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Business Ethics – Term Project

Very good.

# Doing Business in Africa

***A guide to limiting corruption in your organisation in Africa***

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## Introduction

*You are a manager for an Australian subcontractor specialised in remote environment logistics. Your company has been awarded a three-year contract with an international mining company to undertake the logistics for the construction of their aluminium refinery in West Africa. Despite your lack of international experience, you are appointed project manager to oversee the project from the company's West African office.*

*You enter the country and quickly strike up a conversation with a local agent who can supply you with all items you need to set up your business: parts, buildings, power, accommodation etc. This supplier reaches out to shake your hand stating, so we have a deal to proceed then? What would you do?*

This report is targeted at individual expatriate managers of organisations in Africa. It is assumed that the organisation is a private company, an NGO, or an international donor which is already established in Africa. The report provides an analysis of typical key behaviours of employees and suppliers that an expatriate manager may experience in Africa. It provides an argument for why the manager should not support corrupt practices. It also provides a guide to assist the manager in discouraging unethical behaviour.

Some African countries have difficulties enforcing local laws and experience high corruption occurrences among their agents, making it very difficult for new companies to settle in Africa. A company may experience corrupt practices when attempting to settle, including VAT issues and the maintenance of concession, licence and taxes with the government. Due to the enormity of government corruption, this report will not attempt to tackle this separate issue and will instead make the assumption that the manager is a member of a company already established in Africa. OK

wide-spread (adj.)



## Analysis of Common Unethical Behaviours

Everyone should be careful with the term, 'When in Rome do as the Romans do'. Corruption is widely spread in Africa but it is not a cultural trait. African people know that corruption is unethical and generally acknowledge its cost to the development of their countries. Moreover, even if not enforced, anticorruption laws exist in most African countries.

### Three Common Expatriate Behaviours

The common misconception is that all corruption in Africa is caused by the locals; this is not always the case, with many corrupt practices being 'imported' by expatriates. Corrupt expatriates fall into three behavioural groups which will now be explored.

The first group is those who have come to do business in Africa with **low ethical standards**. These people can be defined as Noah's 3% of the population that are evil. They are profit-focused and are often more worried about short-term profits rather than taking into account the long-term consequences that they see as someone else's problem. Africa offers this group every opportunity to behave unethically via low levels of regulation and education. An example of this group is a manager who enters the country and has no qualms knowingly paying his employees below the minimum wage and bribing the government agents to turn a blind eye to the practice.

The second group is made up of **naïve** individuals who do not properly educate themselves about the unethical temptations that Africa offers. They may be procurement managers with a tasking from the corporate HQ to procure or project-manage a task. The procurement manager then blindly engages with a local contractor without asking questions or knowing the lay of the land. For example, we may see an organisation with all their employees from the same ethnic groups or all their suppliers from the same family, all because they have trusted a

local agent without asking the right questions. We are all at risk of falling into this group if we don't educate ourselves about the environment we are entering into.

The final group of expatriates is those who know about unethical behaviour in their industry but choose to **turn a blind eye** to such practices, perhaps because they are lazy. This group often consider the issue to be someone else's problem and are comfortable with unethical behaviour being conducted around them. An example of this group is a manager who chooses not to question a local mechanic when he can source 'genuine' parts for the company's vehicle fleet below cost.

## Four Common Local Behaviours

While many corrupt practices can be attributed to expatriates, corruption can also stem from the local African people. The behaviours of these people can be grouped into four groups.

As with the expatriates there is always going to be a percentage of the local population who are **evil**. This group makes up the first group.

The second group is made up of **naïve locals** who typically have a low business education level. This group are generally not aware that what they are doing is wrong. An example of someone who fits into this group is the local employee who will explain you enthusiastically that the new vehicle maintenance supplier is great as he can fix your personal vehicle for free.

The next behavioural group involves those who act unethically because they are under **financial pressure** from their family and/or village. It is not uncommon for whole villages to expect a village member to support the village financially when they achieve a secure job in the city. This financial pressure promotes unethical behaviour by tempting the member to behave unethically to obtain funds to support others. It is common that an employee with a secure job in an NGO or in a private company has to host the children of his less well-off relatives and may end up supporting directly more than 10 or 20 people. It should also always

be kept in mind that the gap between the amounts of money dealt with by an employee in their work and the salary of an African local employee is huge and that life for a middle-class African employee in a lot of African countries remains difficult. The temptation to act unethically is thus greater than in a Western country.

The final group of people behaving unethically is those operating in constant **fear of others.** This fear may stem from threats made towards family and friends or threats of loss of employment, which is a big status symbol in Africa. Under such threats employees are more likely to behave unethically. One such example is a suppliers following the procurement employee to his personal house, and uttering personal threats if a contract is not awarded to his company.

## Common Traps

in your experience? or is there a survey?

While there is an exhaustive list of ethical traps managers new to the African continent can fall into, corruption and unethical behaviour in organisations is most prevalent in the areas of Human Resource (HR), procurement and sales management. The following is a list of the most common traps:

- The payment of a bribe to qualify as a potential supplier, to participate in a tender and to win the tender. Investigation is required if, for example, contracts are awarded to one company constantly or to a company which has no obvious competitive advantage or the accepted price is inflated.
- Fake invoicing in order to obtain funds for work not done.
- Collusion amongst tenders. This can be signalled via all quotes coming back with inflated prices or one company always quoting higher than the other with one major company and the other always quoting higher for a second major company. For

example company X might only tender on BHP Billiton office stationery contracts and company Y might only tender on Rio Tinto office stationery contracts.

4. Bribery from the local supplier to the pay-and-accounts employee to be paid before the standard 30 days. This also goes the other way, where the employee asks for a payment if they want their invoices processed, otherwise they will be 'lost in the system.'

5. Suppliers providing kickbacks, such as fixing an employee's car for free or providing gifts for employees.

6. Splitting a contract to get it below the senior manager threshold in order to allow the corrupt local lower-level manager to approve unjust contracts.

7. Company name changes. Often a company that has been blacklisted for unethical behaviour will reappear under a different name and owned by, for example, the 18 y.o. son of the black-listed person. Some digging later reveals that the company is being run by the same people.

8. Subcontractors not paying their employees the amount announced. Often in their tender, companies will state that wages are set at a certain amount, however on-site the employees are being paid less than the contracted amount and the difference is going to someone in the company.

9. A local employee may be forced to pay a part of their salary every month to the HR person who hired them/introduced them into the company. Even Barack Obama, who has relatives in Kenya, was recently quoted on the issue during the G8 summit earlier this month, "my cousin in Kenya can't find a job without paying a bribe." (B. Obama 2009)

10. Theft of fuel and spare parts.

12. Using non-genuine parts but charging prices as if the parts were genuine.

13 Employees organising kickbacks with local suppliers. For example a vehicles maintenance supplier will give a kickback to company drivers each time the driver come to the garage even if the vehicle is not faulty.

14 NGO and donor organisations often have funds allocated for local NGO initiatives. The process of issuing grants is sometimes subject to corruption, resulting in unfair distribution of funding. One indication of this is the same NGO always receiving the grant while other more needy or capable NGOs go unnoticed.

## Implication/consequences of allowing corruption to spread

The implications and consequences of not taking proactive action against corruption are far-reaching. In the short term there may be some unethical yet positive outcomes, such as fast tracking of project tasks or quicker invoice payments. There are however significant negative effects in the mid to long term, these effects are explored below.

The temptation to avoid transparent hiring procedures is high when many current employees are willing to recommend excellent candidates for the new role. This can, however, have significant side effects, as the organisation will often end up hiring from one ethnical group, upsetting the others. In the past, this has lead to an imbalance in the local community, causing strikes, lobbying and court prosecution.

Avoiding transparent procurement procedures will lead to a reduction in the quality of work. Contractors rely on their bribes to get them the next job rather than on the quality of their work. Corruption will also have an effect on project costs. Corruption drives out competitors, which leads to a lack of competition. This allows those paying the bribes to increase their monopolistic costs and this drive up the procurement costs for the company.

good point

## Guide to Discourage Unethical Behaviour

ditto

If one were to identify two areas in which unethical behaviour were most common in Africa and in fact the developed world, it would be HR, procurement and sales. There are two key methods by which to reduce unethical behaviour, these are: to Reduce Temptation and to Improve Morality.

Reducing temptation is focussed around reducing the opportunities that employees may be tempted into behaving unethically. The initiation of formal rules and procedures is the first step to drawing a line in the sand for employees so that they know clearly when they are acting outside the guidelines. Clear procurement or recruiting process has to been written and sometimes adapted to the local environment. For example, it is often interesting to reduce the amount at which a tender announcement should be published. In most ~~of the~~ Western World corporations there is a maximum amount at which a tender can be held without being published outside the pre-qualified suppliers' circle. This limit is usually very high for local supply in Africa and the procurement process may benefit to be published for smaller amount. The more public and transparent the process is, the more the likelihood of unethical behaviour is reduced. ie. sunlight.

Another method is to split responsibilities amongst two or more people. This self-policing method acts as a barrier to unethical behaviour, as two or more people must be in on the act before corruption can proceed. This method also protects the employee, who can answer to a soliciting company that the final decision is not the sole responsibility of a single employee.

An employer must also be seen to be ethical by paying staff a reasonable salary on time and in line with market standards. With financial needs cover via a regular salary, an employee is less likely to be tempted by further offers for financial gain.

While a rules-based organisation provides the ground for an ethical organisation, high morality within an organisation provides a ceiling to aim for. Morality can be improved

through a number of means such as a code of ethics and studies of best business practices in the industry. Demonstration of this practice must be a top-down approach. After all staff are unlikely to maintain a moral high ground if they know management are spending their lunchtimes being wined and dined by potential suppliers. Having said this, a bottom-up approach must be established when developing tools such as a code of ethics or best business practices. Staff must be empowered to feel they themselves have generated such tools and will this be more likely to take the moral high ground when faced with an ethical dilemma. Morality should be reinforced regularly through dialogue, workshops and conferences. It is also helpful if help is at hand for those employees faced with such problems in the form of a help line or mediator to facilitate the decision making process.

## Conclusion

Applying the guide the answer to the introduction case would be to be vigilant with an agent offering all the solutions. Advice would be to be sure to have a comprehensive supplier database and to follow a clear tender process. To build a supplier database, managers should consult other procurement managers in other international companies, local chamber of commerce and business association and published calls for expression of interests. Then, it is advised to study carefully the official documents of each company participating in a tender process and to visit them before allocating the contract.

This process may look fastidious and costly. However, if an organisation wants to preserve its integrity in Africa, the manager should invest time and resources to prevent the cancer of corruption to spread internally.

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