Guidance for Boards

INSTITUTE OF DIRECTORS SOUTH AFRICA

KIV vs ISO

Comparative guide between the King IV Report on Corporate Governance in South Africa and ISO 37000 Governance of organizations - guidance

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Introduction

The King IV Report on Corporate Governance™ in South Africa[1] was published in 2016 and is the current South African applicable corporate governance code. The King Codes are recognised by the JSE (through the inclusion in the listings requirements), the South African Courts, government structures and is currently applied by the majority of local organisations. King IV is also applied and/or is the basis for many surrounding African countries, making it a recognised and common standard for governance disclosure reporting for stakeholders, particularly where multinationals may be headquartered in South Africa.

King IV was drafted based on international benchmarks and trends, as well as from a local South African context. The King Committee and the IoDSA continuously consider King IV's relevance with changing trends and publish both interpretation and guidance notes to assist with application and/or expand current practice recommendations. The King IV Report is freely available to the public in order to promote good corporate governance in South Africa and be digitally downloaded via the [IoDSA website](#).

[ISO 37000](#) was published in September 2021 as an international guidance standard for the governance of organisations. ISO standards are internationally prepared and agreed to by ISO member bodies. ISO 37000 was developed through participation from 77 countries, including South Africa, and 24 global representative organizations such as the OECD. There are ISO standards on various topics. ISO management systems standards can be used from a compliance perspective and the most popular ones relate to IT/Information security and quality management.

ISO 37000, however, is a guidance standard specifically for governance and is not a certifiable standard.

ISO 37000 is not freely available and can be purchased from the ISO website[2]. Due to the copy and sharing prohibition, we have accordingly only included high level information in this document so as not infringe on intellectual property rights.

The purpose of this paper is to provide a high-level comparison between King IV and ISO 37000, to aid organisations in understanding the purpose and relevance of each.

The Bottom Line – Which Standard to Apply

Since its release there have been queries around the applicability of ISO 37000 to South Africa since we have our own corporate governance code, as well as questions around which standard to apply.

ISO 37000 provides an international perspective or guidance on corporate governance from a general overarching perspective. ISO 37000 is intended to facilitate international trade and provide a commonly agreed international language for corporate governance. It is expected that such guidance will still need to be applied in relation to the relevant country's circumstances, statutory and regulatory requirements. ISO 37000 can be read with and/or applied in conjunction with other specific ISO standards issued in relation to areas such as IT, risk etc.

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[1] https://www.iodsa.co.za/page/king-iv King IV Report on Corporate Governance © IoDSA 2016
[2] https://www.iso.org/standard/65036.html or through the South African Bureau of Standards:
   https://sabs.isolutions.iso.org/obp/ui/#iso:std:iso:37000:ed-1:v1:en

King IV is already widely applied in South Africa. Continuing to apply King IV will result, to a large extent, in applying the ISO 37000 recommendations. ISO 37000 is very closely aligned with the approach and context of King IV, with certain King IV concepts clearly being reflected in ISO 37000.

As both standards are voluntary, it remains the choice of the organisation to determine which standard it wishes to apply. Regulatory requirements, disclosure requirements to allow stakeholders to view comparative information, and available guidance on the application of the standard should be considered in an organisation's decision. Furthermore, the King IV Codes are recognised in South African courts as the benchmark standard of conduct expected of directors and the governing body. As such even if the ISO 37000 is applied instead of King IV, governing bodies and directors of organisations operating in South Africa would still need to be aware of King IV as this is the South African code to which their standard of conduct and actions will be compared.

King IV vs ISO 37000 Overview

GENERAL OVERVIEW

	King IV	**ISO 37000**
Release Date	November 2016	September 2021
Effective date	1 April 2017 for disclosure of application	N/A
Approach	Principles and outcomes based, with an apply and explain regime	Principles and outcomes based, with a similar apply and explain approach[3].
Application	Applies to all types of organisations, all principles should be applied with practices being applied on a proportional basis taking into account the type of organisation, size, industry and specific regulatory requirements.[4] Voluntary code. However partially enforced for listed companies through the JSE listing requirements or other regulations as may be applicable	Applies to all types of organisations, all principles should be applied on a proportional basis[5],with consideration for the context in which it operates, including national regulations and codes. Voluntary guidance standard.
Availability	Available for free digitally App and hard copy books can be purchased if required.	Must be purchased to access digitally

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[3] See ISO 37000:2021 page 12 and 13
[4] A proportional basis meaning that the practices implemented to achieve the principles may vary depending on the organisation.
[5] See ISO 37000:2021 page 12

| **Background/ Context** | King IV is a South African corporate governance code which takes into account the local context, legislation and history of the country whilst benchmarking appropriate international best practice standards. It contains specific practice recommendations and guidance for all areas required to be overseen by the governing body. | ISO 37000 is an international guidance for corporate governance, where such guidance needs to be applied in relation to the relevant country's circumstances, statutory and regulatory requirements. |

GOVERNANCE OUTCOMES

The governance outcomes organisations should achieve by applying ISO 37000 are similar to that of the governance outcomes advocated in King IV, *albeit* differently worded and presented.

King IV	**ISO 37000**[6]
Good performance Good performance is an organisation achieving its strategic objectives, and positive outcomes in terms of its effects on the capitals it uses and affects and on the triple context* in which operates. *The combined context of the economy, society and environment in which the organisation operates.*	**Effective performance** The organisation is true to its purpose; performs as required; generates value for stakeholders; remains in alignment with its policies and relevant stakeholder expectations. **Responsible stewardship** The organisation makes use of resources in a responsible manner; effectively balances positive and negative impacts; considers global context; ensures its contribution to sustainable development; and engenders the trust and confidence of the communities within which it operates and beyond. Stewardship is defined as to ensure the organisation not only creates but also protects value over time.
Legitimacy The organisation having legitimacy (a social licence to operate; a good reputation and trust) with its stakeholders	**Responsible stewardship** *(See above)*
Ethical culture Ethics is defined as considering what is good and right for the self and the other and can be expressed in terms of the golden rule, namely, to treat others as you would like to be treated	**Ethical behaviour** The organisation behaves in accordance with accepted principles of right or good conduct in the context of a particular situation and in a manner consistent with internal norms of behaviour,

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[6] See ISO 37000 page 10 and 11.

yourself. In the context of organisations, ethics refers to ethical values applied to decision-making, conduct and the relationship between the organisation, its stakeholders and the broader society. Culture is defined from an organisational context as "the way in which members of an organisation relate to each other, their work and the outside world in comparison to other organisations". It is generally described as "the way we do things around here, even when no one is watching". See King IV Principles 1 to 3 for more detail. Responsible stewardship is in line with the definition of ethics in King IV	including demonstrating an ethical culture; accountability through accurate and timely reporting on its performance and stewardship of resources; fairness in the treatment of and engagement with stakeholders; integrity and transparency in fulfilling its obligations and commitments; and competence and probity in the manner in which it makes decisions. **Responsible stewardship** *(See above)*
Effective control The governing body having effective control over the necessary systems and controls in place for effective governance (for example the systems for ethics, stakeholder management, risk, compliance and assurance)	(ISO does not have a specific outcome that covers effective control)

LEADERSHIP VALUES

Both ISO 37000 and King IV provide a definition for ethical and effective leadership. The ISO 37000 description is slightly different from that of King IV, however overall, when read together with the governance outcomes and concepts, its objective is to achieve the same.

King IV	ISO 37000[7]
King IV defines corporate governance as the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes: Ethical culture, Good performance, Effective control and Legitimacy; and defines ethical and effective leadership as follows: **Ethical leadership** is exemplified by integrity, competence, responsibility, accountability, fairness and transparency. It involves the anticipation and prevention, or otherwise	ISO 37000 describes "ethical and effective leadership" as being demonstrated when the governing body: - *sets expectations for the organisation using robust decision-making* - *behaves in a manner consistent with the defined organisational values* - *ensures that the organisation is, and is seen to be, following the expectations as set."* and that it "should be demonstrated in three areas:

[7] See ISO 37000:2021 pages 25-27

amelioration, of the negative consequences of the organisation's activities and outputs on the economy, society and the environment and the capitals that it uses and affects	a) *the functioning of the governing body;* b) *the performance of the organisation as a whole; and* c) *the manner in which the organisation interacts with and impacts its stakeholders and the context within it operates."*
Effective leadership is results-driven. It is about achieving strategic objectives and positive outcomes. Effective leadership includes, but goes beyond, an internal focus on effective and efficient execution.	ISO 37000 states that "*ethical leadership results in an organisational context and culture that:* - *provides the individuals of an organisation with a collective sense of belonging;* - *assists in reconciling strategic dilemmas by creating organisational alignment through the integration of opposites;* - *contributes to the prevention of misconduct;* - *provides competitive differentiation for stakeholders by providing clarity against which evaluators can assess the organisations behaviour, decisions and activities; and* - *provides increased certainty, which in turn, creates reputational value.*"

King IV (Ethical Values)	ISO 37000 (Leadership Values)[8]	Comments
Integrity	Probity and integrity	ISO 37000 provides examples of leadership values and whilst these examples are categorised differently, they cover similar elements of the King IV ICRAFT values. Some of the ICRAFT principles/practices are also found within other sections/principles within the ISO guidance.
Competence	Emotional intelligence and competence	
Responsibility	-	
Accountability	Accountability	
Fairness	Fairness and transparency	
Transparency		
-	Respectful of diversity	This is not specifically expressed as an ethical value/characteristic under Principle 1 in King IV, however, King IV does treat it as a necessary element for discharging governance duties effectively as per Principle 7

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[8] See ISO 37000:2021 page 26

BOARD'S ROLE

King IV	ISO 37000
Steers and sets strategic direction with regards to both: - i) the organisation's strategy; and the way in which specific governance areas are to be approached, addressed and conducted	Does not provide a defined role of the Board like in King IV. The role of the board is covered throughout the document.
Approves policy and planning that give effect to the strategy and the direction provided	
Oversees and monitors implementation and execution by management	
Ensures accountability for organisational performance by means of, among others, reporting and disclosure	

GOVERNANCE PRINCIPLES

ISO 37000 considers three categories or levels of governance principles: Primary (Purpose); Foundational (Value generation, Strategy, Oversight and Accountability) and Enabling (Stakeholder engagement, Leadership, Data and decisions, Risk governance, Social responsibility and Viability and performance over time).

In terms of structure, ISO 37000 provides a description of the Principle, a Rationale (why) for the principle and then key aspects of practice to be considered when applying the principle. King IV, approaches each principle in line with the role of the board i.e., setting the direction, approving policies, monitoring implementation by management and then reporting/disclosure requirements.

King IV	ISO 37000[9]	Comments
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. **Principle 2:** The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	**Purpose** (Primary) The governing body should ensure that the organisations reason for existence is clearly defined as an organisational purpose. This organisational purpose should define the organisations intentions towards the natural environment, society and the organisations stakeholders. The governing body should also ensure that an associated set of organisational values is clearly defined.	It is not feasible to compare principle to principle as the structure of both documents are different. In essence, however, what is covered in the ISO key aspects of practice are covered in King IV in some way or form, *albeit* using different wordings or descriptions. Some noticeable differences include:

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[9] See ISO 37000:2021 Table 1 – Organizational governance principles overview, page 11 and 12.

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 **Underpinning philosophies of King IV:** sustainable development, integrated thinking, the organisation as an integral part of society, stakeholder inclusivity, corporate citizenship, integrated reporting, triple context and 6 capitals	**Value generation** (Foundational) The governing body should define the organisations value generation objectives such that they fulfil the organisational purpose in accordance with the organisation values and the natural environment, social and economic context within which it operates.	- ISO talks to a value generation model and taking an integrated approach – which includes define value, create value, deliver value and sustain value - In terms of Technology and Information, ISO 37000's focus is specifically on governing data as a resource for decision making by the governing body and others with key aspects of practice considering technology and information. These practices incorporate KIVs balance on the board composition, independence requirements, conflicts of interest, assurance on integrity of information, having robust debate etc. as well as delegating to management. - ISO specifically covers a process for reconciliation when difficult choices need to be made between two or more alternatives (referred to as dilemmas). The guidance provided is similar to that found in the IoDSA's guidance notes on business judgement rule and dissenting director papers. The following King IV Principles are not seen in ISO 37000 as governance principles, but rather as "key governance conditions", that is, those conditions required to support effective governance. These conditions
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	**Strategy** (Foundational) The governing body should direct and engage with the organisational strategy, in accordance with the value generation model, to fulfil the organisational purpose.	
Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen. **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.	**Oversight** (Foundational) The governing body should oversee the organisations performance to ensure that it meets the governing body's intentions for, and expectations of, the organisation, its ethical behaviour and its compliance obligations. *Refers to ISO 37301 for more information on compliance management and ISO 37002 on whistleblowing.*	
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	**Accountability** (Foundational) The governing body should demonstrate its accountability to the organisation as a whole and hold to account those to whom it has delegated.	

Principle 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 organisation over time	**Stakeholder engagement** (Enabling) The governing body should ensure that the organisations stakeholders are appropriately engaged and their expectations considered	are addressed in section 4.2 describing "Integrated Governance": ➢ 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. (*ISO 37000 addresses some of these matters in terms of guidance on the composition and structure of governing bodies*[10].)
Principle 1: The governing body should lead ethically and effectively. **Principle 2**: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture **Principle 6**: The governing body should serve as the focal point and custodian for corporate governance in the organisation	**Leadership** (Enabling) The governing body should lead the organisation ethically and effectively and ensure such leadership throughout the organisation	
Principle 12: The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives Covers some aspects of Principle 7 on board composition.	**Data and decisions** (Enabling) The governing body should recognise data as a valuable resource for decision making by the governing body the organisation and others *Refers to ISO/IEC 38505 series, 27001 and 38507 for more information on governance of data. ISO/IEC 38500 for more information on governance of IT and ISO/IEC 38507 for governance implications using AI.*	➢ 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. (Specific coverage of board committees including statutory requirements from a South African law perspective)
Principle 11: The governing body should risk in a way that supports the organisation in setting and achieving its strategic objectives	**Risk governance** (Enabling) The governing body should ensure that it considers the effect of uncertainty on the organisational purpose and associated strategic outcomes	➢ Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chairs and its individual members, support

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[10] See ISO 37000:2021 Clause 4.3.1 Composition and structure, page 8.

	Refers to ISO 31000 and IEC 31010 for more information on governance of risk	continued improvement in its performance and effectiveness. (*ISO 37000 provides a clause describing the governance condition for governing body competence.[11]*)
Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen	**Social responsibility** (Enabling) The governing body should ensure that decisions are transparent and aligned with broader societal expectations. *Refers to ISO 26000 for more information on social responsibility*	
	Viability and performance over time (Enabling) The governing body should ensure that the organisation remains viable and performs over time, without compromising the ability of current and future generations to meet their needs. *Refers to ISO 14001 for more information on environmental management*	➢ Principle 10: 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. *(ISO 37000 provides a clause describing the conditions for "effective delegation"[12] as well as one describing the differences between governance and management.[13])* The following King IV principles are not addressed directly in ISO 37000: ➢ 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 the short, medium and long term. (*ISO 37000 addresses remuneration and compensation as a key aspect of practice for the application of the*

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[11] See ISO 37000:2021 Clause 4.3.2 Competence, page 9.
[12] See ISO 37000:2021 Clause 4.2.2 Governance and delegation, page 7.
[13] See ISO 37000:2021 Clause 4.2.3 Governance and management, page 8.

		strategy governance principle, specifically in respect of steering the organization's strategy.) ➤ <u>Principle 17:</u> 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.

Conclusion

The King IV Report and ISO 37000 contain similar approaches, guidance and overall objectives. The nuances lie in the detail of the recommended practices and guidance provided. Both King IV and ISO 37000, with regards to specialist areas such as technology and information, risk etc. guide organisations to look to specific requirements and guidance be it ISO, OECD or other as produced by relevant specialist institutions to ensure compliance and proper application of the standards required by it given its size, nature of business and industry in which it operates. King IV, in addition, provides sector supplements to aid the application of King IV where such guidance is not currently available for ISO 37000.

Whilst ISO 37000 provides international guidance, King IV is already widely implemented and remains the common law standard of conduct expected of directors in South Africa, making it the more appropriate standard to apply within the South African context.

Notes

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