

# Corporate Governance – King IV

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# Presenter

## Brenda Ramokopelwa

Brenda is a Managing director at Daleo Consulting, a niche risk and governance advisory, training and technology solution service provider. She has over 16 years experience in the Financial sector and has served in different governance committees across sectors .

She is currently serving on the 4<sup>th</sup> Industrial Revolution Policy Advisory Committee at Media Information Communication and Technology Sector Training Authority (MICT SeTA) and is a member of the Board of advisors at the Trans-disciplinary Agora For Future Discussions(TAFFDs) and its Ambassador in South Africa



# Course Outline



# King IV Corporate Governance

Corporate Governance Overview

Legal Status and Scope

King IV Principles Application

Principled through Disastrous Events

Conclusions



# Table of Content

## **Module 1: Overview**

Introduction and Governance

Apply and Explain

Proportionality

Disclosure

Process of Disclosure

## **Module 2: Legal Status**

Status and Scope

## **Module 3: Principles and Application**

Applying Principles

## **Module 4: Governance and Disaster**

Risk Management and Governance

Covid19

## **Module 5: Benefits and Conclusion**



# Module 1 : Overview



# Introduction

## King IV

The fourth report of the king principles sets a good foundation for good governance in organization and provides further guidance for directors to discharge their duties with care, skill and diligence .

King IV, just like the previous king principles, king IV is built on a foundation of ethical and effective leadership which takes into account the increasing shareholders expectations driven by the exponential change in the world today .

The update on this 4<sup>th</sup> report is a reduction of the principles from 75 to 16 ( plus 1 for institutional investors ) with a outcome based approach which is :

- Implicit on good governance
- Practical in application for organization, propositionally, irrespective of form or manner of incorporation
- Has move from ‘apply or explain’ to ‘apply and explain’
- Encourage transparent and meaningful reporting to stakeholders



# Governance

King IV defines Corporate governance as an exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

These are underpinned by the following fundamental philosophies of sustainable development which have been retained from King III and are key in any ethical organisation :

Integrated thinking

Stakeholder inclusivity

Corporate citizenship

Organization as an integral part of society



# Governance

The effectiveness is therefore achieved through an result driven outcome based approach which encourages pro-activeness and upholds good governance in triple context as key in the role of the governing body which is to ;

- Provide leadership by guiding and setting strategic direction for the organisation
- Be accountable in reporting and disclosure
- Give effect to strategy and set policy following requisite governance processes
- Overseeing and monitoring of implementation and execution

Supplements have also been provided in King IV for certain representative sectors to illustrate how the principles should be interpreted and applied in various situations and regimes.

Supplements that are provided are for municipalities, non profit organisations, state owned entities, retirement funds and small and medium enterprises



# Apply and Explain

There is already an argument against the mandatory “comply or else” framework: A one-size-fits-all approach is not practical, because the types of businesses and activities carried out by organizations are so varied.

Taking this into consideration, King IV has now introduces the ‘apply and explain’ approach as opposed to the ‘apply or explain’ in King III.

## || Apply

Application is assumed in the King IV principles. Organizations are advised to apply all principles in order to leverage the benefits of sound corporate governance .

## || Explain

Explanation should be provided in the form of a narrative account, with reference to practices that demonstrate application of the principle.

The explanation should address which recommended or other practices have been implemented, and how these achieve or give effect to the principle.



# Proportionality

Even though the King IV principles are applicable to all organization, there should be due consideration for organizational scale as some practices may not be suitable or appropriate based on :

- Size of turnover and workforce.
- Resources.
- Extent and complexity of activities, including impact on the triple context in which it operates.

King IV reinforces the notion that good corporate governance is not a tick box exercise or compliance exercise.

It recommends mindful application that is appropriate for the organization and sector in which it operates in line with legal provisions and guiding policies.

This will makes is relevant and a good lever for sustainable value creation .

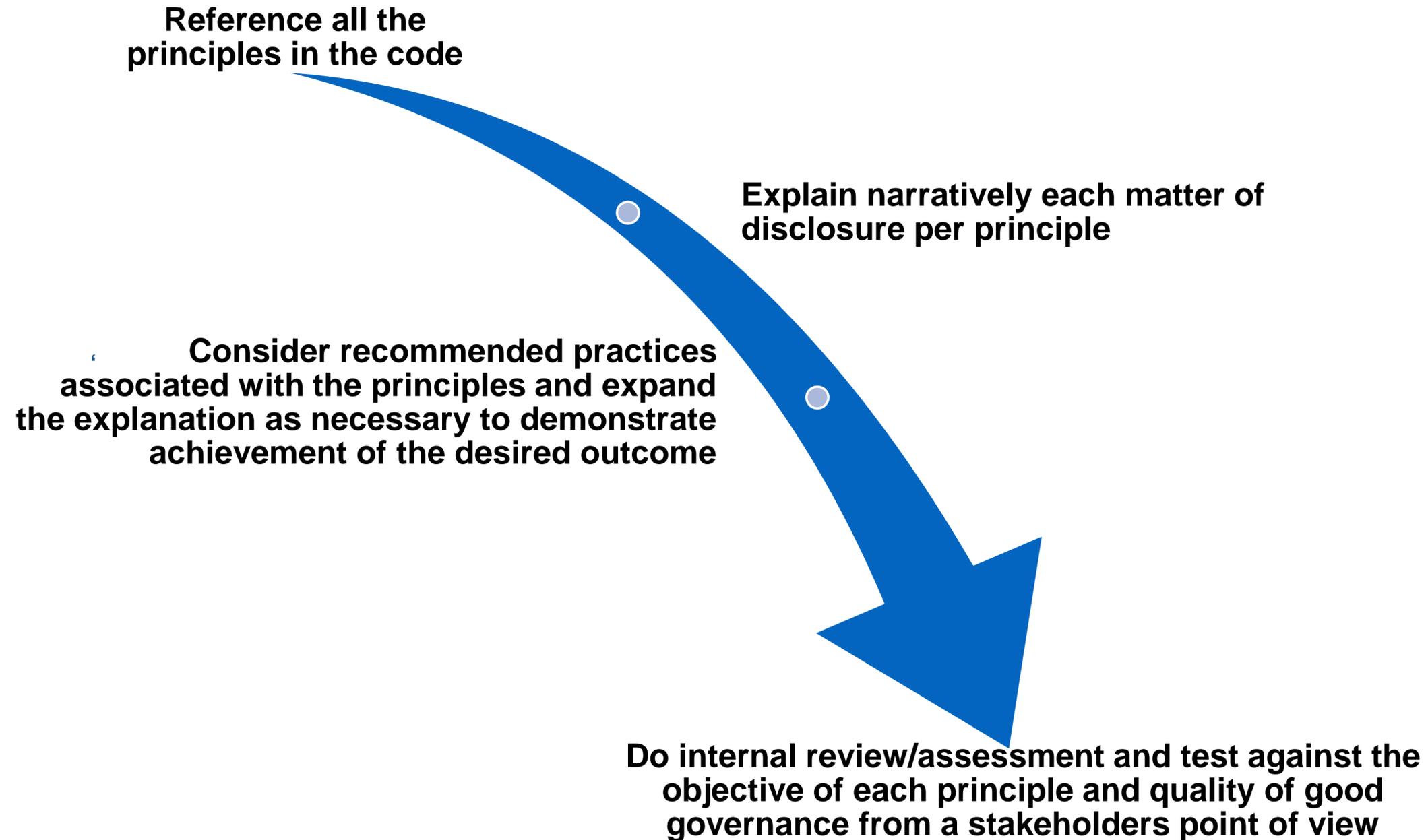


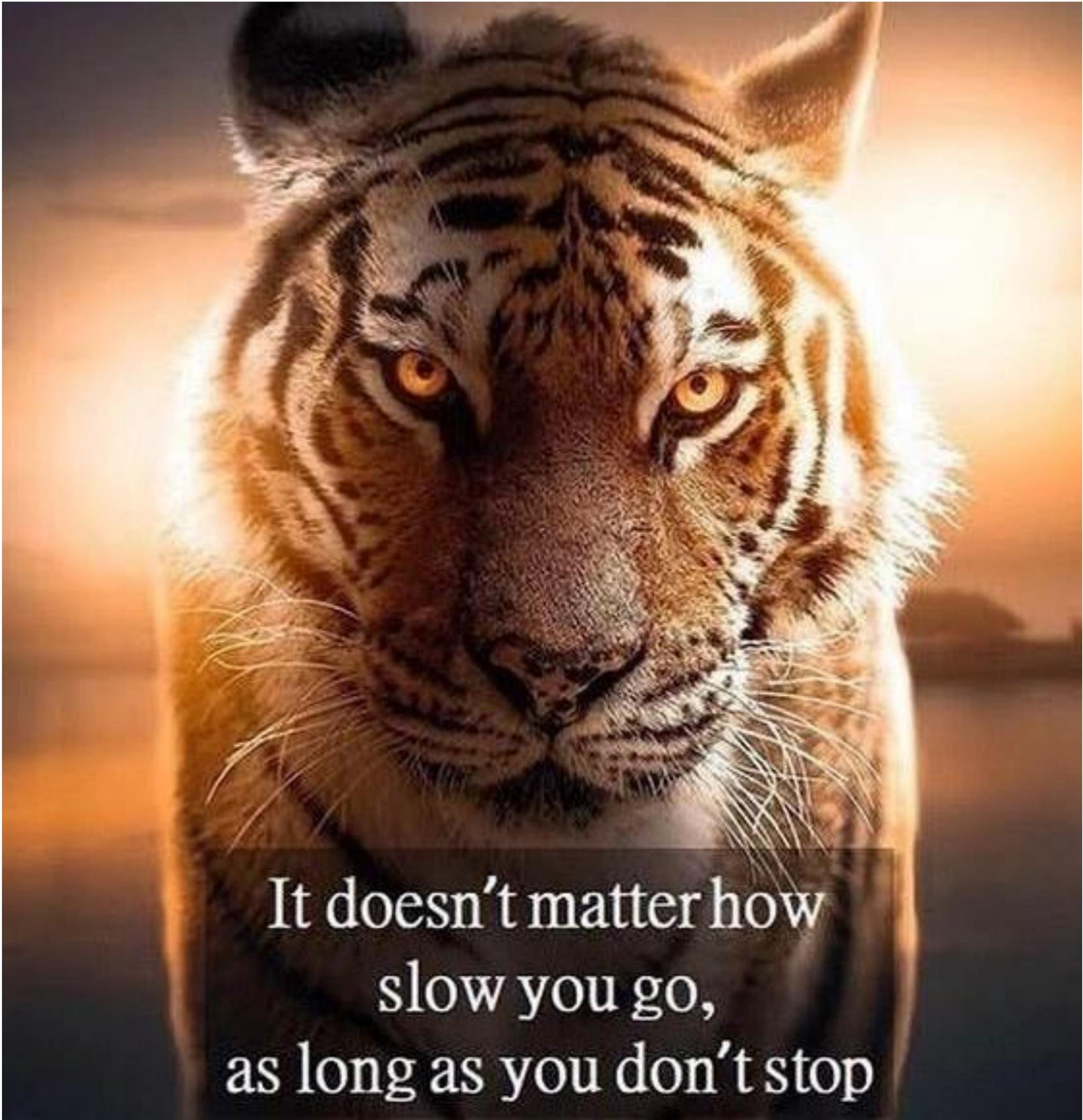
# Disclosure

- The mechanism of disclosure is at the discretion of the governing body and once decided , it should be done publicly at least annually in line with the approved internal governance processes.
- King IV principles encourages companies to engage in the spirit of the code which requires commitment and intentional application and this , is tested in the disclosures in how the principles were applied .
- Organizations should therefore make decisions on the details of disclosures based on materiality while providing enough detail to enable stakeholders to make an informed assessment on the quality of the organization's governance practices .
- Duplication should be avoided in disclosures by use of cross referencing across all group companies
- The focus in on the quality of the disclosure not the quantity



# Process of Disclosure





It doesn't matter how  
slow you go,  
as long as you don't stop



# Module 2 : Legal Status



# Status

Even though most leading organizations are using the King principles because of its embedded good governance framework, just like its predecessors, King IV is still a voluntary set of best practice principles and not law.

In South Africa however, some practices of good governance have been legislated in parallel with the King principles and are applied as part of organizational policy but if there is a conflict between the two, the law will still prevail.

Voluntary governance codes such as King IV recommend leading practices for how governance duties should be discharged, and therefore influence and affect what practices are considered and eventually adopted and implemented by governing bodies.

The more widely certain recommended practices in codes of governance are adopted, the more likely it is that if faced with a legal issue, the court would regard conduct that conforms to these practices as meeting the required standard of care.



# Status and Scope

Some of the king principles have also found their way into the law, for example the Company's Act .

The Company Act requires a director to show that reasonably diligent steps have been taken to become informed and that decisions taken by the governing body are in the best interests of the company. Failure to do so , may invoke liability .

## **SCOPE OF APPLICATION**

**Application** - Applies to all companies regardless of form of incorporation .This should be done proportionally considering the sectors ,size and complexity of the organization .

## **Responsibility**

Key focus is on the governing body but extend to management and major stakeholders as it defines the governing body's roles and responsibilities across the whole organization and expectation from an interaction point.



# Module 3 : Principles and Application



# Applying Principles

1. The governing body should lead ethically and effectively.
2. The governing body should govern the ethics of the organization in a way that supports the establishment of an ethical culture.
3. The governing body should ensure that the organization is and is seen to be a responsible corporate citizen.
4. The governing body should appreciate that the organization's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.
5. The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organization's performance and its short, medium and long-term prospects.



# Applying Principles

6. The governing body should serve as the focal point and custodian of corporate governance in the organization
7. The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively
8. The governing body should ensure that its arrangements for delegation within its own structures promote independent judgment, and assist with balance of power and the effective discharge of its duties.
9. The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

# Applying Principles

- I0. The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.
- I1. The governing body should govern risk in a way that supports the organization in setting and achieving its strategic objectives.
- I2. The governing body should govern technology and information in a way that supports the organization setting and achieving its strategic objectives.
- I3. The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organization being ethical and a good corporate citizen.
- I4. The governing body should ensure that the organization remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term

# Applying Principles

15. The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organization's external reports.
16. In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organization over time.
17. The governing body of an institutional investor organization should ensure that responsible investment is practiced by the organization to promote the good governance and the creation of value by the companies in which it invests

# Module 4 : Governance in a Disaster

# Risk Governance

Sound risk management practices are key to good governance in any organisation. King IV recognises that risks can manifest as either threats or opportunities which can arise either internally and /or externally



# Risk - Covid19

**The emphasis is therefore on strengthening risk oversight by ensuring independence, diversity and ensuring proactive management of risk in the governance committees**

- Accountability and responsibility-set direction and oversight and monitor implementation
- Skill and care - Staying informed on emerging pandemic trends and make prudent decision & adjustment to cater for the rapidly changing situation
- Proactive risk management - ensure business continuity and disaster recovery
- Oversight and monitoring - Impact assessment and consideration of possible opportunities in line with strategy as part of the recovery plan
- Transparency - Continuous communication and disclosure



# Module 5 : Application Benefits and Conclusion

# King IV Application Benefits

## **A foundation for sustainable business**

- ✓ An organisation that is well positioned to attract investors and customers
- ✓ A reputable business with support from loyal customers
- ✓ Proactive risk management yielding good performance
- ✓ Resilient organisation with ethical leadership
- ✓ Employees – act with honesty and in the best interest of the company and all its stakeholders

# Conclusion

King IV is best practice for good corporate governance which encourages more ethical practical application across organisations .The approach allows flexibility and promotes ;

- ⋮ Pro-activeness
- ⋮ Inclusivity
- ⋮ Commitment and
- ⋮ Result driven application

**As a Leaders, are YOU deliberate and committed to embracing purpose and serving all your stakeholders ?**

# Q&A

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