Answering to a Higher Authority

Leading Programs in the Developing World

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Hebrew Brand used this as the slogan for their all beef hotdogs. The idea being no pork is used because it would be contrary to a higher authority, God, whose values trump commercial considerations. It is a concept that offers sound guidance for programs and projects conducted in the developing world. That being organizations should feel responsible for the local people. This paper will explore why this is important, and how it should be approached……..

In 2016 the World Bank projects that 11.9% of the people who live in developing countries live on less than US$1.9 per day, which is considered poverty. The largest percentages are in Latin America and the Caribbean, South Asia, and Sub-saharan Africa. As you may know, these are areas often rich in natural resources, and largely devoid of infrastructure. Richard Auty coined the phrase *resource curse* to describe the adverse effect commodities can have on the economic and democratic potential of a country. The basic idea is that a surfeit of foreign capital linked to commodities can cause short-term windfalls and long-term shocks, can encourage corruption, and can expose countries to so called hot money. Money that can quickly flow into, and out of, a country can result in short-term economic chaos.

So, what type of programs are conducted in countries with much of the population living in poverty? First, programs that enhance the profitability of organizations from developed countries, often tied to so called extractive industries like mining or energy - the *resource curse*. Often, such projects will require that infrastructure be put in place in order to move the commodity to a port for shipment. Second, programs that involve creating infrastructure in order to support business. Programs like cellular communications, water, toll roads, ports, and rail lines can provide services for the community, and while tied to enhanced business profits, such projects produce a residual asset. Thirdly, the programs that are undertaken by development banks like the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and of course the World Bank. These programs often focus on basic infrastructure or on capacity building that are intended to improve the lives of the local people. In this paper, we will focus on the first type of program, as it can create the greatest damage.

In our book, Leading Extreme Projects-Strategy, Risk and Resilience in Practice, we provide dozens of examples of extractive industries, and the challenges that are faced by organizations who do programs in such environments. Here we will use South Sudan as an extreme example. As you may know it is the newest country having gained independence in 2011 from Sudan. It is an area with oil and gas deposits, but is landlocked, so transit of products must travel through Sudan or Ethiopia, which complicates matters. Billions of dollars of aid have poured into South Sudan, but no institutions have been built, and tribal rivalries continue to be brutal. When oil prices collapsed, the payments to warlords ran dry, and tensions again erupted.

It is estimated that 70% of the children are not in school, 27% of adults can read, 25% of the population have fled their homes, food must be provided by donors, and malaria, cholera, and measles is rampant. Oil money flows through warlords, who pay militia who are in their tribe, to kill those who are not. The UN had to withdraw from a large refugee camp because of the fighting. The Fragile States Index complied by the Fund for Peace rates Switzerland at 21, the good end of the spectrum. Somalia rates 114, the worst, and South Sudan is 113.8, a close second. According to the UN, the GDP is US$1,800 per person, compared with Switzerland at US$81,000, and inflation is 800%. Transparency International ranks South Sudan at 165, Somalia is worst at 167, and Denmark is best at 1. Salva Kiir was the first president from the Dinka tribe, shared power with his vice president, Risk Machar from the Nuer tribe, until 2013 when Mr. Kiir forced Mr. Machar out, and the fighting began again. Imagine you are a global company that wants to extract oil and gas from South Sudan, you know all of this.

Of course the first idea is that an organization would be crazy to step into this environment. But imagine that our organization sees an opportunity in the second largest reserves of oil in Africa after Nigeria, oil with a low sulphur content - prized as clean burning in Japan where nuclear power has become problematic. So let us imagine we are a Japanese organization looking for an inexpensive, long term, sustainable source of oil. We have decided the short term challenges are less than the long term gains, and that there are two strategies available to us, make “Good Profit”, and make Bad Profit.

“Good Profit” is an ideas that comes from a book by Charles Koch where he describes his philosophy for running a profitable business. He describes his guiding principles for everyone in an organization as:

1. Integrity
2. Compliance
3. Value creation
4. Principled entrepreneurship
5. Customer focus
6. Knowledge
7. Change
8. Humility
9. Respect
10. Fulfillment

Here we will consider two of the ten aspects he describes: value creation and principled entrepreneurship. Value creation for him means creating long-term value for customers, society, and the organization. Principled entrepreneurship for him means maximizing long-term profitability by creating value for customers, consuming fewer resources, and acting lawfully and with integrity. Bad profit is the opposite, short-term profits at any cost, disregard for the society and the environment, and using the political circumstances and corruption to leverage the investment. And, of course, there are a range of other options between these extremes in practice, but here we want to keep the discussion focused.

First let us consider the Bad Profit strategy. We want to extract as much oil as possible, in the shortest amount of time, at the lowest cost. To do this we will need to reinforce the most powerful tribe with arms, get Mr. Kiir or Mr. Machar or both on our side, befriend the president of Sudan, Omar al-Bashir, and/or the prime minister of Ethiopia, Hailemariam Desalegn. Omar al-Bashir, of Arabic descent, is wanted by the International Criminal Court for crimes against humanity, and Desalegn's party passed a draconian state-of-emergency bill in response to attacks, to assuage concerns of foreign investors. Let's say we decide to go with Omar al-Bashir, and adequate brides, incentives in polite company, to assure an uninterrupted supply of oil.

We believe that the lessons learned during the civil war with South Sudan places him in the best position to know where to apply pressure, who to pay off, who to arm, and who to hire for protection. We think that we must side-line both Mr. Kiir and Mr. Machar, or foment more fighting between them as a distraction. We know that Omar al-bashir has been accused of embezzling billions of dollars, so we believe the cost of his support will be at least in this range. Then we must add the cost of the pipeline, the cost of the para-military protection, and the cost of maintaining a fortress for workers. We do not want the negative press that will come in Japan, so we will hire Chinese workers to go into South Sudan - less expensive to protect.

The international press will be investigating from the beginning, so we will need to set up a number of off-shore entities to confuse the connections to our organization, and will run all of the necessary funding through a variety of banks that do not ask questions in places like the Seychelles that have Islamic banking available. We estimate that we need 36 months of supply to recoup our investment, and thereafter our profits will be incredible. Back-up plans will be put in place to guard against an overthrow of Omar al-Bashir within the first 48 months of operation. As for the local citizens, we will take any easy steps to avoid further harm, but have no plans to help - as long as the costs do not exceed our pro forma.

As an organization, we are in the business of making a profit. We are not obligated to mitigate or correct local societal, environmental, or humane issues. Our responsibility is to learn the game, and play it effectively, not to adopt some altruistic values towards human rights or ethics. If the organization realizes profits, then the shareholders benefit, and that is our sole mandate. Especially since we are shareholders as well. Others must fend for themselves.

As you can well imagine, there are a truck load of risks with this strategy, and many of them require betting the organization's global brand. But, assume the Board, made up of independent members, votes to use this strategy. They have decided to risk their own reputation, and if employed by another organization, that of their parent organization by association. The tactics then are to obscure everything through a maze of off-shore entities, and embark on a policy of plausible deniability. Now, the Board hires a Program Manager, who is not privy to the strategy and tactics, from Sudan - an associate of Omar al-Bashir. Please we do not in any way suggest that any organization should adopt such an approach, but we have seen such thinking in practice.

Now imagine the opposite, Good Profit. First we, the Board, determine we are prepared to forgo profits for 1/2 a generation. We believe the reserves will last for 40 years, and that we can create exclusive use of the product. Everything will be transparent, and we will engage the global press from the beginning to report upon our endeavors. We choose to go through Ethiopia with the pipeline, and must engage the politicians to encourage a more democratic and open society. No meddling in internal politics, but helping to build stable and responsive government support for the people of the country. We also intend to facilitate better understanding and cooperation with the governments of Djibouti and Eritrea, to create a more peaceful and stable environment for business.

With a long-term view, we want to have 100% of the operations performed by Ethiopians within 10 years, and will do this by building a technical college that will prepare people for the industry, and for the support systems necessary including finance, import/export governance, logistics, taxes, administration and so forth. The plan is to provide a direct conduit for staffing we will require, and 50% additional capacity to function as a seed for other institutions and businesses. Our expectation is to build social capital with the next generation. We also plan to adopt the highest environmental standards and thinking, to use Ethiopia as a model for Africa, and the world.

In South Sudan we will select a person with international standing to mediate between the two factions, for the killing must stop, and people must be able to return to their natural lives, and live without fear. We plan to build basic infrastructure and government services so that the South Sudanese can run their country. The time frame goal would be the same as in Ethiopia, 1/2 generation. Here the program would be similar regarding education and the environment. In this case however, an immediate effort would be placed on health care and nutrition, and in the education system on preparing doctors and nurses. As with Ethiopia, the strategy is long-term building a generation of people who see the outside world as friends and not predators. We hope an ancillary benefit will be to create a swath of east Africa that is free of terrorists.

We plan to put our own people on the ground, and protect them vigorously. They will be ambassadors to show the local people our intentions by how we do our work. And, by example, that they can build a home where their children can prosper and be healthy. So we put a Program Manager, our best, in place to guide the program. The Program Manager would first be located in Ethiopia for safety, and as soon as possible in South Sudan. Our long term plans for Good Profit are to help Ethiopia and South Sudan add value for their society, government, and environment, and for our organization to make Good Profit that is sustainable. We hope to show the way for other organizations to also make Good Profit, by adopting a long-term view, and to reduce the risks for everyone.

Of course by now you know which strategy the authors prefer, Good Profits. And, no doubt you can easily hear the complaints about costs, profits, and why we are not in the business of fixing societies where we work. But, hopefully we have painted the picture in such a way so that the long-term wisdom outweighs the short-term profits. In Board rooms good people can make very bad decisions if short-term pressures to make numbers outweigh long-term growth and profitability. But there are other 21st century considerations. One being ubiquitous information - everyone has a cell phone. Last century people in remote locations could do all sorts of things, and not be discovered until years later - not today. So global knowledge of actions is pervasive, and fast. This serves as a counter balance to short-term profits, and can seriously damage an organizations reputation. It is argued that an organization’s brand is worth 75% of yearly revenue, so there is the potential for short-term losses that exceed short-term profits. This changes the calculus.