

SCENARIO 1

THEME 1: LEADERSHIP AND ORGANISATIONAL CULTURE

Overview

Corruption in procurement processes can occur in any organisation. Its presence and extent depend largely on an organisation's procurement framework and the strength of its ethical supports, for example appropriate policies and procedures. Organisations can mitigate the risk of corrupt conduct being embedded by enforcing sound policies and controls with appropriate checks and balances.

This scenario describes the bribery and corruption of a local government official over a seven-year period. During this time, \$1.15 million in cash and other benefits was given to the official by the managing director of an engineering company, with the intention of gaining an unfair advantage for the company when tendering for council contracts.

It is designed to support a group discussion about how procurement processes can be exploited and how corrupt conduct can be accepted as normal business practice within a team.

There are two sections:

Section one describes how council staff accepted bribes to manipulate procurement processes, in order to give advantage to a specific provider. It demonstrates how a culture of entitlement can develop in a team, which can make it difficult to distinguish the difference between what is acceptable behaviour and what is not.

Section two provides a series of questions to prompt a group discussion on the theme of **leadership and organisational culture**, as well as background information to support the group discussion.

The key learning goal from using this resource is to understand the importance of strong leadership and an ethical organisational culture.

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The scenario

John is a senior manager at a large council and is responsible for parks infrastructure. John's role involves arranging contracts through competitive tender processes.

The council has a code of conduct that includes reference to conflicts of interest, gifts and hospitality policies. On an annual basis, all staff are required to formally disclose any actual or perceived conflicts of interests in accordance with these policies. Staff are also required to disclose gifts and hospitality as they are offered or provided. Guidance and training on these policies is provided to all staff members as part of their induction at the council however these policies are not rigidly enforced.

Rowells Ltd, an engineering company, is a current provider of services to the council. Rowells' director and owner is Mike. John and Mike previously worked together for a number of years in the 1990s and they have been friends ever since. John has not declared this relationship to the council.

Shortly after commencing employment with the council, John enters into an agreement with Rowells whereby he receives substantial monthly payments for work as a consultant to the company – work that is fictitious. John also accepts numerous gifts and benefits from Mike, including electronic equipment, meals, international travel and accommodation. John does not disclose his consultancy agreement to the council, nor the payments and other benefits he receives from Rowells. Over a seven-year period this amounts to approximately \$1.15 million in cash and other benefits.

John is instrumental in the development of a new tender process for the council and he ensures it is weighted to favour tenders from Rowells. This includes reducing the number of contractors used by the council, introducing three to four-year contract terms with rights to extensions for further items, and not requiring a fixed scope for the work that is commissioned. John also has control over choosing the contract specifications and procurement budgets, which he also ensures are favourable for Rowells. He then uses information he has acquired through his role at council to help Rowells draft tenders for council work. He does not disclose this assistance.

Although John is not part of the council's tender assessment board, he sits in on some of their meetings as an observer. He uses this opportunity to influence the discussions and decisions, resulting in a number of contracts being awarded to Rowells. There is no direct link between any of the specific gifts given to John and his team and individual contracts won by Rowells, but over a seven-year period, Rowells significantly increase the number of contracts it has with the council, and their turnover grows from \$8.2 million to \$32 million, with an increase in profit from three percent to 46 percent.

To avoid unwanted scrutiny, John surrounds himself with like-minded people in his team, many of whom he has had previous work or social relationships with, sometimes before joining the council. John promotes a team culture of entitlement. He actively encourages his staff to have a close relationship with Rowells staff and to accept benefits and gifts. The more Rowells invoices a team member "signs off", the greater the benefits they receive from Rowells.

This way of working becomes 'business-as-usual' for the team. Team members who go along with John's way of doing business and accept gifts and benefits are considered team players and those who do not are treated as outsiders.

During a period that John is away, a number of invoices from Rowells are submitted to another council manager for approval. The manager is alarmed by the invoice amounts and a review of Rowell's invoices is undertaken. A full investigation is conducted and ultimately John and Mike are charged with and convicted of corruption and bribery offences and are sentenced to substantial terms in prison. Some members of John's team are dismissed from their jobs.

QUESTIONS FOR GROUP DISCUSSION

What do you think is the primary leadership issue in this scenario?

- John created a team culture based on corrupt behaviours being the norm. He led his team to behave unethically and modelled a range of behaviours that breached organisational policies.
- Senior leaders in the organisation allowed a team culture to develop in John's team that undermined the reputation and effectiveness of the organisation.
- There was a lack of sufficient leadership visibility of what was occurring which created a situation where accountability was virtually nil.

What effect could this type of conduct have on the morale and motivation of employees at the council?

- It could have a damaging and negative effect on the morale and motivation of employees by rewarding employees who breached policy and disincentivising compliant behaviour by employees who want to do the right thing.
- At the team level, it could have a detrimental effect on the relationships between team members who did or did not engage in the corrupt behaviours.
- Employees could struggle with the possible reputational impacts this behaviour could have on the organisation and the people working there.

What effect could this type of conduct have on the reputation of the organisation?

- A significant damaging and negative effect as they could be seen to be corrupt, dysfunctional, lacking in professionalism and supportive of an unhealthy 'mates' culture.
- Key stakeholders and customers could lose trust and confidence in the organisation and question whether they want to do business with them, possibly leading to a reduction in diverse providers for services procured by the council.
- Elected members and ratepayers could lose confidence in the council with these issues demonstrating poor stewardship of public funds.
- Potential employees may question whether this is an organisation that they would want to work for now or in the future.

What environmental factors would make you feel comfortable 'speaking up' if you saw this type of behaviour happening in your organisation?

- A clearly communicated and easy to follow 'whistle-blowers' policy and process that is readily available to everyone.
- Having more than one channel to report potential wrongdoing or inappropriate behaviour so there is one that feels comfortable and accessible.
- Confidence that anyone coming forward will be listened to and any concerns raised will be kept confidential and treated objectively without facing punishment or disadvantage.
- A strong ethical culture where asking questions and raising concerns is encouraged.
- Visibility of when information is acted on by senior leaders.

What other things might an organisation consider doing to prevent unethical conduct?

- Regularly remind staff of their responsibilities in relation to conflicts of interest, gifts and hospitality policies and procedures.
- Take a proactive approach to developing an ethical culture by regularly providing training in relation to good procurement practices.
- Provide supports such as clear policies, procedures and other mechanisms that protect staff who report potential unethical practices, or behaviour of other staff.
- Visible leadership behaviour that models the culture such policies and procedures try to create.