KING IV: WHY YOU SHOULD COMPLY!

Category: Commercial Law
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King IV is a voluntary set of principles and leading practices that guides corporate governance, which is defined as ethical and effective leadership. It sets out the philosophy, practices, principles and outcomes which basically set the standard for corporate governance in South Africa. It applies to all organisations irrespective of the entity.

There are 4 main outcomes that King IV expects a governing body ("**GB**") (eg. board of directors, trustees etc) to achieve. These are ethical culture, good performance, effective control, and legitimacy within the organisation. All decisions that the GB makes, must be measured against these four outcomes.

An organisation would be following King IV's guidance for best practice if they apply the 17 principles set out in King IV. Let's look at what these principles entail:

1. Lead ethically and effectively – this means that the GB must act in the best interests of the entire organisation, avoid conflicts of interest, and establish a code of conduct.
2. Govern the ethics of the organisation in a way that supports the establishment of ethical culture –codes of conduct and ethics policies should be documented and communicated to relevant parties as well as implementing whistle–blowing mechanisms.
3. Ensure the organisation is a responsible corporate citizen – this means that the organisation needs to comply with the laws and regulations of South Africa.
4. Appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process – this requires that short, medium and long term strategies are developed and approved with this in mind.
5. Ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects – this means that the organisation uses integrated thinking about the resources and relationships it relies on. The organisation should also be fully transparent and ensure the integrity of its annual financial statements.
6. Serve as a focal point and custodian of corporate governance in the organisation – this asks that the organisation should document and regularly review a charter that guides the GB's functions.
7. Comprise the appropriate balance of knowledge, skills, experience diversity and independence

for it to discharge its governance role and responsibilities objectively and effectively – this means that the organisation ensures that clear formal processes are in place that governs the nominating, electing, or appointing members of the GB. In addition, the organisation should devise and implement a plan to develop and mentor future GBs.

8. Ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and effective discharge of its duties – the organisation should establish committees and consider establishing an audit committee.
9. 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 – this means that the organisation should evaluate the GB regularly, at least every two years.
10. Ensure the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities – this requires the organisation to appoint a suitable head to ensure that the key functional areas of the organisation are headed by competent individuals.
11. Govern risk in a way that supports the organisation in setting and achieving its strategic objectives – this asks the organisation to treat risks as an integeral part of decision making and to monitor major risks.
12. Govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives – this requires the organisation to consider relevant technology and other information when making a decision.
13. Govern compliance with applicable laws and adopt non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen – this means that the organisation should establish all applicable legislative requirements and ensure that there is specific responsibility for non-compliance.
14. .Ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term – this encourages the organisation to have a remuneration policy that considers differences and encourages improvement.
15. 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 organisation’s external reports – this encourages the use of auditors, consultants, and evaluators when making decisions.
16. Adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time – this requires that the input of key stakeholders are considered when making decisions.

By following these principles, organisations ensure transparency and accountability. You also ensure that you meet the desired outcomes mentioned earlier. Among many other benefits, your organisation is therefore seen as more credible, is more resistant to fraud, can recover easily from a disaster, and generally has a better reputation.