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King IV Report and Convergence of Global Governance

by

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Benefits of Corporate Governance

- To the company
- To shareholders
- To the economy or nation

King Reports: An Introduction

- King I in 1994
- King II in 2002
- King III in 2009
- King IV in 2016

King IV: Objectives

- **Promote** corporate governance as **integral to running an organisation** and **delivering governance outcomes** such as an ethical culture, good performance, effective control and legitimacy.
- **Broaden** the **acceptance of the King IV** by making it accessible and fit for **implementation across a variety of sectors and organisational types**.

King IV: Objectives (cont'd.)

- **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**.

King IV: Key Philosophies

- Integrated thinking
- The organisation as an integral part of society
- Corporate citizenship
- Stakeholder-inclusive approach

King IV vs King III

- 16+1 Principles instead of 75 Principles
- “Apply **and** Explain” instead of “Apply **or** Explain”
- Broad terminologies to underscore wider scope
- Sectoral supplements
- Determination of INED’s independence
- Huge stress on ethics (Social and Ethics Committee)
- Enhance disclosure
- Information **and** Technology
- Stakeholder-inclusivity in governance
- Responsible investing

King IV: Principles' Overview

- **Principle 1:** The governing body should **lead ethically and effectively.**
- **Key Focus:**
 - ❖ Leadership
 - ❖ Integrity and Competence added to the mix

King IV: Principles' Overview (cont'd.)

- **Principle 2:** The governing body should govern the **ethics of the organisation** in a way that supports the **establishment of an ethical culture**.
- **Key Focus:**
 - ❖ **Direction for ethics in the organization**
 - ❖ **Codes of Conduct and Ethics**
 - ❖ **Stakeholder awareness of these**

King IV: Principles' Overview (cont'd.)

- **Principle 3:** The governing body should ensure that the organisation is and is seen to be a **responsible corporate citizen**.
- **Key Focus:**
 - ❖ **Corporate citizenship**
 - ❖ **Compliance with Constitution, laws, standards and own-policies**

King IV: Principles' Overview (cont'd.)

- **Principle 4:** The governing body should 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**.
- **Key Focus:**
 - ❖ **Direction, purpose and strategy of the organization**
 - ❖ **Delegation to management**

King IV: Principles' Overview (cont'd.)

- **Principle 5:** The governing body should 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.
- **Key Focus:**
 - ❖ Organisation's reporting
 - ❖ Meets legal requirement
 - ❖ Satisfies stakeholders needs

King IV: Principles' Overview (cont'd.)

- **Principle 6:** The governing body should serve as the **focal point and custodian of the corporate governance** in the organisation.
- **Key Focus:**
 - ❖ Charter for “board” and its committees
 - ❖ External professional advice procedure
 - ❖ Disclosure on meetings and attendance thereof

King IV: Principles' Overview (cont'd.)

- **Principle 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.
- **Key Focus:**
 - ❖ Composition of governing body: balance and diversity
 - ❖ Independent chair
 - ❖ Chairman-CEO duality
 - ❖ Succession planning

King IV: Principles' Overview (cont'd.)

- **Principle 8:** The governing body should ensure that its **arrangements for delegation** within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.
- **Key Focus:**
 - ❖ Board committees

King IV: Principles' Overview (cont'd.)

- **Principle 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.
- **Key Focus:**
 - ❖ Performance evaluation
 - ❖ Externally facilitated every two years
 - ❖ Disclosure of results and remedial actions taken

King IV: Principles' Overview (cont'd.)

- **Principle 10:** The governing body should ensure that the **appointment of, and delegation to, management** contribute to role clarity and effective exercise of authority and responsibilities.
- **Key Focus:**
 - ❖ Appointment of CEO and role
 - ❖ Delegation: reserved powers
 - ❖ Professional corporate governance services

King IV: Principles' Overview (cont'd.)

- **Principle 11:** The governing body should govern **risk** in a way that **supports the organisation in setting and achieving its strategic objectives.**
- **Key Focus:**
 - ❖ Risk management in the organisation

King IV: Principles' Overview (cont'd.)

- **Principle 12:** The governing body should govern **technology and information** in a way that supports the organisation setting and achieving its strategic objectives.
- **Key Focus:**
 - ❖ Information and Technology governance
 - ❖ Delegation implementation to management
 - ❖ Oversees the implementation
 - ❖ May get external assurance

King IV: Principles' Overview (cont'd.)

- **Principle 13:** The governing body should govern **compliance** with applicable laws and adopted, non-binding rules, codes and standards in a way that it **supports the organisation being ethical and a good corporate citizen.**
- **Key Focus:**
 - ❖ Compliance to laws, adopted non-binding rules, codes and standards

King IV: Principles' Overview (cont'd.)

- **Principle 14:** The governing body should ensure that **the organisation remunerates fairly, responsibly and transparently** so as to promote the achievement of strategic objectives and positive outcomes in short, medium and long term.
- **Key Focus:**
 - ❖ Remuneration: Policy, Report and Voting

King IV: Principles' Overview (cont'd.)

- **Principle 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 organisation's external reports.
- **Key Focus:**
 - ❖ Assurance providers
 - ❖ External auditors
 - ❖ Internal audit function
 - ❖ Role of the audit committee

King IV: Principles' Overview (cont'd.)

- **Principle 16:** In the execution of its governance roles 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 organisation over time**.
- **Key Focus:**
 - ❖ Stakeholder relationship
 - ❖ Shareholder relationship
 - ❖ Relationship within a group structure

King IV: Principles' Overview (cont'd.)

- **Principle 17:** The governing body of an **institutional investor organisation** should ensure that **responsible investment** is practiced by the organisation to promote the **good governance and the creation of value by the companies in which it invests.**
- **Key Focus:**
 - ❖ Institutional investors and responsible investing

Take-Aways from King IV

- Integrity and Competence added to RAFT
- Ethics and Governance
- Focus on the six capitals
- The Regulars:
 - ❖ Chairman-CEO Duality
 - ❖ Board Diversity
 - ❖ Board Committees
 - ❖ Board Performance Evaluation
 - ❖ Attention to assurance providers

Gaps in King IV

- No provision on Governance Audit
- Role of the Company Secretary loosely protected
- CSR: Special Fund?
- Confused enforcement mechanism
- Inadequate of whistleblowing provision
- Role of the regulator

Concluding Remarks

- King IV:
 - ❖ Sets SA as a leading light on CG in Africa
 - ❖ Extends the frontiers of CG not just in SA
 - ❖ Underscores outcomes-based CG
 - ❖ Lends huge support to stakeholderism
 - ❖ Highlights the importance of ethics in organisations
 - ❖ Emphasizes that CG is not only for listed entities
 - ❖ Has pointed out how to accommodate other entities
 - ❖ Is shying away from mandatory compliance
 - ❖ Has gaps to fill.

Convergence of Global Governance

- Factors contributing to Convergence of globalization of corporate governance include:
 - - The need to attract and retain FDI
 - - Global financial crises/scandals
 - - Membership in economic blocks, professional associations
 - - Court decisions

Sources of global CG Standards

- Successful country practices (best practices)
- International Organisations (e.g. OECD –which advocates for Fairness, Transparency, Accountability and Responsibility)
- Professional bodies and Sector regulators
- Institutions that facilitate long-distance commerce e.g. WTO

Is Globalization of CG possible?

- Countries are unique and affected by history, culture, dominant religions and applicable laws and regulations
- CG models across nations differ depending on system of capitalism (liberal model in Anglo-America and coordinated model in Continental Europe and Japan) and both models have different competitive advantages
- Political realities in each country are different
- Globalization of CG is therefore a long journey

The Kenyan case

- CG in Kenya borrows from OECD, Cardubury, King III etc
- Apply or explain
- There's a code at different levels and sectors starting with the Constitution
- However, the common themes of Transparency, Accountability, Integrity, Competence, Stakeholder involvement, Fairness, Sustainability are upheld across
- ICPSK has taken a key lead in developing the codes of CG

Questions...



References

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<http://TheCorporateProf.com>