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The China–Africa business connection: An interview with the CEO of Standard Bank

Jacko Maree describes his experiences working with a Chinese investor—the giant Industrial and Commercial Bank of China.

Michael Kloss and Vikas Sagar

Before 2007, Standard Bank Group, Africa's largest financial institution by assets, had done its fair share of international deals. Over the years, it had not only expanded northward into the continent from its base in South Africa but had also established a presence in Hong Kong, Russia, and South America. Still, Standard Bank could hardly be considered a high-profile bank on the world financial stage. All that changed in October 2007, when Standard Bank announced that it had sold a 20 percent stake to the giant Industrial and Commercial Bank of China (ICBC) for $5.5 billion, the largest Chinese foreign investment at the time.

The deal is enormously important to Standard Bank, says Jacko Maree, the bank's chief executive officer since 1999, and it also has great symbolic significance for Africa, demonstrating China's growing business commitment to the continent. In this interview with McKinsey's Michael Kloss and Vikas Sagar, Maree reflects on the results of the deal with ICBC—the world's biggest bank by market capitalization at the end of 2009—China's increasing role in Africa, the continent's economic prospects, and how multinationals might approach doing business there.

McKinsey: *Globally, there's increased optimism and focus on Africa. Is it justified?*

Jacko Maree: We have taken the view for a very long time that Africa, coming off a low base, should grow faster than many other parts of the world. Not as fast as the "BRIC countries,"[1] but certainly faster than South Africa, where our head office is located, and definitely faster than the developed economies.

As a collective, the African economy is relatively small. The question is, while Africa as a continent may have higher growth, will you be able to earn enough to move the needle? There has to be a dose of realism in this. You may do very well in a small country, but the impact on your total earnings may not be that significant. However, there are also the obvious big growth opportunities within developing economies in sectors like food, infrastructure, telecommunications, commodities, and energy. There are also a number of African countries with vibrant and substantial consumer markets, such as Nigeria.

In a number of these countries, there are certain operational challenges that need to be met, so certain costs will be higher. If you're happy with the size of the opportunity, we think that the potential is there.

McKinsey: *What advice would you have for multinationals looking to do business in Africa?*

Jacko Maree: The most important question is, are you going it alone or are you going to work with partners? Sometimes having a local partner is really the most obvious way to go. Clearly, you always need advice from someone who understands the local environment. In a number of the countries in which we operate, we have chosen to work in formal partnerships. In some geographies, we have tried to position ourselves firstly as a local player and secondly as a multinational.

For major multinationals looking to expand on the African continent, a key question is whether you have sufficient resources to tackle the challenge. What

[1] Brazil, Russia, India, and China.

we have found in a number of these countries is that, initially, you've got to use quite a lot of your own resources rather than rely on local skills. Over time, of course, that changes.

McKinsey: *Africa has a reputation as a risky place to do business. How should a multinational think about risk there?*

Jacko Maree: Whenever you go into developing countries, you are exposed to different risks from those you might be used to if you're sitting in London or New York and thinking in a developed-country paradigm. There are risks to doing business in Africa, but no more so than some of the Latin American economies or even Russia and Asia. The question is how to manage those risks once you've understood them. We spend a huge amount of time getting to grips with the particular risks that may occur in some of these countries and then try to mitigate them.

In Nigeria, for example, we own 50.1 percent of Stanbic IBTC Bank. The remaining shares are owned by the general public and the founder of IBTC. We feel that the structure helps mitigate the risks because we have positioned ourselves as a local institution with local shareholders. In Russia, where we merged our bank with a very successful investment-banking operation called Troika Dialog in 2009, we were prepared to reduce our economic interest to 36 percent. Our view was that it was better for us to be in a strategic minority position because we think that improves our risk profile, not to mention the commercial benefits we gain from having teamed up with an excellent partner.

Understanding risk is more than just a financial concern. One has to be mindful of ensuring that you're seen to be helpful and relevant to the local economies rather than just extracting profits by providing a service. When you're dealing with developing countries, the issue of the social relevance of your company is completely different from when you're dealing with a developed economy. For banks, more so than other enterprises, the question that often comes up when you are visiting government officials or major corporate customers is: what are you doing for our country?

Jacko Maree

Vital statistics

Born August 30, 1955

Married, with 4 children

Education

Graduated cum laude with a bachelor of commerce in 1976 from Stellenbosch University

Earned an MA in politics, philosophy, and economics in 1980 as a Rhodes Scholar at Oxford University

Career highlights

Standard Bank
(1980–present)

- CEO, Standard Bank Group (1999)
- Managing director, Standard Corporate and Merchant Bank (1995)
- Managing director, Standard Merchant Bank (1991)
- Various finance positions (1980–90)

Fast facts

Serves as a director of Liberty Life, is a former chairman of the Banking Association South Africa, and is a former director of the International Monetary Conference

Obtained golf Blue at Oxford, was president of Johannesburg's River Club for five years, and is a member of the Royal and Ancient Golf Club, St. Andrews, Scotland, and of the Augusta National Golf Club, Georgia

Received the 2004 Wits Business School Annual Management Excellence award, the 2005 *Sunday Times* Business Leader of the Year award, and Moneyweb's CEO of the Year award in 2005 and 2006; was Most Trusted CEO in South Africa in Ask Africa's Trust Barometer study from 2007 to 2009

A bank cannot typically turn around and say, "Well, we're just here to help you with your transactions or your financing requirements." You have to be involved and committed to the communities in which you operate.

McKinsey: *What is Standard's aspiration for expansion in Africa?*

Jacko Maree: We are trying to position ourselves as the "go to" bank for the African continent. As a growing financial-services group, you can build domestic businesses, and you can also build cross-border businesses. We are trying to do both. We are trying to build scale businesses locally and then use that platform to link those countries to other emerging markets in a banking sense.

The question is, where do you start? For obvious reasons, we started in southern Africa and expanded northward. We haven't yet really entered French-speaking Africa. I have no doubt that, if our strategy remains successful, it will only be a matter of time before we do find ourselves in more countries. North Africa will probably be the last move for us because many of those countries probably see themselves as closer culturally and economically to the surrounding Mediterranean countries and the Middle East.

Because we are present in 17 African countries, we've got a significant enough base to position ourselves as a bank that can assist multinationals with the full spectrum of financial solutions across the continent. We have the ability to link emerging markets in Africa to our network in Argentina, Brazil, China, Russia, and Turkey, to name a few. You can't do that if you've only got a small number of countries in your portfolio.

McKinsey: *Perhaps that is one factor that attracted the attention of the Chinese bank ICBC, which took a 20 percent stake in Standard—the biggest deal you've done. How do you assess the early results of the tie-up?*

Jacko Maree: The linking of our two institutions had a significance way beyond the actual monetary investment by ICBC. Symbolically for Africa, this was extremely important. It was a $5.5 billion investment by ICBC and, at the time, the biggest foreign investment by a Chinese company. It signaled that Chinese companies had substantial ambitions in Africa, which at the time, in 2007, took a lot of commentators by surprise.

In so far as the benefits for Standard Bank are concerned, clearly there was the initial one of raising capital. The investment was fortuitous, just ahead of the global financial crisis and the subsequent turmoil in the global banking system. There was an unquantifiable but very substantial benefit to Standard Bank of entering that period of global turmoil very well capitalized, and with a partner of the stature and size of ICBC as a 20 percent shareholder. This was particularly important to Standard Bank as we are a banking group that is fairly dispersed around the world and therefore susceptible to cross-border risks and to counterparty issues that many of the other South African banks were not exposed to.

When it comes to tangible business benefits, many of these come from major Chinese companies embarking on projects on the continent. A good example was a highly publicized deal toward the end of last year where a major power station in Botswana was being built by a Chinese construction company. The funding is, to a large extent, coming from China, but of course much of the domestic advice and financing is coming from ourselves because we have a bank in Botswana and strong structuring skills in Johannesburg. These sorts of opportunities wouldn't have arisen had it not been for the link that we had with ICBC.

We are currently working on numerous projects across the continent in areas of commodities, infrastructure, power, and telecoms. Oil is an obvious sector where Chinese companies are investing or interested in doing so, and where we are providing either advisory services or on-the-ground services for them to actually complete the transactions.

So it will be very beneficial for us, but Rome wasn't built in a day. We reported in our results for the last year that we had incremental revenues of some $78 million coming out of the ICBC relationship. That's not to be sneezed at, but we think this is just the tip of the iceberg.

McKinsey: *What differences, if any, have emerged in business practices between the Chinese and yourselves? Any surprises?*

Jacko Maree: No, not really. One of our group's competitive advantages is that we have for many years operated in many different countries. When you do that, you become attuned to the fact that you have to be sensitive to local cultures, practices and ways of doing business. In building relationships with our Chinese partners and their customers, we've really not found it particularly difficult. Of course, one has a language issue but we have managed to overcome that to a large extent.

McKinsey: *Have you learned to speak Mandarin?*

Jacko Maree: No. I haven't had the time, and it's very difficult! However, we have many Mandarin speakers working for Standard Bank in South Africa, elsewhere in Africa, and in Beijing. Language is an obvious problem but it's not that big in our view. We have found ICBC to be completely straightforward and extremely good partners. We haven't found significant differences in our business practices. Of course we have had to adapt when dealing with much smaller entrepreneurial companies on the continent where you can't expect the same level of professionalism. But certainly we have found the major Chinese companies to be professional and smart.

McKinsey: *Are you spending much time in China?*

Jacko Maree: I visit there a few times a year. We have many people traveling back and forth on a range of issues, but if you want to get deals done, you've got to have deal-doing professionals on the ground. My visiting there is not going to make the difference. If you want to do business in China, you've got to be represented there at a very senior level. We made a strategic decision to relocate the head of our African businesses outside of South Africa to Beijing. Craig Bond is a member of our executive committee, and when we did the deal we said to Craig, "Go and live in Beijing." Craig is now our chief executive in charge of the ICBC strategic partnership and he's built an office of 20 professionals, who are Standard Bank employees. Their main purpose is to interface with ICBC and ICBC's major corporate clients.

McKinsey: *Some people have expressed concern about China's growing involvement in Africa. What's your view?*

Jacko Maree: I think that the Chinese involvement is overwhelmingly positive. In dealing with Chinese companies, it's pretty clear from the word *go* what they want out of a particular transaction. It is up to the local governments and businesses concerned to decide whether that is what they want or need.

In the case of ICBC's investment in Standard Bank, the South African government and the South African Reserve Bank had very clear ideas of what was good for South Africa. I think that it is important to set ground rules. To the extent that problems have arisen, they can often be traced back to the fact that perhaps the ground rules weren't clearly laid out in advance. Countries do have to think carefully about what they want out of their relationship with China and Chinese companies. They come in with technology, skills, capital, and so forth, and a lot of that is what this continent needs. It comes back to what deals are negotiated.

Some press commentary presumes that Chinese companies are not doing business according to, let's call it Western norms. I think if you look at the way in which China has tackled some of the "green" issues coming out of Copenhagen,[2] you could argue that China is really on the front foot. Of course, there are examples of smaller Chinese companies where the conduct of business hasn't been exemplary. We've had no pressure from ICBC to do anything that we wouldn't have done ourselves. We are signatories to the Equator Principles,[3] and ICBC supports that.

McKinsey: *Have your dealings with ICBC affected your view about emerging markets more broadly?*

Jacko Maree: We have always believed in emerging markets. We have had a presence in Russia and Brazil since the mid-'90s. So it's not as if emerging markets outside of Africa are new to us. Standard Bank has always had expertise in commodity financing, particularly in mining-related transactions. Many of those sorts of transactions occur in developing countries or emerging markets. Has the ICBC deal changed our perceptions of emerging markets? I think it's probably just heightened our belief that the skill set that we have is relevant to other developing countries.

We hold no competitive advantages in the developed markets of the world. We are a smallish bank on the global scene—ranked by market cap somewhere around number 60 in the world. But our skill set is relevant because South Africa has a world-class financial sector and capital markets that can be benchmarked against any developed market.

A number of South African companies found themselves in the same position: quite large companies in a small domestic economy. Your alternatives are to pay dividends or to grow. If you're going to grow, you've got to look outside the borders of your country. If you ask who our role model is, I'd say it is the brewer, SABMiller. SAB grew in Africa, grew into Eastern Europe and then into a number of other emerging markets, and eventually earned the right to do a major deal. We've long admired SABMiller—they have the same sort of challenges that we do.

McKinsey: *The FIFA[4] World Cup is being played in South Africa in June and July. What are visitors, particularly potential foreign investors, to make of the recent political turmoil in South Africa?*

Jacko Maree: What you've got in South Africa is a very robust democracy born out of extremely difficult times. Within this context we do have many extremely divergent views that are discussed and debated openly in a free press.

What we've really got to look at is the actual policies rather than some of the rhetoric from politicians or interest groups that one might be reading about in the newspapers.

You'll generally find that South Africa's policies have been pretty conservative and very sound. But as in many other developing countries, there are things that are unpalatable, such as high crime levels. Some of South Africa's other issues that need addressing include education challenges and the high incidence of HIV/AIDS. These are the major issues that the country is working on.

[2] The December 2009 Copenhagen conference on climate change.
[3] Voluntary standards for the social and environmental aspects of project finance.
[4] Fédération Internationale de Football Association.

Michael Kloss is a director in McKinsey's Johannesburg office, where **Vikas Sagar** is a principal.