Top-10 risks worth considering when expanding into Africa

Africa's emergence as a growth area is attracting interest from businesses all around the globe. South African businesses are showing particular interest as they are on the spot and might be supposed to have a built-in advantage. For that reason, in fact, many overseas companies are seeing South Africa and South African companies as natural launch pads into Africa.

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However, said Pete Frielinghaus, a Senior Business Continuity Management Advisor of ContinuitySA, companies need to be aware that Africa is not a single market and that its economies are extremely diverse. This heterogeneity must be taken into account and South African companies, in particular, must make a concerted effort to understand a very different set of risks and not assume they 'know' Africa.

"Expanding into new markets is intrinsically a risky business and so has to form part of the business continuity management cycle," he suggested. "ContinuitySA has a bird's-eye view of risks that are common to many African economies. These 10 should certainly be considered when putting a business plan together and when thinking about entering the African market."

- **Infrastructure**. Overall, reliable infrastructure remains a key risk in Africa and there are no uniform standards deployed to measure quality. Roads are poor and, in some cases, extremely congested, with inevitable impacts on supply chain operations and the movement of personnel. In addition, theft and vandalism further undermine the infrastructure while natural disasters also take their toll-for example, flooding in some parts and earthquakes in the Rift Valley in particular.

- **Power**. Africa's energy grid is chronically underdeveloped, something that's worsened by increasing demand. Companies should, therefore, prepare for power outages and spikes, with the constant drone of back-up generators rumbling on through the day and the night. Ensuring a regular supply of clean diesel should also form part of the risk-mitigation strategy.

- **Communications**. As with the power grid, the communications infrastructure is inadequate for the growing demands placed on it. Even when fibre and VSAT infrastructure is in place, performance is not consistent due to incorrect specifications and poor maintenance. "A good example of an African country making tremendous inroads into correcting and strengthening this vital Achilles heel is Rwanda, which is right at the top of the list in terms of cheap and reliable communications infrastructure," Frielinghaus commented.

- **Political issues**. Overt conflict is ongoing in a number of African countries, but often apparent political stability masks undercurrents of contention. The direct impact of political turmoil is obvious-what may be less so is the link between conflict and corruption, which, in turn, affects the business environment in many subtle ways. Staff evacuation plans should be in place with a reputable service provider.

- **Corporate governance**. Standards of corporate governance remain variable from country to country-in many African countries, both political and business elites still do not buy into the link between corporate governance and prosperity. This, in turn, impacts on companies that need to adhere to international codes, like Basel III, King III and Sarbanes-Oxley. The recent formation of the African Corporate Governance Network is one initiative that shows that the move towards building a culture of corporate governance is growing. "In the main, though, corruption and nepotism remain significant risks that must be factored into business continuity planning," commented Frielinghaus.

- **Financial and economic issues**. As noted above, Africa's economies are extremely diverse and include some of the world's fastest-growing economies, but also some of the poorest. These variances in gross domestic product create totally different business and living environments. Other factors to be considered here include complying with different tax regimes and the occasional need to receive payment in local currency via a local bank account.

Companies must also ensure they have adequate insurance cover in the light of local regulations. Some countries, and more particularly large local companies, require foreign companies to take out local cover for professional indemnity-often international cover alone does not suffice. In addition, cross-border medical cover can be both expensive and difficult to arrange.

  - **HR issues**. At the broadest level, finding skilled and experienced staff remains a challenge, which means that expatriates continue to play a large role in African business. HR issues such as this need to be factored into long-term business continuity planning, including succession planning.

In a similar vein, language and cultural issues are extremely complex and need to be handled with care. Although the majority of African countries use English, French or Portuguese as the business language, it should not be forgotten that the underlying social and business norms are quite different. For example, punctuality is not regarded as highly as it is in the West; nor is there a tradition of robust debate-African societies tend to be more hierarchical and deference towards authority is expected.

"Never forget that you are operating in a very different cultural setting, and that it needs to be respected-you are not here to change things," warned Frielinghaus. "Find local mentors and listen to them, or you will not be successful."

  - **Health and safety**. The current outbreak of Ebola in West Africa is just the latest example of the potential dangers of doing business in foreign countries. In general, the prevalence of diseases like malaria and yellow fever in Africa can place huge strain on the immune systems of foreigners. Companies need to ensure their staff are fully briefed on, and equipped with, preventative medicine and precautions-and that evacuation plans cover medical emergencies as well as conflict.

At a more mundane level, finding food that is familiar and palatable can be both difficult and expensive. Adapting to the local cuisine makes good sense.

  - **Foreign suppliers. Over-reliance on foreign suppliers across Africa translates into poor service, slow**

response times and, thus, inefficient support of systems and services. All of this translates into impaired performance, both of the company itself and its customers or partners.
- Visa and work permits. Visa and work permit requirements are far from harmonised across Africa, and seem to change constantly. Aside from the expense, which can be considerable, this area of government bureaucracy is a constant barrier to proper planning and scheduling, and thus constitutes a business risk.

"Africa offers many opportunities but realising them requires insight and staying power-but the same is true when a company expands into any new markets," Frielinghaus concluded. "Perhaps the first and most important misconception one needs to get rid of is thinking of Africa as a single place. As in any business venture, understanding your market is the first thing to get right!"

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