



- The Need for a Pragmatic Focus
- Overview of the South African Business Environment
- What You Need to Know About South African Business Culture
- Case Scenarios
- Tactics and Strategies for Success

August 2020

Understanding the Business Culture of **South Africa**





Contents

| | |
|---|-----------|
| Introduction | 3 |
| Overview of the South African Business Environment | 5 |
| What You Need to Know about South African Business Culture | 7 |
| Case Scenarios | 10 |
| Tactics and Strategies | 12 |
| Getting Help | 17 |
| Notes | 18 |



Introduction: Business Culture— The Need for a Pragmatic Focus

Despite Covid-19 and disruptions in international trade, questions related to culture and its impact on business cannot be avoided. These questions are not always easy to answer and some of them are indeed perplexing.

Is there a strategic way to prepare for cultural issues in markets like South Africa and key sources of market intelligence to rely on?

Which international markets require a significant marketing adaptation and which ones will allow limited or marginal changes?

How can I mitigate the risks deriving from business culture issues?

To what extent can I apply the adaptations that successful firms have made and to what extent do I have to swim on my own?

Discounting the Importance of Culture

Many international businesspeople are not well prepared to deal with cultural issues as they engage in business in the South African market. This can be explained by a range of factors including the fact that it is a market of contradictions and diversity with first world infrastructure and third world poverty.

Many international executives assume that cultural factors can be addressed by local agents or reps and will not materially impact their business if they have the “right” people to rely on. Some think that their products and services speak for themselves and override culture. Some, venturing out for the first time, see cultural factors in the context of “nice to know” factors rather than “need to know.” They have not experienced the consequences of cultural faux pas and are not inclined to spend precious time on understanding and adjusting to cultural factors and nuances.

Moving forward, we can expect that business culture will continue to present significant challenges for international executives in the South African market.

Understanding Your South African Counterpart

South Africa is a country which is undergoing rapid and unprecedented changes and where many of the old structures (both economic and social) have been swept away by post - apartheid adjustments.



Blending Western technology with indigenous technology, Western traditions with African and Asian traditions, South Africa is a study in contrasts. It also provides lessons in how cultures can sometimes blend, sometimes collide; for example within a short distance of one another can be found the villas of South Africa's white elite and the tar-paper shacks of black day laborers, modern office buildings and one -room houses that lack electricity.

A great gulf still exists between the white minority and the black majority in matters of education and economic opportunity. Yet, South Africa is making steady progress in erasing some of these historic disparities and their consequences. Daily life is better for most of its people, and culture and the arts, which sometimes were forced into exile, are flourishing in the free climate of the post-apartheid era.

From the business perspective, understanding your South African counterparts - their motivations, their business processes, their timelines, their decision-making, and how culture weaves through all of this, can be hugely daunting, particularly to those who may have limited exposure. Many do not know where to turn for help.

Practical Business Impacts of Culture

This guide delves into the direct impacts of culture on the key pillars of conducting business in South Africa. We present an overview of the South African business environment, what you need to know about South African business culture, case scenarios and key tactics and strategies for success from the business culture perspective. We also draw on discussions with executives with direct experiences in doing business to capture the nuances seen from the ground.

It is my hope that this guide, will provide you and your firm with useful insights and “inside information” to avoid the potential pitfalls and bottlenecks due to a lack of cultural awareness.



Chapter 1: Overview of the Business Environment in South Africaⁱ

Officially known as the Republic of South Africa, the country is located on the southernmost tip of the African continent. Home to rich wildlife and a varied scenic topography, South Africa is a top tourist destination making tourism one of the major contributors to its GDP. The country has 3 different capital cities – Pretoria (executive), Bloemfontein (judicial) and Cape Town (legislative). With the economic infrastructure of a first-world country and poverty of a third-world country, South Africa is comparable to no other nation. From an economic point of view, the wealth of the nation is primarily concentrated in Johannesburg and Cape Town.

South Africa saw institutionalised racism from 1948 to 1993, this political and social system of racial segregation came to be known as Apartheid. The election of the National Party in 1948 led to the black majority population being disadvantaged and controlled by the white minority. The first steps to dismantling this began in 1990 and general elections, where citizens from all races participated were held in 1994. The African National Congress (ANC) won the elections and has been in power since. This marked the beginning of the Post-Apartheid era. The country last held elections in May 2019.

Owing to its multiethnic society with a wide variety of religions, cultures and language, the post-apartheid South Africa is known as the rainbow nation.

COVID-19 has severely impacted the economy. South Africa imposed a strict lockdown in March as a response to COVID-19; this led to annualized 51% contraction in the second quarterⁱⁱ. The only sector that saw an expansion in the second quarter was agriculture; while construction, manufacturing and mining were the worst hit. South Africa also banned cigarettes and alcohol to curb the coronavirus; this impacted the consumer spending on food and beverage.ⁱⁱⁱ

There are several industries playing an important role in the growth of South Africa. Owing to an abundance of precious natural resources, mining is one of the crucial industries in South Africa. Precious stones, gems, and metals form 17% of the total exports of the country.^{iv} The country also exports food products like sugarcane, corn, and sunflower seeds. The expansion of steel, manufacturing, and other heavy industries feeds into other sectors as well. However, the service sector – tourism, financial services and hospitality are deemed to be the most lucrative.

As a free enterprise economy with an independent and robust judicial system, South Africa offers a legally secure environment for foreign investors. South Africa not only



treats foreign investments at par but also offers incentives and exemptions. A low tax compliance commitment, an efficient tax regime, favorable trade regulations and investment incentives makes South Africa an attractive market for foreign investors.

As the most developed economy in Africa, South Africa is emerging as a political and economic leader in the continent. It has deepened relations with neighbouring countries post-apartheid and is an active partner in New Partnership for African Development. South Africa was readmitted to the United Nations^v and Commonwealth^{vi} in 1994 following its transition into a democracy.

Despite its development, South Africa is one of the most unequal societies in the world and the burden of the inequality and unemployment is carried by three demographic attributes: youth, black and female.

The South African Business Environment

South Africa is a fast-changing nation; thus, the business environment and culture is constantly evolving.

| Accelerators | Ongoing Issues |
|---------------------------------------|---|
| Rich in natural resources | Containing Covid-19 |
| Relatively high literacy rates | Increasing organized crime |
| Young, active, and mobile labor force | High level of corruption |
| Effective tax regime | Social inequality and poverty |
| Digital adaptation | Rising public debt |
| Budget transparency | Increasing level of software piracy |
| Strong banking and financial sector | Bureaucracy and regulation |
| Bilateral energy partnerships | Borrowing restrictions for foreign investors |
| Favorable trade regulations | Lack of effective judicial due process |
| Export initiative programs | Vulnerable to exchange rate fluctuations |
| Investment incentives | Union militancy |
| Well-spread infrastructural network | World's highest level of income equality ^{vii} |
| | Highest rates of HIV in the world |
| | B-BBEE |



Chapter 2: What You Need to Know About Business Culture in South Africa^{viii}

South African business culture is marked by entrepreneurship, personal achievement, and cultural sensitivity. Since the society is multi-ethnic, values and behaviors of individuals differ strongly depending on the micro-cultural groups to which they belong. But patience, tolerance and creativity are prevailing values for many South Africans. The business culture of the population is in many ways in line with Western business culture in that efficiency and competitiveness are key drivers.

The transition from an apartheid system to a more representative democracy is a slow transformation. Businesspeople entering the market should not expect that this process is complete or well established.

Broad – Based Black Economic Empowerment (B-BBEE)

A big part of the post-Apartheid business landscape is affirmative action and the various laws that accompany it. Black Economic Empowerment (BEE) is a program of affirmative action launched by the South African government in 2003 to give more employment opportunities for non-white population groups that were previously disadvantaged. According to BEE businesses are rated according to a score card including Ownership, Management Control, Employment Equity, Socio-Economic Development, Skills Development, Enterprise Development and Preferential Procurement. Failure to reach a minimum of 40% leads to penalties for businesses. Businesses with less than a 5 million Rand turnover are exempt from BEE

Clothing^{ix}

Similar to western culture, men and women usually tend to wear standard western formal attire. For business meetings, men wear business suits and ties, usually dark conservative business suits with light coloured shirts. Women wear smart dresses or pantsuits; while dresses and skirts are preferred, they should be business appropriate – not too tight or short.

Collectivism Versus Individuality

A collectivist culture in South Africa encourages sharing of ideas and information. Celebrations and goals are more team-centered rather than focusing on an individual.



Corruption and Favoritism^x

Although corruption and favoritism form a common practice in South Africa, it is important to note that it is much lower than that of the rest of the continent. South Africa scores 44 on the corruption perception index, much higher than 32, the average score of Sub-Saharan Africa.

Decisive Action^{xi}

A hierarchical and bureaucratic business culture has led to power in the hands of the top few leaders. Although this varies depending on the kind of company you are dealing with. It is important to know that centralization of power is the way business were traditionally run.

Globalization has influenced businesses in South Africa, decentralized decision making is encouraged. However, the traditionally run businesses are still strictly hierarchical in structure thus most decisions are made by the senior management. Owing to its collectivist culture, South Africans often consult and take into consideration inputs from their team members.

Demeanor

People of South Africa tend to be expressive and are often vocal about how they feel. Use of hand gestures is common. However, in business context they tend to follow a more formal conduct and keep their display of emotions in control. They often use humour in communication, often to lighten tense situations. Long firm handshakes and back slapping are a common form of expression.

Diversity

Modern day South Africa is ethnically diverse with the original Sans people, different tribes, Dutch and English colonists, and Asian immigrants. This rich diversity is the reason it is called a rainbow nation. Abolition of apartheid and transition to rainbow nation has not been smooth; racial tensions still exist. Topics like ethnicity are considered sensitive, thus are not discussed in the workplace to avoid conflict.

Gender

South Africa is a male-dominated society, where men are still considered the head of the family and hold most positions of power. Women are expected to work harder to showcase their competence. Although far from equality, the government and businesses are on a path to remove gender bias and bring equality and fairness in workplace. It is uncommon to see women in top leadership roles but overall mobility of women in the workforce seems to be improving.



Hierarchical Society

Hierarchical in nature, traditional South African businesses discourage decentralization of power and a consultative approach. However, abolition of apartheid encouraged globalisation, which in turn has helped in gradual adoption of western culture. The business culture has been changing and the new businesses are encouraging relatively flatter hierarchical structures and down-the-line decision making.

Language

Owing to its rich diverse population hailing from different parts of the world, South Africa has 11 official languages. The 11 languages recognised in the constitution are Sepedi, Sesotho, Setswana, siSwati, Tshivenda, Xitsonga, Afrikaans, English, isiNdebele, isiXhosa and isiZulu. ^{xii}

Out of these languages, Afrikaans and English are the predominantly spoken languages in most of the country. English is the commonly used language in urban and professional settings.

Religion ^{xiii}

South Africa has never had an official state religion. The country's constitution explicitly states an individual's right to freedom of conscience, religion, thought, belief, and opinion. Christians form a large majority of the population in South Africa; people follow independent African Christian churches with varied faiths. Hinduism, Islam, Judaism and Buddhism are amongst the other common religions followed by South Africans. Religion is not a major factor impacting business in South Africa.

Social Stratification

South African history has unfortunately been saturated in racism. Yet, as the country develops, bigotry is slowly diminishing and losing political traction. With unemployment and poverty rampant in some communities, economic position is now the dominant cause of segregation. Unfortunately, wealth and opportunities have been distributed very unequally due to the prejudices that prevailed during settler colonization. As such, societal stratification still largely correlates with race. For example, the Pew Research Centre estimates that the average income of a white household is six times more than that of a black household. ^{xiv}



Chapter 3: Case Scenarios

Construct – Cape Town – Edtech Hub

Construct, once known as Proversity, was started in 2013 in the UK and is a global learning company. It established a presence in South Africa in Cape Town in 2016. According to David Phillips the Construct CEO, “ We have seen the growth of the edtech sector within the Silicon Cape and as the first \$ 100 million + edtech company based in Cape Town, we see ourselves as the next evolution in that edtech story. Our vision is to support a diverse workforce which contributes to Cape Town’s ranking, not only as one of the greatest cities on the planet, but one of the most powerful edtech hubs globally”

Construct is expecting significant further growth as it leverages the impressive tech ecosystem in the province and looks for major opportunities in the African continent. The company’s efforts have been assisted by Wesgro, Cape Town, Western Cape Official Tourism, Trade and Investment Promotion Agency who have helped with advice related to the investment decision.

Wesgro CEO, Tim Harris has welcomed the growth of digital learning companies and is eager to see more. “ We welcome Construct to a growing list of global tech companies calling Cape Town home, including Amazon and GetSmarter and we are ready to assist as this expansion continues in the future.”

A report commissioned by Cape innovation and Technology Initiative, Wesgro and the Allan Gray Orbis Foundation has revealed that the greater Cape Town area’s tech ecosystem now employs more than 40,000 people.

“ We are the go-to-city in Africa, and the tech capital of the African continent. We have a large angel investor community, and we are home to the highest number of accelerators and co-working spaces in Africa” said Mayoral Committee Member Alderman James Vos.

Construct is capitalizing on a timely investment, key long-term relationships with local parties and adapting their policies and processes to the distinctive cultural and design aesthetic that is Cape Town. More western companies are bound to follow this process and many will use Cape Town as a regional presence.



BMW – Community Involvement

Community involvement is an important strategy for success and it aptly demonstrated by BMW's recent approach in South Africa demonstrating its long-term commitment to the community.

The company loaned 17 BMW's to the South African Red Cross society to help it reach marginalized and poor communities that have been badly impacted by the lockdown regulations required to mitigate against the uncontrolled spread of the Covid-19 virus.

The cars, the majority of which are Rosslyn-built BMW X3s, will be used by the Red Cross to reach these communities. In addition to the provision of screening and contact tracing, the cars will assist with the distribution of hot meals and food parcels, the dissemination of information in six languages, the elimination of corona virus myths, and the provision of psycho – social support to volunteers and emergency personnel engaged in anti Covid-19 operations.

“We've been building cars in Rosslyn for nearly five decades. We are part of this country and we are committed to its future. More than at any time I can remember, now is the time society needs to come together and help each other where we can. I am delighted to make these cars available to the Red Cross. If we all do our bit to help, we'll get through this together” stated Tim Abbott, CEO, BMW Group South Africa and Sub-Saharan Africa.

The BMW long term commitment to the country shines through and many essential pandemic services including police and medical staff also use BMW vehicles. BMW's retail partners have also stayed open across the country throughout the lockdown to ensure quick and effective servicing of the vehicles.

Hatch – Embracing the B-BBEE Policies

International companies face the challenge of complying with the Broad-Based Black Economic Empowerment policies and some find the means to embrace them. Global multidisciplinary management, engineering and development consultancy, Hatch recently received the highest rating in the annual B-BBEE rating.

Hatch began its transformation journey in 2001, well before the B-BBEE legislation was put in place. Since then the company has consistently updated its transformation plan to evolve with the needs of a changing economy, and has exceeded the targets in many areas, such as skills development and management control. Such success is the result of a focused transformation plan aimed at improving all elements of the scorecard.

To assist entrepreneurs, Hatch has developed and refined its Supplier Development (SD) program and has worked with 16 SD partner organizations, 10 of which are black-



women owned and 5 of which are black youth owned. In the past 14 years the company has invested significantly into enterprise and supplier development programs.

Hatch is also committed to training and supporting future engineers, constructors, technologists, and inventors. In the past 14 years the company has invested heavily in skills development, providing 174 bursaries to students, and hired 155 graduates.

“ We embrace diversity as the catalyst to grow the economy by rectifying the exclusion of previously disadvantaged groups from gaining access to South Africa’s wealth, income equality, and skills development, which aligns with our corporate vision to passionately pursue a better world through positive change” said Pierre Olivier, Hatch regional managing director for the Africa, Middle East and Europe Region.^{xv}

Chapter 4: Tactics & Strategies for Success

Broad-Based Black Economic Empowerment (B-BBEE)

It is hugely important for you to be aware of affirmative action policies promoting the development of black talent which are in force throughout South African industry. You need to be fully knowledgeable and adapt your practises to these policies.

Communication

As noted earlier, the common business language is English although it is often spoken with strong accents. Generally, it can be said that South Africans exhibit a direct style of communication. White South Africans, in particular, prefer a plain-speaking style and are comfortable if your approach is straight forward. Conversely, many of the black cultures play a more diplomatic approach which may be harder to fully read.

Humor is used quite often to lighten stressful situations and you can use it in a measured way. Formal titles are not used that often in business and South Africans are quite comfortable with firm handshakes and backslapping.

Counterpart

The nature of your counterpart is hugely important from a cultural point of view. The corporate structure, management style, degree of international exposure will vary enormously depending on the individual company. You need to consider the experience and ownership of the company seriously. If you are dealing with a public sector company or a recently privatized company, you can expect a high level of bureaucracy and slow decision making.



Crime

Unfortunately, violence has become a major issue in South African daily life in the cities and you need to be on guard. Many daily activities in the cities must be planned around avoiding crimes of opportunity and you need to consult with your counterparts, Embassy officials, hotel staff and others to avoid travelling in certain places and at certain times of the day.

Diversity

There are various cultures within South Africa with ethnic tensions existing both within the black and white communities. You need to know exactly who you are dealing with and there is no substitute for complete due diligence.

Dress Code

Even if business attire is becoming more casual in many companies, you are expected to be conservative: dark colored business suits for men and business suits for dresses for women. When business meetings are held on a social basis, it is possible to dress more casually, while remaining quite formal.

Entertaining

You are as likely to be asked out for lunch as dinner and may even be invited back to somebody's home for a meal in the evening.

Favors of Employment

The unemployment rate is very high in South Africa, so your South African counterpart may ask for personal favors that entail employment for his or her family members. You do not need to feel obliged to do this if it puts you in an awkward position. Refusing should not damage your business relationship.

First Contact

It is often necessary to make contact one or two months in advance to obtain an appointment, and to confirm it by calling the day before. Summer holidays are to be avoided (mid-December to mid-January). It may be difficult to arrange meetings with senior level managers at first; you may have to meet with lower-level managers to begin with.

Gifts

The exchange of gifts is not a standard business practise but does occur. Gifts are not considered as bribery and you should accept them where they are of modest value.



They are usually opened when received. People from the Xhosa tribe tend to give and receive gifts with both hands.^{xvi}

Greetings

You should give a firm handshake with direct eye-contact with your South African colleagues. Some women do not shake hands and just nod, thus wait for the woman to extend her hand first. South Africans can be quite tactile and back slapping and hugs are common. Greetings are quite informal and include time for social discussions.

In general, when meeting someone for the first time, South Africans use “Mr” or “Mrs”, except in the academic sector where professional titles are important. When addressing a woman, it is advised to avoid using the term “Miss”. First names are often used but it is advised to wait until you are invited to do so.

Holidays

You should note the key holidays Jan 1 – New Year’s Day, March 21 – Human Rights’ Day, Good Friday, Family Day, April 27 – Freedom Day, May 1- Workers’ Day, June 16 – Youth Day, August 9- National Women’s Day, September 24- Heritage Day, December 17- Day of Reconciliation, December 25- Christmas Day, December 26 – Day of Goodwill.

Language

Fortunately for many international businesspeople, the common business language is English which is spoken to a high standard and your proposals and negotiations can be conducted in English.

Management Power and Style

Management in many organizations has been held in the hands of a small group of senior managers who have often been white. Decisions tend to be made at the top and it is important for you to ascertain who are these decision makers. Pressure is being put on managers to be more consultative and to delegate authority but there is resistance in some organizations. The best general advice if you are managing an organization is that you be authoritative but not overly authoritarian. You need to demonstrate that you know the details of your proposal, technology and plans and speak with conviction.

Meetings

You should appreciate that meeting protocol and style will depend on the nature of your counterpart. Generally, South Africans expect that you are following the economic and political situation and you should show interest and that you have done your research.



Your interest in developing an ongoing relationship and a soft approach to business will position you well in the eyes of your counterparts.

Relationships

Regardless of the diverse nature of the South African business community, the importance of strong and long-lasting relationships is paramount. As in many other developing markets, you need to demonstrate a long-term commitment and focus more on relationships than contracts.

Teamwork

You should be mindful of the fact that teamwork can be challenging to build when it crosses ethnic lines. This is not limited to black and white co-workers but also between groups such as the Zulu and Xhosa.

Time Management

In general, White and Asian South Africans value punctuality while black and mixed-race South Africans have a more flexible approach towards meetings. South Africans often use the phrases “now-now” or “just now”. To do something “now-now” is to do something shortly, whereas “just now” means to do something in the near future, but not immediately.

You are advised to arrive in advance for meetings as many companies and public buildings require visitors to pass through security checks. Formal meetings and appointments usually begin and end on time in government organizations and in traditional white managed enterprises.

It is advisable to include strict deadlines in contracts to avoid misunderstandings.

Tipping

It is common to tip about 10% of bills in South Africa, and tips are usually not included in the overall bill. If you have negotiated payment beforehand (such as taxi fare) the tip will be included.

Trust

In South Africa, generally people do not instinctively trust each other upon first meeting one another. Therefore, it is important that you establish healthy business relationships to build trust. They generally do not yearn for a strong personal relationship but rather a solid mutual understanding. If you exhibit respect to everyone equally and find common ground, you are likely to gain more traction.



If a South African is not familiar with the reputation of your company or they cannot find enough background information to support your claims of character, they will be wary of doing business with you. The onus is on you to provide references and get them to introduce you.

Women in Business

Women have not played a major role in business life in the past although this is changing. Western businesswomen will generally be well accepted but will not find many women counterparts at senior levels in South African companies.



Chapter 5: Getting Help When & Where You Need It

Navigating South African business culture is a constant learning process and one where surprises and faux pas occur, regardless of how well versed and prepared you may be on the cultural file.

MIRA services (www.miraservices.ca) can help provide important guidance to your learning curve and the support you need when issues arise through the provision of the following services:

- Research and analysis of your business opportunity in South Africa with strategic recommendations on how to best proceed
- A critique of your business plan including from the business culture point of view
- Recommended cultural tactics and strategies tailored to your current situation
- References to a network of experts who can address specific issues related to culture, including marketing, negotiations, human resource management and much more



Notes

-
- ⁱ <https://store.marketline.com/report/ml00002-025--south-africa-in-depth-pestle-insights/>
- ⁱⁱ <http://www.statssa.gov.za/?p=13601>
- ⁱⁱⁱ <https://markets.businessinsider.com/news/stocks/south-africa-gdp-plunges-in-steepest-decline-1960-2020-9-1029570054#>
- ^{iv} <https://tradingeconomics.com/south-africa/exports-by-category>
- ^v <https://www.southafrica-usa.net/pmun/>
- ^{vi} <https://thecommonwealth.org/our-member-countries/south-africa>
- ^{vii} <https://www.usnews.com/news/best-countries/articles/2019-09-13/10-interesting-facts-about-south-africa>
- ^{viii} https://www.international.gc.ca/cil-cai/country_insights-apercus_pays/ci-ic_za.aspx?lang=eng
- ^{ix} <https://www.expatica.com/za/working/employment-basics/business-etiquette-in-south-africa-105889/>
- ^x <https://www.transparency.org/en/cpi/2019/results/aus>
- ^{xi} <https://www.doingbusiness.org/content/dam/doingBusiness/country/s/south-africa/ZAF-SA.pdf>
- ^{xii} <https://southafrica-info.com/arts-culture/11-languages-south-africa/>
- ^{xiii} <https://www.britannica.com/place/South-Africa/Languages>
- ^{xiv} <https://culturalatlas.sbs.com.au/south-african-culture/south-african-culture-core-concepts#south-african-culture-core-concepts>
- ^{xv} Creating Positive Change – Hatch attains Level 1 B-BBEE rating – Hatch Press Release April 23/2019
- ^{xvi} Business practices in South Africa- Santandertrade.com