

## **Circles of Corruption in the Global Construction Industry and Suggestions for its Mitigation and Elimination Including the Use of Enterprise Risk Management<sup>1</sup>**

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According to a paper published in January 2017, entitled: “Why is Construction so Prone to Corruption?” by LetsBuild, a large software company in the construction industry, the total global construction market was estimated as \$3.2 trillion per annum [1]. It was claimed that losses to corruption in the industry amount to 10-30% of the total market revenue.

Construction industry has been identified as the most corrupt sector in the world. Transparency International describes construction as an industry with characteristics that render it prone to corruption. It occurs in various manifestations in business, economics, politics, etc., it is blamed for most things that are badly handled in the industry. Whenever there is a failure of a public project, the first reaction is to suspect corruption as the reason for it. This is the assumption even before the failure is investigated. According to Transparency International, corruption could be defined as “the abuse of entrusted power for private gain” [2].

When talking about developing countries, corruption is a term that appears as one of the factors responsible for the apparently enduring underdevelopment. It is certainly the case that the construction industry is one of the industries where corruption features unhelpfully. Sadly, Africa has suffered a lot at the hands of corrupt individuals and organized crimes. Some companies for instance, allegedly pay top African government officials to receive tenders which have brought the construction industry into disrepute [3]. However, there are examples, cited in this paper, that make the point that corruption in the construction industry is a global affair and not confined to one continent.

In preparing this paper, a graphical representation has been produced of Circles of Corruption in the Global Construction Industry. The essence of preparing this network of circles of corruption in the global construction industry is to present the problems at a glance, that is on a page. It is hoped that the graphical presentation should make an impact on the reader who could be a project team member, a project manager, a project director or any other project stakeholder. An impact that could help elicit an interest in trying to eliminate some of the problems. It is thought that summarising the corrupt

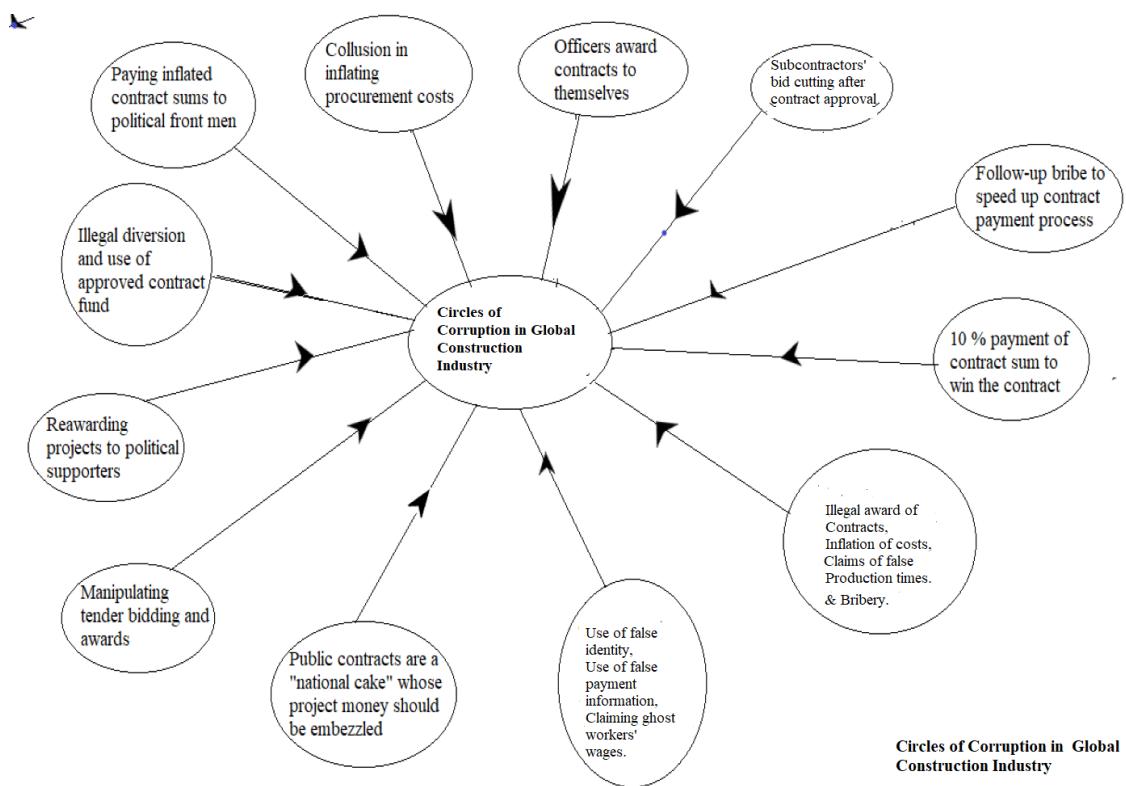
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practices and failings may help to underscore the enormity and global spread of the problems which respect no geographical boundaries or national advancement in technological development. As will be seen with examples, corruption shows its unacceptable face in various forms in developed and underdeveloped nations alike.

In the first section of this paper, a graphical presentation of the circles of corruption in the global construction industry is given. Some examples of where they occur are discussed with reasons why they thrive. Suggestions for their mitigation are made in the second section while the use of Enterprise Risk Management is recommended in the last section.

### Some examples of Circles of Corruption



### Circles of Corruption and some reasons why they thrive in the construction industry

- Inflation of costs: The industry produces large infrastructures which are capital intensive. The greater the size of the fund, the greater the chances of inflation of costs.

- Corruption from the uniqueness and complexity of large projects: Large projects are generally unique such that there are unfamiliar areas which may be exploited for illegal personal gains. In addition, there may be hundreds of contractors engaged; interactions are so many that they constitute avenues for corrupt dealings. Besides, the companies may have multiple job sites, numerous employees, and multiple suppliers such the owners may not be able to monitor and regulate them [1].
- Problems of multi industrial workforce: The workforce comprises professionals belonging to different professional groups with various codes of conduct such that the differences in the codes provide loopholes for corruption to be practised and thrive [1].
- Incorrect production times declaration: Some workers arrive late, leave early, and declare false times. This gives false production times because they have declared more hours than they really work. The company therefore pays them more money than they have worked for.

In the industry, which is big and broad, where billions are spent on services and goods every year, subcontracting is the norm and supply chains are long, there is certainly ample opportunity for fraud. Here are some activities that have been exposed.

- **The ghost workers' wages:** In the UK, a Balfour Beatty operations manager, his name is deliberately withheld, was jailed for three years in October 2012 after he and two other managers defrauded the company out of £165,000 by authorising payments to two bogus workers who were not employed by the company. The fraud ran over five years from November 2005 to March 2011 and involved creating "ghost" employees and putting their personal details put on the payroll. Time sheets were then created and signed off by the managers [4].
- **False identity:** Construction Industry Training Board (CITB) has been working with the London Metropolitan Police to investigate suspected fraudulent Construction Skills Certification Scheme (CSCS) card offences. In July 2012 a man was found guilty of impersonating candidates at 48 Health Safety & Environment tests, and in March 2013 a man was arrested for using a fraudulent HS&E pass report to obtain CSCS and Construction Plant Competence Scheme cards [4].
- **Falsifying information in Public sector procurement:** Falsifying payments is reckoned to be one of the most common types of construction fraud and can

include everything from inflating the cost of work done to billing for unperformed work. An investigation by the UK Department for Communities and Local Government (DCLG) auditors, released under the Freedom of Information Act and reported in August 2013, criticised three building projects run by Stoke-on-Trent City Council, which were funded by more than £16m of taxpayers' money. It was found that "fraudulent activity" was probable [4].

- The investigation came after an allegation made to Staffordshire Police in 2010 over the tendering processes at the council. The DCLG report added that "procurement documents were falsified" to increase the cost of the work. A false invoice was also produced for demolition work [4].

Corrupt practices in some other countries have been adapted from a paper, written by the authors who are Paul Bowen, Keith Cattell, and Peter Edwards [5]. Some examples include the following:

**Australia:** There were questionable practices in bid-cutting in construction tendering in Queensland from economic, legal, ethical and management perspectives. It was found that, after their tender had been successful, main contractors coerced sub-contractors into reducing the sub-contract prices used to support the original bid.

**USA:** Fails Management Institute/Construction Management Association of America (FMI/CMAA) found that 84% of the building owners, architects, building services firms, construction managers, contractors and subcontractors, who responded to a survey, had been exposed to construction industry-related acts or transactions that they would consider unethical.

**China:** The corrupt practices included administrative interference, the illegal award of contracts or sub-contracts, the disclosure of confidential information to certain tenderers, and the extortion of kickbacks by clients and government officials from contractors. Contractor-centred corruption was found to comprise the offering of bribes (money or benefits in-kind) to clients or tender committee members in an endeavour to secure a tender, collusive tendering and bid rigging, invoice fraud, the use of sub-standard materials and workmanship, and collusion between contractors and supervisory authorities.

**South Africa:** Following a survey conducted as reported in reference [5], 71% of all respondents reported that they considered corruption to be widespread. Verbatim responses from some of them included statements and answers such as:

Quote:

- If you do not engage in the bribery, you will either not get the job, or you will bump into various obstacles that will prevent you from doing your work as required.
- It is easier to follow the pack, than stand against corruption.
- Corruption in the construction industry is rife, perpetuated mainly by government officials for personal or political gain.
- When I tender as a consulting engineer, I am almost always phoned by public officials for kickbacks, bribes, etc., sometimes during tender stage, most of the time before they want to award the tender.
- It is during the tender and evaluation phase where generally corrupt officials within the client bodies can manipulate tenders and tender results to suit their own purposes. This is where some tenders are deemed non-responsive and ineligible based on insignificant reasons to elevate favoured tenderers.

Unquote

More examples of corruption in the global construction industry are cited in the book: “Achieving Successful and Sustainable Project Delivery in Africa”.

### Suggestions for Mitigation

These are suggestions of some things that companies can do to prevent construction fraud from occurring [1]:

- Care in working with subcontractors: Companies should always have a signed contract with each of their subcontractors, and each one should also have a license and proof of insurance. It is best if local companies are used, because word of mouth is a great way to find out if a subcontractor has tried to cheat another company in the past.
- Conducting background screenings on everyone that is working on the project can be helpful, because employers may find clues that might suggest that theft could be an option.
- Every company should have at least two people monitoring the activities of the business for fraud. These people can continuously check the payroll, bills that are being received and paid, and even work closely with all the contractors on the job.
- Received invoices should be reviewed to make sure that they contain the expected information. Any sign of inflated costs or improper wages should be flagged and investigated immediately.

- Any itemized payment applications should be reviewed because there are times when contractors will bill for Class A materials when they really used Class D materials for the job. Companies can pay a lot more for a project if those items are not caught immediately.
- False claims are common in the field of construction, which is why written documentation should be received for any claim that is being made. This documentation can then be used during lawsuits if the claims are deemed to be false and causing theft.

Jim Gee, the director of counter fraud services at BDO UK, offers the following advice [3] which has been recast for the purposes of this publication:

- Please send a clear message from the top that fraud and corruption are unacceptable and will involve disciplinary action/termination of contracts.
- Ensure that fraud and corruption are on the organisation's enterprise risk register. There should be a regular review of arrangements to mitigate it.
- Check out how well protected your organisation is from fraud and corruption. You are welcome to use a free online Self-Assessment Fraud Resilience (SAFR) tool, developed by BDO and the University of Portsmouth UK. This could be requested from the UK Government's National Fraud Authority. It should be conveniently completed within 10 minutes. It rates your organisation and provides an indicative figure for the cost of fraud in your company (visit [www.pkfapps.co.uk/fraud/](http://www.pkfapps.co.uk/fraud/))
- Please provide regular fraud awareness and detection training for staff and contractors.
- Note that BDO stands for Binder Dijker Otte is an international network of public accounting, tax, consulting and business advisory firms which perform professional services under its name.

## Use of Enterprise Risk Management

Corruption, in its many forms, is widespread as already discussed in the foregoing paragraphs. It is a problem that has to be resolved and plans made for its elimination; if nothing, because of its adverse cost implications to an organisation. It may appear difficult to suggest a solution because whatever is suggested will be implemented by

persons. If they are not won over in the fight against corruption, the solution may not be successful because those implementing it will look for loopholes in the solution to exploit. For any system to deliver the desired result, it has been observed that “Methodologies and processes don't deliver [programmes and] projects; people do.” (PwC) And, “if an organization is to undertake all the [programmes and] projects necessary to implement the chosen organizational strategy, there must be sufficient people with the right competences, skills, attitudes, and know-how to deliver the full portfolio”. This writer has a first-hand experience of the message of this statement. In 2007, he was making a presentation on the benefits of a project management product from Primavera Systems Incorporated to a company in Lagos, Nigeria. To his shock, he discovered that three persons in his audience were busy discussing between themselves, trying to discover loopholes in the management of the project which they could exploit to falsify project data. He could not but stop to advise that basic honesty is required in manual data collection and for systems to work correctly.

In spite of this discouraging and negative experience, corruption should be seen as a serious enterprise risk and its solution should be considered in the preparation and installation of an enterprise risk management system in the organisation.

From research, it has been discovered that corruption has been institutionalised in a number of large public offices in many countries. As a result, allowing organisations to continue their operations without any external checks will be unhelpful as the practice of corruption is already endemic in their culture. Therefore, interventions by a project management office is essential in the fight to eradicate corruption. Adaptive monitoring and project auditing could be conducted by the PMO to check the activities of project teams and even maintenance offices. Such checks could help to show how resources and funds are being utilised. The checks could be planned or interventionist to provide information on the use of resources. Based on the findings, corrective actions should follow to correct the ills discovered. All these suggested actions should be components of the Enterprise Risk Management (ERM) framework.

Enterprise Risk Management (ERM) could be defined as the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on its operations, capital and earnings. It enables the systematic identification, balancing and controlling of portfolio of business risks, and the alignment of an organisation's risk profile with its risk appetite. The ERM framework provides a framework to understand and respond to business uncertainties and opportunities with relevant risk insight delivered through common, integrated risk identification, analysis and management disciplines.

There is no intention in this paper to discuss the design and implementation of an ERM Framework. What has been the objective is to recommend ERM as it helps an organization evolve from a siloed risk approach to a broader view of understanding and practice of risk management. Anti-bribery and anti-corruption (ABAC) risk assessment process should be carried out within that ERM framework.

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## About the Author



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**Dr. O. Chima Okereke**, Ph.D., MBA, PMP is the Managing Director and CEO of Total Technology Consultants, Ltd., a project management consulting company working in West Africa and the UK. He is a visiting professor, an industrial educator, a multidisciplinary project management professional, with over 25 years' experience in oil and gas, steel and power generation industries. For example, On December 26<sup>th</sup> 2013, he completed an assignment as a visiting professor in project management; teaching a class of students on Master's degree in project management in the Far Eastern Federal University, Vladivostok, Russia. In August and September 2013, he conducted an innovative, and personally developed training programme for seventy-six well engineers of Shell Nigeria to enhance the efficiency of their operations using project and operations management processes.

Before embarking on a career in consulting, he worked for thirteen years in industry rising to the position of a chief engineer with specialisation in industrial controls and instrumentation, electronics, electrical engineering and automation. During those 13 years, he worked on every aspect of projects of new industrial plants including design, construction and installation, commissioning, and engineering operation and maintenance in process industries. Chima sponsored and founded the potential chapter of the Project Management Institute (PMI®) in Port Harcourt, Nigeria, acting as president from 2004 to 2010.

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