety, High	In the context, the phrases in column 1 are related to	“JBS in Brazil and throughout the globe adopts rigorous <u>quality standards</u> with systems, processes

<b>Terms/Categories</b>	<b>Description</b>	<b>Examples</b>
Standards of Food Production, or Product Adulteration	Operation Weak Flesh.	and controls that guarantee <u>food safety</u> and product integrity. The Company further states that its food production practices have been certified by highly recognized global entities, which further confirms its <u>high standards of food production and product integrity.</u> " (Notice to the Market – JBS, 2017, underline added)

**Figure 3.** Parameters used for content analysis

Note: CVM – Comissão de Valores Mobiliários (Securities and Exchange Commission of Brazil).

The third strategy was identified only in the Management Report. This is probably because of the flexible nature and optimistic orientation of this document, which is usually used for self-promotion rather than release of information that might damage a company's image.

**5 DISCUSSION**

As shown in Table 1, the first legitimacy strategy is frequent in the financial reports (19 occurrences). This high frequency of using information to show the stakeholders the changes the organization has made to its activities to improve its current performance (cf. Figure 2) may be related to the company's attempt to inform the stakeholders about the actions taken to face the unfolding of the probes carried out by the Federal Police. In other words, the company aimed to show that it was not neutral or impartial about the situation and the Plea Bargain that its executives and administrators signed with the Federal Public Prosecutor's Office.

This strategy was found in all reports, especially in the Material Facts. As mentioned, the CVM requires the reporting of specific contents in the Material Facts, such as those events in the company that may affect its share price and the investors' decisions. When JBS mentioned such events, it also announced the changes implemented to mitigate their impact, thus responding to the aforementioned Plea Bargain. In other words, consistent with Lindblom's (1994) 1st legitimacy strategy and due to regulatory and penal reasons (i.e., the CVM and the Federal Public Prosecutor's Office), JBS acknowledged the impact of the negative event (i.e., the corruption scandals covered by the media) and presented information that indicated its quest to solve this legitimacy-threatening problem, i.e., it indicated that the changes are in line with the society's requirements.

The excerpts in this section, extracted from the financial reports, show the content of the narratives that are consistent with Lindblom's (1994) legitimacy strategies. The following excerpts are indicative of the use of Lindblom's (1994) 1st strategy in the disclosure of information related to the corruption scandals under scrutiny.

The procedures for sponsoring and donating products and other goods and services have changed. A specific policy on these topics was released to define guidelines and accountabilities for these practices in all JBS businesses in Brazil. (Management Report – JBS, 2017, free translation)

Such a document defines, among others, that every donation must be requested by a philanthropic organization that contributes to improving its surrounding environment and is located in a community where JBS has a substantial number of employees. It also prohibits donations to public agencies or agents, with a view to avoiding 1) the appearance that they are being favored or that the company is obtaining undue advantages, 2) conflicts



of interest, or 3) influence the decision of a public or private agent. (Management Report – JBS, 2017, underline added, free translation)

In addition, plea bargains signed by JBS executives provided the names of over 500 third parties or related parties. All of these third parties are blocked in the Company's systems. (Management Report – JBS, 2017, underline added, free translation)

The excerpts above, extracted from the Manager Report, reveal some attitudes of JBS to address Operation Car Wash. As the company was being investigated for illegal donations to finance political campaigns, guidelines were placed to restrict donations to philanthropic organizations and prohibit donations to any public agency or agent.

In other excerpts related to the 1st strategy, the company's desire to recover its reputation shows when JBS reports that it has committed itself to adopt measures that improve corporate governance and compliance. Such measures are, in the present interpretation, responses to the Plea Bargain that the company's executives and administrators signed with the Federal Public Prosecutor's Office.

In light of the announcement of the facts related to the Plea Bargain Agreement signed between the Company's administrator and former administrators with the Public Prosecutor's Office, JBS' management has taken a series of measures with the objective of implementing the best corporate governance practices, strengthening and improving its compliance programs, and protecting its social interests, including potential losses caused to the Company. (Material Facts – JBS, 2017, underline added)

The compliance program "Always Do It Right" defines several actions aimed at creating a culture of compliance in the company, in order to prevent or discourage unlawful conduct and make it possible to anticipate the investigation of irregularities, thus avoiding, for example, image and reputation crises or damages. (Management Report – JBS, 2017, underline added, free translation)

The excerpts above were extracted from the Material Facts and Management Report. The management used them to inform the public about the implementation of the "Always do It Right" compliance program, which aimed to prevent illegal acts. As such, the company admits that its image has been negatively impacted by its actions and, then, started to look for solutions.

As shown in Table 1 (cf. Section 4), the 4th strategy has the second highest frequency (6). In seeking to change external expectations about its future performance (cf. Figure 2), the company presented the future projects and programs signed in the Leniency Agreement. With this strategy, the company does not intend to make internal adjustments to extinguish the threat to its legitimacy or manipulate people's understanding, but rather to change the expectations of the public regarding its future attitudes. The excerpt below elucidates the use of this strategy.

Amongst the main topics of the leniency agreement are: (a) The payment of R\$10.3 billion payable solely by J&F, preserving minority shareholders and JBS from any financial impact from the agreement, thus assuring the Company's normal course of business, protecting jobs while offering quality products and services; (b) Investments by J&F in social projects essentially related to education and other areas to be suggested by the Federal Public Prosecutor's Office, in the amount of R\$2.3 billion; (c) The implementation of a new compliance and integrity program, including global corporate governance best practices. (Material Facts – JBS, 2017, underline added)

Given the Leniency Agreement signed with the Federal Public Prosecutor's Office in the scope of Operations Weak Flesh and Bullish, JBS assured, in the above excerpt, its social commitment by announcing measures that its holding J&F would implement to alleviate the reputation-threatening scandals, including investment in social projects and implantation of a compliance program. In addition, the company, it seems, had the purpose of reversing the public's expectations regarding its conduct in the future. It is not a matter of manipulating their understanding, but rather of promising a change in attitude with regard to social and business behavior, as shown in the excerpts below.

As already announced as material fact, the Leniency Agreement foresees certain pecuniary obligations to be met exclusively by J&F. By adhering to the Leniency Agreement, JBS will only need to meet non-pecuniary obligations, such as improving its compliance program and collaborating with an internal and independent investigation. (Material Facts – JBS, 2007, underline added)

Such internal and independent investigation to be held at JBS in accordance to the Leniency Agreement, which ensue benefits and legal protection to the Company, represents one more measure taken by the Company to prove the facts described in the Plea Bargain Agreement and Leniency Agreement. Additionally, the referred investigation will certainly contribute to the further development and implementation of the Company's compliance program. (Material Facts – JBS, 2007, underline added)

In the excerpts above, extracted from the Material Facts and Management Report, the management stated that it intends to carry out an internal and independent investigation to prove the facts described in the Plea Bargain and Leniency Agreement. It should be noted that the company has not taken such an attitude aiming at present results, but shows itself committed to implementing the measure in the future. In this case, the company was not changing its current stance to solve its legitimacy problem. Instead, it sought to ensure that the public's expectations were consistent with its own attitudes and goals.

As shown in Table 1, the 3rd strategy was identified in four instances. With the objective of manipulating the perception of the public by diverting attention away from the issue of concern or highlighting past social accomplishments (cf. Figure 2), the company chose to point out in its Management Report the social projects it supported and their benefits. Thus, the company diverted the attention of the public to a positive activity, by, for example, praising past social achievements and omitting the negative event.

In general, reporting and disclosing tend to be extensive and directed at manipulating the public's view of an event, rather than informing them. Lindblom (1994) points out that this is the most obvious disclosure strategy aimed at organizational legitimacy.

The following excerpts from the Management Report provide a better understanding of the third strategy.

JBS is the main sponsor of Instituto Germinare. This non-profit organization provides children and adolescents with a high quality teaching in its free, full-time business school-like institute for young people with development potential. The highlight of its teaching methodology, approved of by the Ministry of Education, is that it complements the traditional teaching with topics and activities aimed at encouraging entrepreneurship and training of business managers. (Management Report – JBS, 2017, underline added, free translation)

It is in the 9th place in the ranking of schools in the City of Sao Paulo, according to the National High School Exam (ENEM), which assesses the proficiency of students who have completed high school in Brazil. In 2017, it

had 485 students enrolled. (Management Report – JBS, 2017, underline added, free translation)

The excerpt shows a social achievement linked to a legitimate cause, which promoted the education of children and adolescents without burden to the society; it also highlights the good performance achieved by the institute as a result of organizational action. This strategy is focused both on the social actions that the company carried out, such as the sponsorship of Instituto Germinare, and on the recognition of the company's importance to the society based on the performance achieved in the ranking of schools. The following excerpt also sheds light on this strategy.

By means of donations and support for this initiative, Moy Park seeks to contribute to the socioeconomic and environmental development of its surrounding rural communities. The Prince's Countryside Fund develops more than 120 projects in the United Kingdom, benefiting approximately 100 thousand people. (Management Report – JBS, 2017, underline added, free translation)

In this case, JBS emphasized the donations made by its subsidiary Moy Park and the implementation of a program that benefited local communities. It also emphasized the scope of its actions and the importance of the company in the surrounding social and environmental context.

Finally, the 2nd strategy was the least used, with only three occurrences (cf. Table 1). In this case, the company chose not to change the perception of the public about certain events without actually changing its own performance (cf. Figure 2). This may be related to the advanced stage of the investigations carried out by the Federal Police and to information already disclosed in the media about the company's conducts that are incompliant to institutionalized standards and values.

To change the perception of the public without changing the company's essence, it is unnecessary to change the organizational behavior in response to the public interest; instead, it suffices to change the social perception (cf. Barros, Rodrigues, & Panhoca, 2019). To this end, the company reports to prove that its activities are compliant with the rules of the surrounding environment (Archel et al., 2009; Gray, Kouhy & Lavers, 1995). The following excerpts shed light on the use of Lindblom's (1994) 2nd strategy in the disclosure of information related to some corruption scandals involving JBS.

JBS and its subsidiaries rigidly follow all regulatory guidelines in connection with the production and sale of food products in Brazil and globally, and supports all efforts aimed at punishing any violation. (Notice to the Market – JBS, 2017, underline added)

JBS in Brazil and throughout the globe adopts rigorous quality standards with systems, processes and controls that guarantee food safety and product integrity. The Company further states that its food production practices have been certified by highly recognized global entities, which further confirms its high standards of food production and product integrity. (Notice to the Market – JBS, 2017, underline added)

In the excerpts above, the company sought to defend itself in the scope of Operation Weak Flesh by communicating that its production and marketing comply with all regulatory standards and by emphasizing that it adopts the best practices in its manufacturing process. In doing so, the company did not intend to change its behavior to meet the social expectations; on the contrary, it sought to change the stakeholders' understanding by demonstrating that its practices do respect norms and values. This finding is consistent with those reported by

Barros, Rodrigues and Panhoca (2019) in Brazilian companies involved in corruption scandals. Other excerpts from JBS financial reports provide further evidence of the use of the second strategy:

JBS has the policy and practice of using financial protection instruments aiming exclusively to minimize the foreign exchange risks and commodity risks associated with its debt and receivables in dollars, in view of the nature of its operations. (Notice to the Market – JBS, 2017, underline added, free translation)

Considering JBS' exposure to the US dollar, an example of the potential impact of fluctuations in the exchange rate is that the company would incur a loss of more than BRL 1 billion because of the exchange variation from BRL 3.16 on March 31 – end of the first quarter – to BRL 3.40 on May 18th. (Notice to the Market – JBS, 2017, free translation)

The Company reiterates that the transactions carried out in the past few days are in line with its risk management and financial protection policy. (Notice to the Market – JBS, 2017, underline added, free translation)

In the scope of Operation Achilles Tendon, JBS showed in the excerpt above that it follows an adequate policy in its operations in the financial market as it is in line with risks management and financial protection. It should be noted that the company is aware that it needs to express itself regarding its commitment to the society in which it operates; however, instead of highlighting measures to solve the threat, it reported to prove that its actions are compliant with the established rules.

Considering that JBS is still active and has been showing increasing financial results even after the corruption scandals, these strategies seem to have met the objective of establishing good communication with the stakeholders and regaining the company's legitimacy in the market.

## 6 FINAL REMARKS

According to Archel et al. (2009), most research based on the Legitimacy Theory examines business disclosure drawing on quantitative methods while neglecting the socio-political context of the narrative. In turn, authors such as Patten (1991) and Walden and Schwartz (1997) have sought to investigate, from the perspective of the Legitimacy Theory, how companies could use disclosure strategies to circumvent adverse political changes. Besides, Etxeberria and Odriozola (2017) state that addressing anti-corruption in business documents positively affects the stakeholders' perception.

As a country with high levels of corruption and with weaknesses in its legal system, Brazil provides a low level of guarantees to private investors (Koprowski et al., 2019). Because of this and the organizations' concern to show themselves aligned with the society's values, financial disclosure is a strong instrument of legitimacy (Etxeberria & Odriozola, 2017).

In this context, it is relevant to question what companies have been disclosing and what motivates them to disclose certain pieces of information, especially in times of crisis (Deegan, 2002). It is also relevant to identify, in the corporate reporting, the mechanisms used to manipulate the society in general (Barros, Rodrigues & Panhoca, 2019; Baum & Powell, 1995; Gray, Kouhy; Lavers; 1995).

This study drew on Lindblom's (1994) legitimacy strategies to evaluate the narrative in JBS' financial reports and identify how the company has sought to influence the

information user. To this end, it analyzed the following primary documents provided on the company's official website: Notice to the Market, Material Facts, Management Report, Reference Forms and Prospects. Based on a qualitative approach, excerpts (phrases or paragraphs) were identified with elements that showed the use of Lindblom's (1994) organizational legitimacy strategies to face the effects of probes carried out by the Federal Police, namely: Cui Bono?, Weak Flesh, Bullish, Car Wash, and Achilles Tendon.

JBS SA has used all four strategies identified by Linblom (1994). The 1st strategy is the most frequent one in an attempt to show its stakeholders the changes the organization has made to its activities to improve its current performance (cf. Figure 2). This may have been a possible response to the Plea Bargain signed by the company.

The 1st strategy was identified in all reports, most frequently in the Material Facts due to regulatory and penal reasons (i.e., the CVM and the Federal Public Prosecutor's Office). Through this strategy, JBS recognized the impact of the negative event (i.e., the corruption scandals disclosed by the media), provided relevant information about the solution it was pursuing to its legitimacy-threatening problem and showed that the changes implemented were in line with the society's requirements. Such non-deliberative but rather compulsory intention of showing that the company is aligned with social values, even in times of crisis, corroborates the findings in Archel et al. (2009), Barros, Rodrigues, and Panhoca (2019).

As for the other strategies posited by Lindblom (1994), the JBS management used the 2nd and 3rd strategies more seldom (respectively, 9% and 12.5%). This finding runs counter studies that identified the high occurrence of both (e.g., Beuren & Boff, 2008; Sancovschi & Silva, 2006).

This study provides a better understanding of financial reporting as an instrument of legitimacy and manipulation in the political and economic environment. Setting the locus of analysis aside, studies with similar proposals include Fank and Beuren (2010), Fank, Wernke, and Zanin (2018), and Sancovschi and Silva (2006).

Finally, the limitations of this study include the analysis of one single year of one single conveniently sampled company. Further studies could include in their samples companies involved in other corruption scandals in Brazil or increase the period of analysis of JBS in order to assess the evolution of its disclosure of information. In addition, further research could relate legitimacy to financial indicators, performance, share prices, and other quantitative metrics.

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## Os Escândalos de Corrupção na JBS S.A. e as Estratégias de Legitimidade Organizacional de Lindblom

### RESUMO

**Objetivo:** Avaliar os relatórios financeiros narrativos da JBS S.A. e identificar como a empresa tem buscado influenciar o usuário da informação ante os recentes escândalos de corrupção nos quais está envolvida.

**Método:** Com base na Teoria da Legitimidade (Lindblom, 1994), realizou-se uma análise qualitativa dos relatórios financeiros narrativos da empresa no ano-base 2017 – Comunicados ao Mercado, Fatos Relevantes, Relatório da Administração e Formulário de Referência e Prospectos.


**Originalidade/Relevância:** Definem-se parâmetros que podem ser utilizados pelos gestores, isoladamente ou em conjunto, intencionalmente ou não, para alcançar, preservar ou recuperar a legitimidade; identificam-se, na evidenciação corporativa, os mecanismos de manipulação da sociedade em geral.

**Resultados:** Em todos os relatórios analisados, mas com maior frequência nos Fatos Relevantes, a JBS utilizou, por força regulatória e penal (*i.e.*, CVM e Ministério Público Federal), a primeira estratégia de legitimidade de Lindblom (1994) quando reconheceu a influência gerada pelo evento negativo (*i.e.*, os escândalos de corrupção divulgados na mídia) e apresentou informações pertinentes à solução do problema que ameaça sua legitimidade.

**Contribuições teóricas/metodológicas:** Ao contrário do reportado na literatura, a 2ª e a 3ª estratégias de Lindblom (1994) foram pouco frequentes (9% e 12,5%, respectivamente). Este estudo, à luz da literatura já existente, pode auxiliar no entendimento do ambiente político-econômico no que tange ao fato de a divulgação financeira ser utilizada como instrumento de legitimação e manipulação da sociedade.

**Palavras-chave:** Legitimidade; Estratégias; Evidenciação; Lindblom; JBS.

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