Craig Enenstein, chairperson of the Naspers HR & remuneration committee, answers questions on Naspers' approach to remuneration and how we make pay decisions.

What are the considerations in selecting an appropriate performance condition for PSUs?

Let me tell you a little bit about our thought process here. We had several objectives in mind when selecting the appropriate metric:

Firstly, we wanted something that drives value creation and does this over the long term. We did not want metrics that might incentivize decision making for the short term. There is a risk that measurements like profit, or cash could discourage high risk-adjusted return capital investment, which is actually something that we as a board want the management team to do. Those shorter-term financial metrics are still important, and we capture them in our short-term incentive program.

Secondly we wanted to encourage an appropriate level of risk taking. Measures like return on invested capital (ROIC), if used in isolation, might incentivize participants to overlook the value of early-stage internet start-ups or to focus only on investment opportunities that provide short-term returns. ROIC is still an important metric to us, and is at the core of the valuations process that we use for the Naspers Global eCommerce SAR plan, in which the CEO and CFO participate.

Thirdly, we wanted to avoid inappropriate comparisons with other companies. Measurements like total shareholder return (TSR) are also commonly used in other public companies. However, in Naspers' case, calculating this metric relative to the Johannesburg Stock Exchange would be inappropriate due to the disproportionally large size, and higher performance of Naspers, compared to other JSE-listed companies. Calculating the metric relative to other non-JSE listed companies that are similar to Naspers might skew towards the Chinese internet ecosystem which would not work for us because the PSU program is designed to focus on Naspers' performance excluding the Tencent investment. This is something our shareholders have indicated they feel quite strongly about. And selecting other peer companies for a relative TSR assessment can create a false sense of comparison that is not relevant to Naspers' strategy and value-creating business approach.

Next, we needed to select a metric that would be applicable over the 3-year vesting period. Our investment horizon, whether it's organic or acquisitive investment, is long-term, and measuring over 3 years means that any short-term market movements will not have a disproportionate impact. It requires the management team to make investment decisions with an appropriately longer-term horizon that will deliver performance consistently. We are both an operator and an investor, and we would find it challenging to create a precise 36-month profit & loss plan which will not substantially change over the performance period of the PSUs. Many of our businesses are growing quickly, we do a lot of deals every year, and the competitive landscape is always changing. Were we to base the incentive against a 3-year plan it would likely result in a PSU design that would rapidly lose credibility, as frequent changes to goals and targets over the 3-year period would be needed to keep pace with these kind of changes.

Management must balance our larger, more mature businesses with those that are emerging or new. Redeployment of cash to best value-creating uses is critical in this world. Short term measured investments must have an eye on value creation in a reasonable timeframe, for PSUs to be valuable.