Opinion

Koos Bekker undermines Naspers's health behind a wall of A shares

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Iron grip: Koos Bekker, chairman of Naspers, firmly and abruptly dismissed agitators at last week's the annual general meeting. Trevor Samson

The Raith Foundation, like so many other South African investors, is enormously lucky to have been a shareholder in Naspers for the past 19 years. This period has covered most of Naspers's life as a listed entity.

In that time, we have watched as the management of this vibrant media and entertainment company settled in to the listed environment; we were there when the dotcom bubble threatened its early confidence in that environment and we have certainly enjoyed the breathtaking returns from its investment in Tencent.

At the time we bought into Naspers, we were aware of, and accepted, the contrived control structure that allowed a relative handful of parties to control 68% of the company's voting rights.

In 2005, the control structure was made even more impenetrable in the wake of a hostile bid by Jannie Mouton of PSG, but we accepted the assertions by Koos Bekker, then the CEO, that the group's various partners, in particular the Chinese owners of Tencent, needed to be sure Naspers was not vulnerable to a hostile takeover.

We seek to be responsible investors who look to promote the long-term success of companies and at that point we were comfortable that the Naspers board did not abuse this control structure. We felt they used it to implement strategic plans that allowed for long-term growth in a volatile environment.

Often, in this type of environment, a slump in short-term earnings can expose the company to opportunistic acquirers who have little interest in the long-term interests of companies or their stakeholders.

So, it was with utter dismay that we followed events at Naspers's recent annual general meeting (AGM). For us, it was confirmation of concerns we have had for the past few years.

Sadly, it is now undeniable that the Naspers control structure is being used to shield the board and management from the consequences of poor corporate governance.

Bekker's implicit defence of the structure as necessary to compete in a world dominated by "monsters" such as Google, Facebook and Amazon might have been more persuasive if he had not abused his authority as chairman and pre-emptively, in what seemed a fit of pique, shut down questions from shareholders at the AGM.

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Bekker's move, eerily reminiscent of 20th-century corporate SA and at odds with the dynamic 21st-century company it aspires to be, was in fact a contravention of the Companies Act. In recognition of the importance of the opportunity AGMs provide for shareholders to engage with directors, the act obliges boards to hear them out.

Bekker's dictatorial stance ensured shareholder activist Theo Botha would get little joy from his trip to Cape Town. Botha, who is generally better prepared for AGMs than most nonexecutive directors, was given wholly inadequate answers to the questions he was allowed to ask.

He was then prevented from asking probing questions about the group's share incentive trusts. These trusts play a critical role in determining the motivation of key executives and are, thus, of great interest to responsible investors.

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Those powerful institutions did vote (silently), with an unprecedented 60%-plus voting against the controversial remuneration policy.

More than 60% also voted silently at the previous AGM. Unfortunately, the control structure allowed Bekker and his board to ignore the silent protesters. The high-voting A shares ensured all resolutions received the necessary support.

The extent of N shareholder opposition to a number of key resolutions may have irked Bekker and may account for his bizarre and inappropriate assault on corporate governance during the AGM.

"Companies very seldom go under because of a failure of governance. The latter is a hygiene factor: necessary but not sufficient," Bekker told shareholders before going on to explain that Real Madrid is the best football team in the world because of relentless practice and invention, not because team members wash their hands after going to the toilet.

Sadly, it seems Bekker, who has made huge contributions to the country's economy, may have spent too long in a sheltered control environment. His performance at the AGM was that of a man who has never had to brook opposition; a man who has enjoyed unfettered control for too long.

The reality is that governance, rather like hygiene, is not a nice-to-have luxury, that can be considered "when the time is right". It is something crucial to the continuing health of the company from day one.

Are Bekker and the Naspers structure so fragile they cannot contemplate input from shareholders? That is one of the worrying implications of the handling of the AGM.

The concern of most N shareholders is that Tencent's performance is providing too much camouflage for the variable to weak performances of the operations under the control of Naspers management. While Bekker believes inclusion of Tencent allows for cross-subsidising of new business ventures, shareholders fear it allows for a tolerance of poor performance.

Those fears are heightened by the fact that the remuneration of key executives — including CEO Bob van Dijk — benefits enormously from Tencent's performance although they have no input into its management.

It is time for Bekker to step out of his fortress and engage with shareholders. There is too much at stake to continue seeking shelter behind a contrived control structure.

• *Elster and Fraser are with the Raith Foundation.*