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JD Group faces tough questions

By Nicola Mawson

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The Public Investment Corporation (PIC) yesterday abstained from voting to re-elect JD Group executive chairman David Sussman at JD's annual general meeting as this went against its governance code.

At the meeting, shareholder activist Theo Botha quizzed Sussman on the group's eroding margins, saying that the "traditional retail results are a bit of a shock".

The PIC, which owns 11.4% of JD Group, has been vocal about corporate governance and has previously chastised other major listed companies over governance issues. The corporation — SA's largest investor — previously criticised Sasol's appointment of Hixonia Nyasulu as the group's first black chairwoman since she had a 1.275% interest in Sasol Oil, a Sasol subsidiary.

It has also criticised Nampak over chairman Trevor Evans's lack of independence and the board's lack of transformation. It has also raised concerns over whether long-standing nonexecutives on Barloworld's board were independent.

Sussman stood for re-election as chairman after having had to retire from the board in accordance with JD's articles of association, which require that one third of the board retire at each annual general meeting. However, directors can stand for re-election and Sussman was re-elected by 86% despite the "large abstention in terms of governance issues".

The PIC's code advocates "responsible governance and sound management in the entities in which we invest".

The government-owned corporation, one of the largest investment managers in Africa, manages assets valued at R786,8bn as of March last year. Its clients are public sector entities such as pension, provident, social security or guardian funds.

At the meeting, Botha pointed out that in the group's 2007 annual report, JD Group had indicated that traditional retail margins would top 10%, and they were 2.1% at the end of the last financial year. Cash retail margins were targeted to be better than 7%, but came in at 5.7%, said Botha. In addition, he said, financial service margins were expected to exceed 35%, but were 20%.

"Could you please explain — our margins are seriously eroded and yet we still continue to reward our executive team, despite the fact that these are the worst set of financial (results) produced by this company in the last four years," Botha said.

Sussman responded that the group had been affected by the economic environment, but had restructured in order to be profitable in future.

JD Group has separated its financial services division so that cross-subsidisation does not occur between retail sales and financial services, he said. JD aimed to achieve a 25% return on employed capital in the financial services division, a 10% return on revenue from its overseas operations, a 7% return on revenue from its cash retail outlets such as Hi-Fi Corporation and a 12.5% return on revenue from its traditional retail outlets by 2011.

Previously, as the furniture market had become more competitive, retailers had looked to financial services to increase income, which led to inefficiencies, said Sussman. “We knew when we separated the company, we would highlight the inefficiencies.”

However, he said there had been progress in developing the company's new structure and the process had now been centralised.

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