King IV is just the next evolutionary step

The latest iteration of King guidelines - to be released on 1 November - is nothing more than the next evolutionary step for corporate governance to remain relevant, assesses where we are, and point the way forward.

Corporate governance specialist, Richard Foster, who serves as an independent non-executive director in various South African and foreign companies, said King IV would directly assist in driving growth in the current economic climate.

“King IV sets out simple parameters by which entities such as companies including SMEs, NPOs, parastatals, retirement funds and municipalities can improve their governance practices and reap better outcomes via exceeding investor and other stakeholder expectations, said Foster.

“The guidelines provide a qualitative application tool through which anyone can analyse and measure the value gained by responsible governance. It’s not a question of paying lip service to an ideal — you can actually see what lies beneath. For corporate entities, full disclosure will be aspirational.”

Foster stressed that King IV would work hand in hand with the Code for Responsible Investing in SA (CRISA), a voluntary code that applies to institutional investors. Furthermore, King IV should ideally be seen as a conduit into more formal regulation and legislation. As such, board members of retirement funds would do well to familiarise themselves with the King IV guidelines — particularly as the code pertains to their accountability, and to that of investment entities under their watch.

An important step forward for King IV is that it encompasses not just JSE-listed companies, but all legally incorporated entities including SME's, retirements funds, parastatals, NPO's and municipalities. It is an extension that is especially relevant considering the furore around the decision by some asset managers to withhold investment into certain parastatals on the grounds of concerns about their corporate governance and its potential impact on investor returns.

"King IV provides fiduciaries with the basis for an informed assessment of value creation — all the way from strategy and risk management policies, to reporting practices, to performance evaluation and prospects for future and sustainable returns," said Foster.

"Central to King IV is a focus on outcomes — how the application of good practice leads to better results as well as cost benefits."

Foster said the new King code would continue to focus on key issues addressed in the previous three iterations, but had moved ahead to remove the tendency for some corporates to indulge in box-ticking.

"King IV should not be seen as 'grudge compliance'," said Foster. "It is qualitative, not quantitative — it shows how mindful application and leadership in corporate governance can add value for stakeholders."

The key issues for governance remain, said Foster. These would include fostering "good corporate citizenship" in terms of board composition, diversity, remuneration and independence; sustainable development; outsourcing and conflicts of interest; responsible investment; delegation to committees and management; and inclusivity of stakeholder interests.

"Proper governance makes sense because it enables businesses to drive forward," said Foster. "Ethics, trust, reputation and legitimacy are the effective cornerstones of good stakeholder relations. King IV addresses these principles in a less prescriptive and more transparent way."