

CONFIDENTIAL

## KING IV PLACES ETHICS FIRST

### The new King IV Report on Corporate Governance makes active ethics management inescapable

9 November 2016

The King IV Report on Corporate Governance (King IV) was launched on 1 November 2016 by the King Committee and the Institute of Directors in Southern Africa (IoDSA), which owns the all intellectual rights to the King Reports. *"An updated code became necessary because of international and local developments in corporate governance. King IV builds on the strengths of King III and provides enhanced guidance on emerging topics such as integrated thinking, levels of assurance and IT governance"*, said Prof Mervyn King, Chairman of the King Committee.

The main purpose of King IV is to build organisations that are characterised by an ethical culture, good performance, effective control and legitimacy. Its other objectives are to:

- *"Broaden the acceptance of King IV by making it accessible and fit for implementation across a variety of sectors and organisational types.*
- *Reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner.*
- *Encourage transparent and meaningful reporting to stakeholders.*
- *Present corporate governance as concerned with not only structure and process, but also with an ethical consciousness and conduct."*



In order to make the Report more outcomes-based, the 75 principles in King III have been consolidated into only 16 principles. Each principle is supported (or contextualised) by a number of recommended best practices to ensure the achievement of one or more specifically identified governance outcomes. In now asking of boards to “apply AND explain”, King IV requires greater transparency in the decisions that have been made. As with the previous King Reports, the legal status of King IV is that of a set of voluntary principles and good practices. Should a conflict between legislation and King IV arise, the law will prevail.

Principle 1 of King IV states that: "*The governing body should lead ethically and effectively.*" In order to contextualise this principle, an obligation is placed on the members of the governing body to cultivate certain ethical characteristics namely integrity, responsibility competence, accountability, fairness and transparency. Part 5.1 of King IV explains each of these values in more detail.

Principle 2 directs the governing body to "*govern the ethics of the organisation in a way that supports the establishment of an ethical culture*". To achieve an ethical culture King IV recommends that the board applies the following best practices:

- Adopt ethics policies and codes of conduct that will include the organisation’s interaction with both international external stakeholders and the broader society, and that address the key ethical risks of the organisation.
- Create ethics structures and provide resources, for example establishing a dedicated in-house ethics office and providing access to an ethics helpline.
- Approve arrangements to make employees and other stakeholders acquainted with the organisation’s ethical standards. These arrangements should include:
  - publishing the organisation’s codes of conduct and policies on the organisation’s website, or on other platforms or through other media;
  - incorporation of the codes of conduct and policies in supplier and employee contracts; and
  - specific training on the codes of conduct and ethics policies.



- Maintain ongoing monitoring of ethics management in the organisation to ensure:
  - integration of the ethical standards in recruitment, promotion criteria and performance evaluations of employees, as well as when suppliers are sourced;
  - that sanctions and remedies are in place for when the organisation's ethical standards are breached;
  - whistle-blowing mechanisms are in place to detect breaches of ethical standards and that such disclosures are dealt with in an appropriate way; and
  - that observance of the organisation's ethical standards by employees and other stakeholders are monitored through, *inter alia*, periodic independent assessments.

There is thus an active duty on each board member to cultivate an ethical character, to lead ethically and to ensure that ethics is managed in the organisation. The SA Companies Act of 2008 places a similar positive duty on each director or prescribed officer to actively take part in managing the affairs of the organisation. No director or prescribed officer is allowed to remain supine. King IV takes the view that the existence of an ethical culture, or a culture of integrity, cannot be assumed. The board needs to demonstrably support, adopt and implement ethics mechanisms that will unlock an ethical culture. Corporate governance does not only concern itself with structures and process, but it starts with leaders committed to personal and organisational ethical behaviour.

Printed copies of the King IV Report are available for purchase through Lexis Nexis or an electronic copy can be downloaded from our website <http://www.proethics.co.za/resources-and-publications/> or from the website of the Institute of Directors of Southern Africa.

Contact us for any training needs on the King IV Report.





Dr Janette Minnaar-van Veijeren is an advocate with a doctorate degree in white-collar crime from the University of Pretoria. She is the founder and owner of ProEthics, a specialist training company. Her training complies with CPD accreditation standards and she is a level 4 BEE contributor. For training and consulting needs, visit [www.proethics.co.za](http://www.proethics.co.za) or e-mail [karen@proethics.co.za](mailto:karen@proethics.co.za).

You may also follow ProEthics at:



Provider of CPD Accredited training  
CICPD0032016

