



INSTITUTE OF
DIRECTORS
SOUTH AFRICA



FOUNDATIONAL CONCEPTS

2025

CONTENTS

DEFINITION AND MEANING OF CORPORATE GOVERNANCE	2
Definition of corporate governance	2
Corporate governance and the execution of legal duties	3
KING V APPLICATION AND DISCLOSURE	6
Legal status of King V	6
Scope of application of King V	6
Building blocks of the Code	7
Disclosure on King V	10
THE UNDERPINNING PHILOSOPHIES OF KING V	11
Sustainable value creation by organisations	11
Effective date	17

DEFINITION AND MEANING OF CORPORATE GOVERNANCE

This document is foundational to an understanding of King V and its implications. It explains the definition and meaning of corporate governance, the application and disclosure regime of King V and ancillary disclosure requirements as well as its underpinning philosophies. A firm grasp of this content is necessary for the effective application of King V.

Definition of corporate governance

For the purposes of King V, corporate governance is defined as follows:

The exercise of ethical and effective leadership by the governing body towards the realisation of the following governance outcomes for the organisation within its economic, social and environmental context: Ethical Culture; Performance and Value Creation; Conformance and Prudent Control; Legitimacy.

Ethical and effective leadership as the essence of sound corporate governance

Sound corporate governance necessitates both ethical leadership and effective leadership. They are mutually reinforcing and complementary components of sound corporate governance. Ethical leadership relates to setting the organisation's purpose and direction. Effective leadership is performance orientated and about the achievement of that purpose, all while adhering to ethical standards.

The governance outcomes as the value proposition of corporate governance

The definition of corporate governance used in King V makes it evident that it should be outcomes based. Corporate governance is intended to generate value for the organisation within its economic, social and environmental context. This value to be derived from governance efforts is expressed in King V as the four governance outcomes:

Ethical Culture	The shared values, beliefs and practices within the organisation that promote ethical behaviour and decision making.
Performance and Value Creation	Organisational performance that creates value in a sustainable manner within the organisation's economic, social and environmental context.
Conformance and Prudent Control	Adherence by the organisation to the spirit and intent of laws and policies, non-binding rules, codes and standards as adopted by the organisation as well as the establishment of an effective system of internal controls and accountability mechanisms.
Legitimacy	The social license to operate that the organisation has acquired, in addition to its formal legal right or license to operate, through transparently demonstrating its trustworthiness and responsible corporate citizenship.

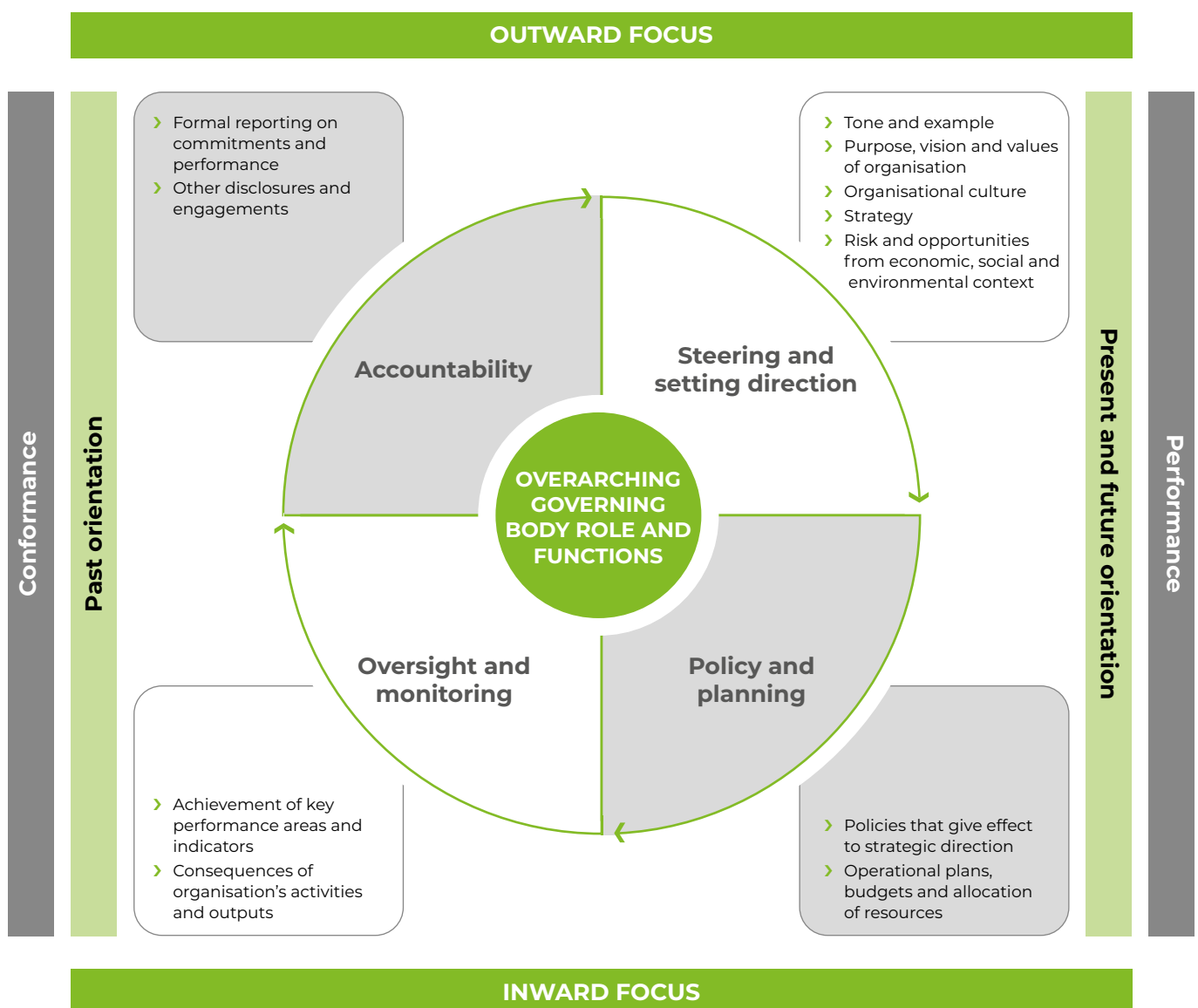
Corporate governance and the execution of legal duties

Section 76 of the Companies Act encapsulates the legal obligations of directors which can be summarised as the fiduciary duty (or duty of loyalty) to the company and the duty of care, skill and diligence. The practical execution of these legal obligations is the essence of corporate governance.

Overarching role and functions of the governing body

The governing body's overarching governance role can be thought of as the undertaking of four cyclical functions that form part of the organisation's dynamic operational cycle.

Figure 1: Overarching role and functions of the governance body¹



¹ Adapted from Tricker *Corporate Governance Principles, Policies and Practices* (2012) 174 and Garratt *Thin On Top* (2003) 177.

DEFINITION AND MEANING OF CORPORATE GOVERNANCE CONTINUED

The dynamic and cyclical nature of the overarching role and functions of corporate governance can be described as follows: The governing body steers the organisation and sets its overall strategic direction. This leads to policy formulation and planning to give effect to the set direction. The governing body then considers and approves policy and planning before delegating implementation thereof to management. This is followed by the governing body's oversight and monitoring of implementation. Finally, the governing body ensures the accountability of the organisation to its stakeholders through formal reports and other means of disclosure and engagement. The need to account allows for contemplation of the direction and performance of the organisation which, in turn, drives the review of strategic direction and starts the operational cycle anew.

In carrying out these overarching governance functions, the governing body should cover all four of dimensions of corporate governance as shown in Figure 1:

- › Focusing *inwards* on the organisation.
- › Focusing *outwards* on the economic, social and environmental context within which the organisation operates.
- › Maintaining *present* orientation when exercising oversight whilst ensuring that there is accountability and reporting on *past* performance and actions of the organisation.
- › Orientating towards the *future* when considering and approving strategy and policy.

Presenting the overarching governance role and functions in this way offers an understanding of how the members of the governing body practically execute their obligations. Additionally, it highlights the diverse perspectives and orientations that should be adopted to ensure that governance efforts are in balance. This will prevent the governing body from focussing predominantly on the oversight of past performance, whilst potentially neglecting directing the organisation towards present and future performance.

Respective roles of the governing body and management

It is important to note that the King V Report predominantly addresses governance and not management and should be interpreted from the perspective of the governing body having to execute on its overarching governance role and functions.

Outlining the governing body's overarching governance role as shown in Figure 1, also sheds light on the distinctions between the role of the governing body and that of management. The governing body steers and sets strategic direction, approves policy and planning, oversees and monitors implementation and execution as well as ensures accountability, whereas management activities are operational and focused on implementation and day-to-day execution.

The specific allocation of responsibilities between the governing body and management may differ in detail from organisation to organisation,

but not fundamentally. With respect to strategy, for instance, in organisations where non-executive members are in the majority on the governing body, management often develops the strategy with the governing body responsible for its consideration and final approval. In organisations that have governing bodies with a majority of executive members, the governing body may be more involved in the development of strategy but engagement with, constructive challenge and final approval of strategy remain the responsibility of the governing body.

Organisation of recommended practices in accordance with the overarching functions of governance

The four overarching governance functions are used in the Code to structure the recommended practices as follows:

- The first recommended practices under each principle is about the governing body assuming accountability and responsibility for **steering and setting direction** for the domain area of that particular principle.
- The next recommended practices highlight the aspects that the governing body should pay attention to regarding the consideration and approval of **policies and planning** that give effect to the set direction.
- This is followed by recommended practices that deal with the focus areas when the governing body exercises **oversight and monitoring** of the implementation and execution by management of the approved policies and plans. With respect to areas where the governing body is not overseeing and monitoring implementation by management but expected to maintain accountability for its own actions (as is the case with cultivating and exemplifying the characteristics of governance, responsibility for its composition, independence and management of conflict of interests) the oversight and monitoring aspect is addressed by requiring the incorporation of these as part of the evaluation of the performance of the governing body. As such, the evaluation of the performance of the governing body is presented as a self-monitoring mechanism.
- The recommended practices that ensure that there is **accountability** with respect to the performance and commitments for each of these domain areas of governance are addressed through the disclosure requirements in the **King V Disclosure Framework**.

By organising the recommended practices in accordance with the four governance functions (as explained above) King V provides governing bodies with a model that outlines how any domain area of governance could be approached even if it is one not directly addressed by the Code.

KING V APPLICATION AND DISCLOSURE

Legal status of King V

The legal status of King V, as with its predecessors, is that of a set of voluntary guiding principles and leading practices. Corporate governance could apply on a statutory basis as rules, as a voluntary code of principles and practices, or as a combination of the two. In South Africa, as in many jurisdictions around the world, a hybrid system of corporate governance has developed over time. Some governance practices have been legislated among others through the Companies Act, 2008 (“the Companies Act” or “the Act”) or Public Finance Management Act, 1999 or incorporated into regulation such as the JSE listings requirements. Codes of corporate governance supplement and give substance to the execution of these laws and regulations.

In the event of a conflict between King V and law, the latter prevails. However, rather than directly conflicting, more often the Code contains practices that are more aspirational in nature than the threshold of compliance required by law. In those instances, the practices in King V should not be regarded to be in conflict but rather as augmenting legal requirements.

There is an important argument against incorporating all governance practices in a mandatory “comply or else” legislative framework: A one-size-fits-all approach cannot logically be suitable, because the types of operations and activities carried out by organisations are so varied. There is also a danger that the governing body may become focused on mindless compliance instead of applying its mind to the best governance practice for its particular setting and situation.

It should also be noted that a corporate governance code that applies on a voluntary basis may trigger legal consequences as good governance does not exist separately from the law. A court considers all relevant factors in determining the appropriate standard of conduct for those charged with governance duties, including what the generally accepted governance practices are as well as those standards to which an organisation bounds itself.² Voluntary governance codes such as King V recommend leading practices for how governance obligations should be discharged, thereby influencing and affecting which practices are considered and eventually adopted by governing bodies. The more generally and widely certain recommended practices in codes of governance are adopted and implemented, the more likely it is that a court would regard conduct that conforms to these practices as meeting the required standard of care. In this way the provisions of voluntary codes of governance find their way into jurisprudence to become part of the common law. Consequently, failure to meet an established corporate governance standard of practice, albeit not legislated, may invoke liability and other consequences for breach of legal duties.

For directors of companies, adopting good corporate governance practice will be especially important if, in the course of litigation, they were to rely on the protection afforded by the business judgement rule as provided for in section 76(4) of the Companies Act. In the absence of robust and sound governance structures and processes it will be difficult, if not impossible, for a director to demonstrate that reasonably diligent steps have been taken to become informed; that material financial interests were absent or dealt with appropriately; and that there was a rational basis for believing – and that the director did believe – that a decision was in the best interests of the company.

Scope of application of King V

King V is concerned with the role and responsibilities of the governing body and its functioning in relation to the organisation, management, shareholders as well as other key stakeholders. Hence, the governing body is the primary audience of King V but its tenets find application also at other levels within the organisation.

An “organisation” as used in King V includes a company, retirement fund, non-profit organisation, state-owned entity, municipality, medical scheme, public higher education institution and any other juristic person regardless of its manner or form of incorporation. Even though King V cannot be applied directly where there is no separate legal personality, e.g. government departments, due to different structural composition, its underlying philosophy and values still hold true and should be applied. A main objective of King V is to broaden the acceptance of corporate governance principles and practices by making these accessible and fit for application across a variety of sectors and organisational types.

² See for example, *Minister of Water Affairs and Forestry v Stilfontein Gold Mining Co Ltd* 2006 5 SA 333 (W); *Organisation Undoing Tax Abuse and Another v Myeni and Others* 2020 ZAGPPHC 169.

In pursuit of this goal, the structural elements of the Code – the governance outcomes, the principles and the recommended practices – were phrased in a particular way. The *governance outcomes* and *principles* embody the essence of the Code and are suitable for universal application across sectors albeit with the necessary adaptations to the terminology used for the type of organisation. The *recommended practices*, on the other hand, are intended to be adapted to fit the organisation and its setting, in accordance with proportionality considerations as outlined below.

Building blocks of the Code

Understanding the relationship between governance outcomes, principles and recommended practices (see Figure 2) is crucial for the mindful application of the King V Code. It also reinforces corporate governance as a holistic and integrated system.

Governance outcomes

The governance outcomes describe the overall value that sound corporate governance should realise for the organisation within its economic, social and environmental context. These consist of: Ethical Culture; Performance and Value Creation; Conformance and Prudent Control; Legitimacy.

The governance outcomes set the ultimate criteria against which the governing body and the stakeholders of an organisation should assess the quality of governance in that organisation. Thus, King V is outcomes-based, meaning that the governance of an organisation is judged primarily on its consequences and that an organisation cannot claim to have sound governance simply based on the implementation of the recommended practices. Implementation should result in the realisation of the governance outcomes before such a claim can be made.

Principles

Each of the principles in King V relates to a domain or subject area of corporate governance, notably: leadership; ethics and corporate citizenship; strategy, performance and sustainable value creation; reporting; governing body composition; governing body committees; delegation to management; risk; compliance; data, information and technology; remuneration; assurance; and stakeholder relationships. A principle is the articulation of the ongoing objective that an organisation should aim to attain with respect to that domain area of governance.

Upholding the objectives that the principles represent in the domain areas of corporate governance is essential and foundational to sound governance. Consequently, King V asserts that the principles are universally applicable across all types and sizes of organisations in various sectors. Even if a principle does not appear to fit into the typical frame of the governance in a particular sector or type of organisation, it is maintained that the principle still represents the objective that should be pursued, albeit that its achievement (due to legal prescripts or for other reasons) can only be accomplished by adapting the practices recommended in the Code. Noteworthy in this regard is that the law establishes a base level for compliance whilst the King V principles express a higher objective or ideal for the domain areas of governance. To emphasise the essential and ongoing nature of these objectives, all principles in King V are now phrased in the present tense.

It should be emphasised that a particular governance outcome is not intended to be associated with a certain principle. Instead, each principle directly or indirectly affects the realisation of all the governance outcomes. For example, Principle 5 on the composition of the governing body may on first appearance seem to be reinforcing only Conformance and Prudent Control. In reality, the composition of the governing body also influences its actions and decisions which are in turn linked to Ethical Culture, Performance and Value Creation as well as Legitimacy.

Recommended practices

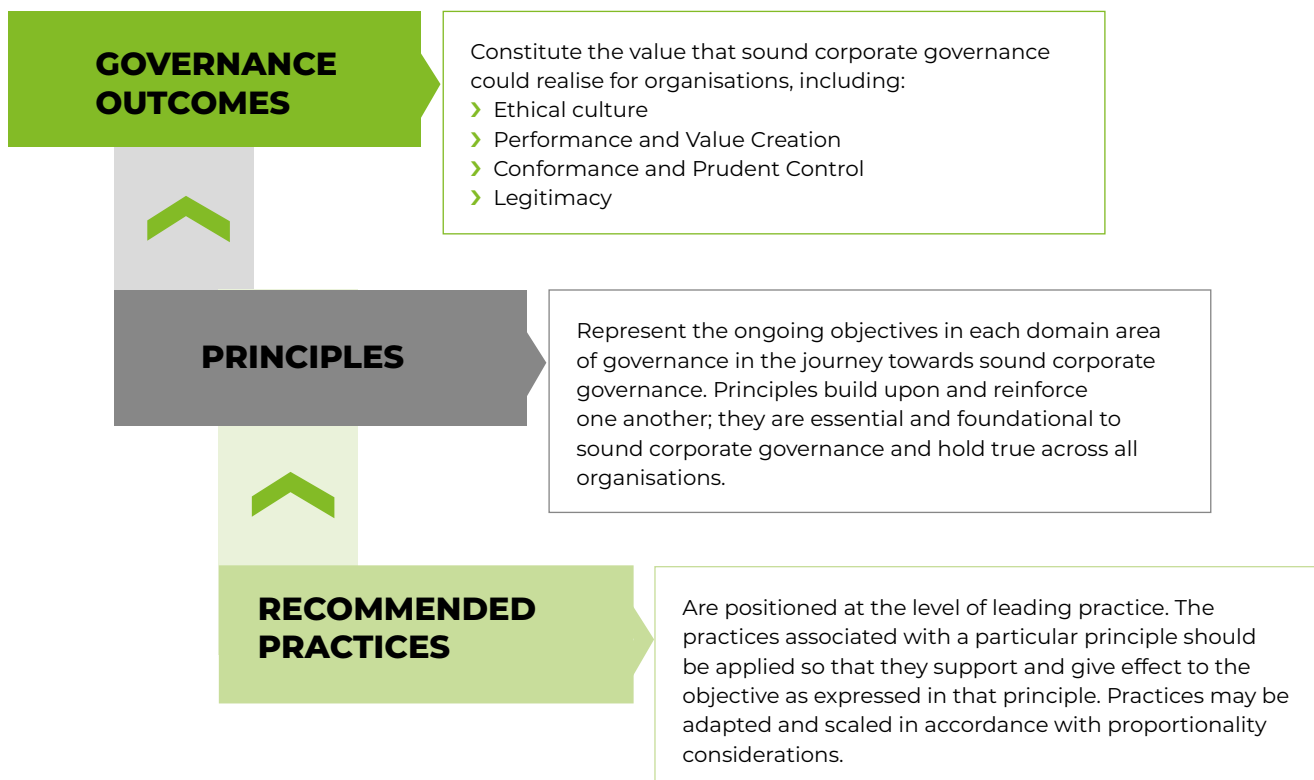
The recommended practices are the third building block of the Code. Whereas the principles function at a more abstract and directional level, the practices offer concrete actions and processes to be carried out in support of the principles.

The recommended practices in the Code are not intended to be implemented as if they were rules. Doing so will result in corporate governance becoming a mere compliance burden. This inflexibility also leads to an inability to interpret and apply codes of corporate governance in a way that is appropriate for the type and size of organisation and the sector in which it operates. Mindful application, on the other hand, presupposes a thorough understanding of how the implemented practices support the objectives of the principles and ultimately the realisation of the governance outcomes.

Moreover, the practices included in the Code are not primarily intended to serve as a “how to” guide. Although detailed lists of recommended practices could potentially create a clearer roadmap for implementation, a code of corporate governance is not considered the most suitable vehicle for providing the requisite guidance nor can it do justice to it. Instead, the Code identifies those practices that are most critical to supporting the principle they are upholding. Additional detailed technical information and guidance on the various domain areas of governance are provided by the King Committee, the IoDSA or other professional and industry bodies.

By taking the approach that corporate governance practices are to be implemented to be consistent with the objectives set by the principles, and ultimately the realisation of the governance outcomes, the **King V Code** requires application of mind and encourages its users to think critically.

Figure 2: Governance Outcomes, Principles and Recommended Practices



Proportional implementation of recommended practices

Implementing the Code on a proportional basis means that the *principles* – being essential and foundational to sound governance and universal across all organisations – apply as they are. Once an organisation has committed to adopting King V, an ongoing pursuit of the objectives as per the principles is assumed as an indispensable part of the governance journey.

In contrast, the *recommended practices* are positioned in the Code at the level of leading practice, making them ideally suited to larger organisations with corporate structures characterised by separation between ownership and control and with relatively high complexity and impact. Therefore, a quantitative approach, namely the implementation of practices in the exact form they are recommended, may not be suitable for organisations lacking some of these criteria. Instead, King V is drafted to instil a qualitative approach in which the recommended practices are implemented mindful of the type, size, nature and sector of the organisation. The setting and conditions of each organisation should guide which recommended practices are to be adopted; and the manner in which they ought to be implemented to attain the objectives as per the principles and realise the value of the intended governance outcomes for the organisation.

Therefore, even where not expressly stated, adapting and scaling of practices to suit the organisational setting and conditions are permissible and advisable in accordance with proportionality considerations, which include factors such as:

- › Size of operations of the organisation, including turnover and workforce.
- › Nature and complexity of the business model of the organisation.
- › Ownership structure of the organisation.
- › Organisation's actual and reasonably expected economic, social and environmental impact.

An overriding condition of proportional implementation of recommended practices is that the practices as implemented under each principle, taken as a whole, should in their adapted or modified form still amount to attaining the objectives of the principle. This suggests that in many instances it may be required to implement measures that compensate for risks associated with not implementing the practices in the exact manner that they are recommended. Proportional application is additionally subject to pertinent regulatory requirements.

The establishment of the committees of the governing body serves as a good illustration of how the recommended practices could be implemented in a way that fits the setting and conditions of the organisation and contributes value to it. The recommended practices in King V address the committees that larger organisations customarily have or that they are typically required to establish by regulation. These committees include the audit, nomination, risk, remuneration and social and ethics committees. Subject to legal requirements, the governing body may elect not to establish one or more of these committees and instead combine the roles of some committees or take on such responsibilities directly. In smaller organisations it is permissible for the governing body to delegate to an individual member of the governing body rather than a full committee. Another adaptive practice is that organisations may opt to form specialist committees not mentioned in the King V practices such as a clinical governance, investment or technology committees. The overarching considerations (within the confines of regulation) for these adaptive arrangements should be to remain aligned with the objective of the relevant principle which is that delegation to committees should be structured so that they assist the governing body “to promote the objective and effective discharge of its obligations.”

A robust test for the proportional implementation of recommended practices is whether the rationale for non-adoption of practices can be explained to and understood by a reasonable, impartial third party as not compromising the attainment of the objective as set by the principle.

Disclosure on King V

Apply and explain regime

The application and disclosure regime for King V is “apply and explain”. To assist with an easy grasp of apply and explain, it is depicted in the table below in relation to the principles, recommended practices and governance outcomes:

Apply principles universally.	Explain non-adoption or modification of recommended practices. Provide a concluding statement on the governance outcomes, specifically on whether the application of the King V principles and the implementation of its recommended practices, in the opinion of the governing body, are considered to have realised value for the organisation within its economic, social and environmental context in accordance with the stated governance outcomes: Ethical Culture; Performance and Value Creation; Conformance and Prudent Control; Legitimacy.
---	--

Given that the *principles* in King V are viewed as essential and foundational to sound governance and, therefore, universally applicable to all organisations, continual effort to attain the objectives as set by the principles is assumed. Consequently, when organisations disclose on their application of King V, they need not use the binary indicators “apply” or “not apply” in relation to the principles.

Concerning the *recommended practices*, those that have not been adopted should be clearly stated, along with an explanation of the reasons therefore and the compensating measures that have been implemented to ensure that the objective set by the principle is still achieved. This now constitutes an explicit requirement for disclosure by exception with respect to the recommended practices. The detail of the disclosure should be guided by what enables stakeholders to make an informed assessment of the quality of the organisation’s governance.

With respect to the *governance outcomes*, a concluding statement should be provided by the governing body as to whether governance efforts have realised value to the organisation (within its context) in accordance with the stated governance outcomes. Given that realising the value represented by the governance outcomes is underpinned by attaining the objectives as set by the principles, which in turn, depends on the effective implementation of the recommended practices, the governing body, if called upon, should be able to substantiate its conclusion on the governance outcomes with reference to the principles and practices.

King V Disclosure Framework

To standardise disclosure on the application of King V, a Disclosure Framework now accompanies the Code which outlines the required form and content for disclosure on the application of the principles and the explanation of the practices, as well as governing body’s concluding statement on the realisation of the governance outcomes.

It is recognised that disclosures on the application of King V may be relevant to a number of reports, including the integrated report, annual financial statements, sustainability report, the audit committee, social and ethics committee and remuneration committee reports or other online or printed information or reports. To avoid the burden of having to make duplicate disclosures, the Disclosure Framework provides for the use of links to other reporting platforms to where such other reports cover the specific disclosure requirements as set out in the Disclosure Framework.

The governing body is the focal point of governance in the organisation and as such responsible for final approval of the disclosures in accordance with the Disclosure Framework. It is required that the Disclosure Framework should be published on the organisation’s website together with the other external reports that the organisation issues annually for a specified reporting period.

The Disclosure Framework now incorporates the recommended practices for disclosure under each principle and these are no longer included in the Code itself. Given this, it is crucial to recognise that the Disclosure Framework is an inextricable part of giving effect to the Code. **Therefore, it is a requirement for any organisation that wishes to claim application of King V to use the Disclosure Framework and publish governance disclosures in accordance with its specifications.**

THE UNDERPINNING PHILOSOPHIES OF KING V

The concepts addressed in this section are important for the interpretation and application of the principles and recommended practices. The **King V Code**, the **King V Glossary** and **King V Disclosure Framework** should be interpreted and applied mindful of the philosophies that inform King V.

Sustainable value creation by organisations

Global society, today, faces challenges such as economic inequality, digital privacy and misinformation, racial and social injustice as well as environmental concerns, including climate change, biodiversity loss, chemical pollution, freshwater consumption, and other developing nature risks caused by ecological overshoot of planetary thresholds. These difficulties represent serious threats to the economy and the well-being of present and future generations. Hence, the call for sustainable development understood as “the development that meets the needs of the present without compromising the ability of future generations to meet their needs”.³

Sustainability is crucial to economic and organisational activity due to their dependence on the health of socio-ecological systems for their own long-term success. Nonetheless, organisations overall are also significant contributors to environmental deterioration and harmful societal effects which can occur through, among others, exploitative labour practices, unethical supply chains, or a disregard for consumer safety. Consequently, organisations, and particularly large businesses enterprises, are increasingly expected to assume responsibility and accountability for having a role in the transition to a more regenerative economy.

In South Africa the Bill of Rights as contained in the Constitution of the Republic of South Africa affirms that the democratic values of human dignity, equality and freedom are binding on juristic persons to the extent applicable.⁴ The Constitution specifically provides for the right to a safe and healthy environment which is protected for the benefit of both present and future generations.⁵

For these reasons, King V (in keeping with its prior versions) asserts that all organisations should participate in sustainable value creation. However, multiple perspectives exist and have evolved over the last fifty years of what it means for organisations, and especially large business enterprises, to create value and furthermore who should benefit from such value creation.

Shareholder value

The traditional measure of business success is the maximisation of shareholder value as famously expressed by Friedman in 1970: “Make as much money as possible, while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom.”⁶

This viewpoint held that there were no limits to growth since resources were deemed to be infinite and the planet could be reasonably expected, given enough time, to act as a sink for all the pollution corporate activity created. Where environmental and social issues arose, they were judged as being separate and secondary to the primary activity of businesses, namely, to create wealth for shareholders.

³ United Nations *Report of the World Commission on Environment and Development: Our Common Future* par 1. Also known as the Brundtland Report named after Gro Harlem Brundtland, Chairman of the Commission and available at <http://www.un-documents.net/our-common-future.pdf>

⁴ Section (7)1 and 8(2) of the Constitution of the Republic of South Africa, 1996.

⁵ See Section 24 of the Constitution of the Republic of South Africa, 1996.

⁶ Friedman “The Social Responsibility of Business is to Increase its Profits” *New York Times Magazine* (1970-09-13).

Shared value

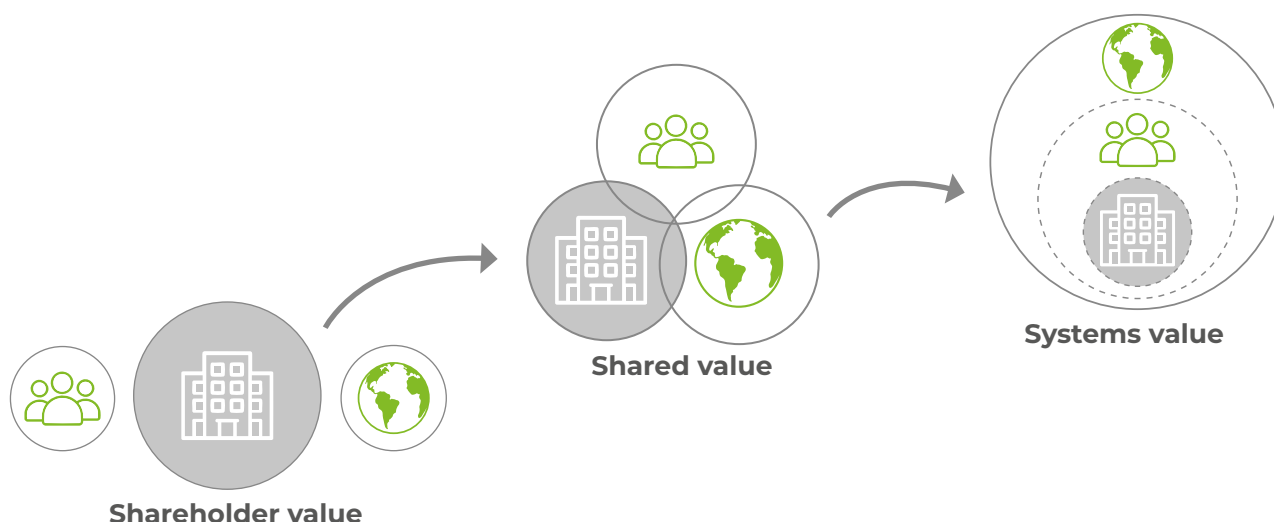
Over time, it became evident that corporate endeavour could not be isolated from sustainability concerns. The interests of business, society and the environment intersect (see shared value as depicted in Figure 3) and it is expected that where they do, businesses must pay attention to and even take responsibility for them. Many organisations are now addressing this issue by identifying shared value opportunities in mutually beneficial areas where their economic activities produce positive social or environmental effects.

Adopting a shared value perspective is a step forward. It allows organisations to better understand their potential for positive impacts on communities and the planet. However, it does not adequately equip organisations to confront the disruptive risks posed by the global decline in the resilience of socio-ecological systems. Figure 3 illustrates that the shared value perspective's overlapping circles leave large areas of social and environmental resilience outside of organisational concerns. This means that important sustainability risks are being overlooked. It also implies that sustainability may play a role only on the periphery of most businesses and that, in general, the Friedman dogma holds sway.

Due to the unprecedented rate of the degradation of socio-ecological systems, shared value approaches constitute incremental actions which on their own will not result in a more sustainable future; a fundamental transformation is necessary. Stated differently, an organisation aiming to be “*more sustainable than before*” is not the same as an organisation being “*as sustainable as it needs to be*”. What is called for is “*enough sustainability in time*” which ensures that economic and organisational activities and outputs do not irreparably damage the social and natural systems on which they and the whole of society and future generations depend.⁷

A model for value creation is required which is integrative of sustainability concerns and which encapsulates more comprehensively the extent of organisations’ responsibilities in this regard. Systems value is proposed as such a model.

Figure 3: Evolution of perspectives on value creation⁸



⁷ Austin **From win-win to net zero: would the real sustainability please stand up?** *Responsible Investor* 20 May 2021.

⁸ See Bertels and Dobson *Embedded Strategies for the Sustainability Transition: Setting Priorities and Goals Aligned with Systems Resilience* (2020); Decker *Why Stakeholder Capitalism Is Not Enough* 5 October 2021 accessible at: **Why Stakeholder Capitalism Is Not Enough | Embedding Project** for a more detailed discussion of the evolving views on value creation. (Figure 4 adapted from sources.)

Systems value

To be “*as sustainable as it needs to be*”, an organisation should recognise that its interests do not simply overlap or intersect with but are an integral part of the broader social and environmental systems. As a matter of reality, organisations are embedded parts of the economic and social systems in which they exist and function. In turn, the economy together with other social systems are embedded within the natural environment. (See the depiction of the systems value view in Figure 3.) Therefore, the long-term success of organisations relies on the vitality and resilience of the socio- ecological systems around it. It is on this premise that organisations should create value for the systems within which they operate.

It is important to recognise that systems value does not negate the importance of profit, nor does it regard it as intrinsically reprehensible. However, attaining profitability while failing to contribute value to the system (or worse, extracting value from it) is not sustainable. Profits should, consequently, be reframed as an outcome of creating value for the system, rather than the objective.

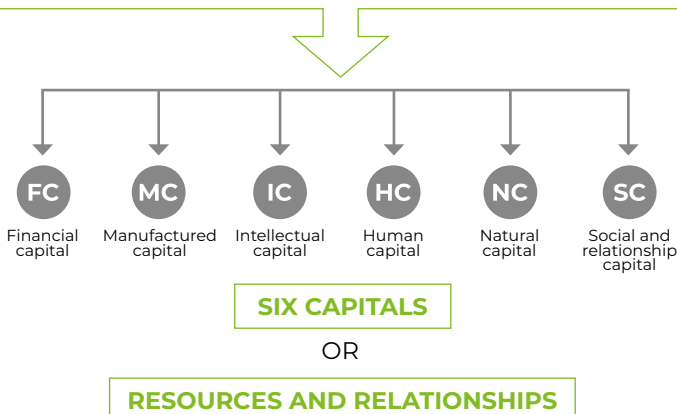
To help organisations and their leaders apply the concept of systems value generation, King V advocates integrated thinking.

Integrated thinking and related concepts

The “**economic, social and environmental context**” provides the macro perspective for integrated thinking. This context invokes the economic, social, and environmental systems within which all organisations operate.

Integrated thinking can be carried out at a more granular level by employing the “**six capitals**” model to identify the “**resources and relationships**” which the organisation uses, relies upon and affects. These capitals include financial, manufactured, human, intellectual, social and relationship as well as natural capitals.

ECONOMIC, SOCIAL AND ENVIRONMENTAL CONTEXT



Integrated thinking⁹ calls for the intentional consideration by organisations of the capitals or the resources and relationships that they use or affect as well as of the outcomes of operational activities and outputs on these resources and relationships over short, medium and long-term time horizons. Ultimately, the resources and relationships that the organisation uses or affects is a working representation of the broader economic, social and environmental systems within which the organisation operates.

Integrated thinking uses a multi-capital lens as a more detailed view of the resources and relationships that the organisation uses or affects. This multi-capital lens includes but transcends the traditional focus on financial capital to encompass other classes of capital such as manufactured, human, intellectual, social and relationship, and natural capitals. These capitals constitute the stocks of value on which all organisations depend for their success as inputs to their business model, and which are increased, decreased or transformed through the organisation's activities and outputs.

The capitals interact and influence each other, necessitating a consideration of their holistic operation over time. Consequently,

integrated thinking suggests that organisations actively consider the connectivity and interdependencies between the range of factors that may affect an organisation's ability to create value for itself within its systems context. These factors include:

- The risks and opportunities emanating from the economic, social and environmental systems within which the organisation operates and the tailoring of the organisation's purpose, business model and strategy to respond thereto.

⁹ See IFRS Foundation *Integrated Thinking & Strategy: State of Play Report 2020* available at [Integrated-Thinking-and-Strategy-State-of-Play-Report_2020.pdf](#) for a detailed explanation of integrated thinking.

¹⁰ *Integrated Reporting Framework* (January 2021) 53. Accessible at: [The Integrated Reporting Framework | Integrated Reporting SA](#).

- The availability, quality and affordability of the resources and relationships the organisation uses and affects and the critical interdependencies among them, including trade-offs required.
- The capacity of the organisation to respond to stakeholders' significant interests.
- The organisation's activities and outputs as well as its impacts and outcomes over time with respect to the capitals and the broader economic, social and environmental systems within which the organisation operates.¹⁰

In King V, the tenets of integrated thinking operate as a thematic strand across the principles and recommended practices. It is invoked through reference to “the capitals” or “six capitals” or “resources and relationships” or “economic, social and environmental context”.

The Ubuntu-Botho philosophy, corporate citizenship and stakeholder inclusivity, as described below, are adopted approaches in King V that further elucidate systems value creation and support integrated thinking.

Ubuntu and Botho as expressions of integrated thinking

Ubuntu and *Botho*, captured by the expressions *uMuntu ngumuntu ngabantu* – I am because you are; you are because we are – and *Motho ke motho ka batho* – a person is a person through other people – represent the African philosophy that have been core to the King tradition since King II was published in 2002. *Ubuntu* and *Botho* signify the belief that one's very life and being arise from one's relationship to others. Implicit in this

King V is presented as a code of corporate governance which is rooted in an African value system.

is the human-centred values of caring, sharing, interconnectedness, interdependence, compassion and fellowship that should find expression in all spheres of life, including economic and social life. A contemporary understanding further recognises that collective human wellbeing depends on the health and resilience of the planet.

The Ubuntu-Botho philosophy as it applies in an organisational setting is an alternative expression of the tenets of integrated thinking. Ubuntu-Botho shares with integrated thinking the need for recognising relationships and interconnectedness with others and being concerned about the impact of all human endeavour (including through the corporate form) on others and the natural environment.

Corporate citizenship as an expression of integrated thinking

Citizenship, in the ordinary sense of the word, refers to the legal and social status of a person who is recognised as member of a nation state. Corporate citizenship is a concept used in the same way as regards juristic entities to describe the legal status and role of organisations in society. It denotes corporate responsibilities that extend beyond clear legal obligations. The law affords juristic entities the right to operate as legal persons, but this right comes with responsibilities, expressed as follows by the Constitutional Court with respect to companies:

“The establishment of a company as a vehicle for conducting business on the basis of limited liability ... draws on a legal framework endorsed by the community and operates through the mobilisation of funds belonging to members of that community. Any person engaging in these activities should expect that the benefits inherent in this creature of statute will have concomitant responsibilities.”¹¹

¹¹ *Bernstein v Bester* 1996 2 SA 751 (CC).

If it is accepted that organisations are embedded in socio-ecological systems and thus rely on the health and resilience of these systems, it follows that organisations have both a business imperative for securing their own long-term viability as well as an ethical and moral imperative to current and future generations to positively shape the economy, society, and environment within which they exist. This is the rationale for creating system value and for applying integrated thinking.

The Companies Act lends credence to the concept of corporate citizenship. For example, Section 7 of the Act states that the objectives of the Act include “promoting compliance with the Bill of Rights as provided for in the Constitution,” as well as “reaffirming the concept of the company as a means of achieving economic and social benefits.” The Act furthermore requires certain companies to establish a social and ethics committee which exercises oversight of the company’s “good corporate citizenship” including, among others, aspects such as equality, reduction of corruption as well as environmental, health and public safety impacts.

Corporate citizenship moreover has reputational implications. The legitimacy of corporate endeavours in the eyes of society depends on how well corporate citizenship responsibilities are being perceived to be fulfilled.

Principle 2 of the Code addresses corporate citizenship directly, but corporate citizenship is also closely associated with the concepts of the “six capitals” and the “economic, social and environmental context” used throughout the Code.

Stakeholder inclusivity as an expression of integrated thinking

The stakeholder-inclusive approach, as articulated in King V (and its preceding iterations) represents a practical application of integrated thinking. King V affirms that the governing body should consider the significant interests of stakeholders in the execution of its duties in the long-term best interests of the organisation within its economic, social and environmental context. This is referred to as stakeholder inclusivity.

The transition from a primary focus on shareholder value maximisation to one oriented towards the creation of systems value, necessitates having regard to the increase, decrease, and transformation of not only financial capital but also the other capitals. These increases, decreases, and transformations have implications for stakeholders with interests (or stakes) in these capitals. As such, integrated thinking entails the governing body having to consider both the stakeholders who may benefit from value creation and those who may be adversely affected by value erosion. The need for this consideration is consistent with the Ubuntu-Botho philosophy and corporate citizenship.

Stakeholder inclusivity, as envisioned in King V, involves the identification and consideration of stakeholder interests that either significantly affect, or are significantly affected by, the organisation over time. This includes both current and reasonably foreseeable impacts. Given the reality that stakeholder interests may at times be in conflict, and that not all interests can be advanced concurrently, the governing body is required to exercise its judgment in the best interests of the organisation. This involves making trade-offs between competing stakeholder interests on a case-by-case basis, as current circumstances and exigencies require. The process of weighing and prioritising stakeholder interests is therefore dynamic, ongoing and situation dependent.

Importantly, stakeholder inclusivity must be positioned within the broader systems value paradigm. Acting in the best interest of the organisation must be paramount in taking a stakeholder-inclusive approach but the long-term success of the organisation cannot be considered separately from the health and resilience of the socio-ecological systems on which it depends. In King V, acting in the best interests of the organisation should be understood as the governing body having regard to the interests of the organisation over the long term as it exists within the economic, social and environmental systems in which it is embedded.

Directors' duties and the stakeholder-inclusive approach

In terms of the Companies Act, directors are legally obligated to exercise their powers and perform their functions "in the best interests of the company".¹² Traditionally, under common law, this duty has been interpreted as aligning with the interests of the general body of shareholders. The Companies Act introduces a more expansive view by explicitly recognising the rights of employees as significant stakeholders.¹³ Additionally, the Act places greater emphasis on the role of the company in society through the stated social purposes of the Act,¹⁴ and the requirement for certain companies to establish a social and ethics committee that is responsible for the oversight of the ethical, workplace, social and environmental consequences of company activities and outputs.¹⁵ While these legislative developments signal a broader conception of corporate responsibility, the full implications for directors' duties remain subject to interpretation and further evolution of the law.¹⁶

King V advocates for a stakeholder-inclusive approach to governance which acknowledges the legal rights of shareholders while recognising that the company represents a nexus of relationships among various stakeholders. It calls for boards of directors to consider the interests of both shareholders and other stakeholders in exercising their judgement and decision making, with the overarching objective of promoting the company's long-term best interests within its context.

Importantly, stakeholder inclusivity also indicates that neither shareholders' nor any of the other stakeholder groupings' interests are afforded permanent primacy. This stands in contrast to the enlightened shareholder value model,¹⁷ which considers the interests of other stakeholders only to the extent that they serve shareholder interests. In the stakeholder-inclusive model, the interests of (non-shareholder) stakeholders are recognised as having intrinsic value when making decisions in the company's long-term interests. The overriding condition is that there must be a causal link between the decisions taken by directors and the best interests of the company over time.

While shareholder value – if understood as the long-term financial returns generated for shareholders – may often align with stakeholder value, the two are not inherently synonymous. A long-term or sustainable perspective reveals a strong correlation between creating value for shareholders and for other stakeholders. However, this correlation is not absolute, and especially in the shorter term, trade-offs between competing interests remain necessary.

In summary, the position taken in King V is as follows: "Directors owe their duties to the company and the company alone as the company is a separate legal entity from the moment it is registered until it is deregistered [...]. The company is represented by several interests and these include the interests of shareholders, employees, consumers, the community and the environment. Thus requiring directors to act in good faith in the interest of "the company" cannot nowadays mean anything other than a blend of all these interests, but first and foremost they must act in the best interest of the company as a separate legal entity".¹⁸ It bears repeating that in King V, acting in the best interests of the company is understood as the *long-term* best interests of the company *within its systems context*.

¹² Section 76(3)(b) of the Act.

¹³ See for example sections 20(9), 45(5), 128(1), 131(3), 159, 162(2), (7), (8) and 165(2) of the Act.

¹⁴ Section 7 of the Act which states among other that the Act seeks to promote compliance with the Bill of Rights as contained in the Constitution and to reaffirm the concept of the company as a vehicle to achieving economic and social benefits. Section 7(b)(2) refers expressly to "the significant role of enterprises within the social and economic life of the nation."

¹⁵ Section 72(4) of the Act.

¹⁶ See Esser I, Delpont PA "Shareholder Protection Philosophy in terms of the Companies Act 71 of 2008 *THRHR* 2016 (79) 1–29 who on review of the changes overall, argues that the interests of various stakeholders have to be recognised and protected on a case-by-case basis under section 76(3)(b) of the Act although the basic principle still is that regard should be had to shareholders' interests as primary. See also Delpont (ed) *Henechsberg on the Companies Act 71 of 2008* (as revised) 54(2) submitting that the policy paper issued by the Department of Trade and Industry during the corporate law reform process when the Companies Act of 2008 was being drafted, shows that enlightened-shareholder value is the intended purpose.

¹⁷ See Section 172 of the UK Companies Act, 2006 for an example of enlightened shareholder value as articulated in legislation.

¹⁸ Esser I, Du Plessis JJ, "The Stakeholder Debate and Directors' Fiduciary Duties", *SA Merc LJ* 346 2007(19) 360.

Integrated reporting and the integrated report

If *integrated thinking* is applied by the governing body and management of organisations, it should be mirrored in the way in which organisations report and disclose on their performance and operations. Consequently, *integrated reporting* is a process founded on integrated thinking which results in the periodic issuing of an integrated report by the organisation.

The *integrated report* itself should explain the resources and relationships used and affected by an organisation – collectively referred to as “the capitals” – and how these capitals are increased, decreased or transformed through the activities and outputs of the organisation. An overarching aim of the integrated report is to serve as a representation of how the organisation interacts with the economic, social and environmental systems within which it operates (including the capitals) to create, preserve or erode value over the short, medium and long term.

The Integrated Reporting Framework¹⁹ has been developed to facilitate integrated reporting and King V has incorporated the use of the framework as a recommended practice under the reporting principle, Principle 4.

Double materiality as expression of integrated thinking

Materiality for the purpose of sustainability disclosures – meaning the filter that gets applied to determine what information and matters matter most and, therefore, require to be disclosed – differs depending on the intended audience of a particular sustainability reporting standard.

The main approaches to materiality in sustainability standard-setting are commonly referred to as single materiality, impact materiality and double materiality.

- › Single materiality focuses on information that is financially material to investors and providers of financial capital.
- › Impact materiality considers information that reflects the organisation's significant impacts on the economy, society and the environment, thereby addressing the needs of a broader group of stakeholders.
- › Double materiality integrates both perspectives, requiring disclosure of information that is material from a financial standpoint as well as from an impact standpoint.

King V explicitly endorses the double materiality approach to sustainability disclosure. This means that organisations should include not only information about matters that significantly affect (or reasonably could affect) the organisation's financial position, performance and prospects but also information about matters that significantly affect (or reasonably could affect) the organisation's ability to create systems value for its stakeholders over time. This approach is consistent with the King V position that the ability of an organisation to create value for itself, over the long term, is interrelated with the value the organisation creates, preserves or erodes for its stakeholders and the economic, social and environmental system within which it operates.

The adoption of double materiality in King V aligns with emerging international practices. The European Sustainability Reporting Standards (ESRS) also mandate a double materiality approach. Although the International Sustainability Standards Board (ISSB) has adopted a financial materiality (or single materiality) perspective, the ISSB standards are positioned as a global baseline, making them suitable for supplementation or “layering” by other sustainability reporting standards and frameworks that meet multi-stakeholders’ needs as well as local reporting requirements.

In practice, an organisation's sustainability disclosures may be presented in separate reports that address financial materiality and impact materiality respectively or in one report that includes both materiality disclosures. Either ensures that the dimensions of double materiality are adequately covered. However, for integrating these perspectives into a single, coherent narrative, the integrated report presented as a stand-alone report that integrates high-level information, including information drawn from other reports, is particularly well suited.

Effective date

Disclosure on the application of King V is effective for financial years commencing on or after 1 January 2026 but early adoption is strongly encouraged. King V supersedes King IV in its entirety.

¹⁹ Integrated Reporting Framework (January 2021) accessible at: [The Integrated Reporting Framework | Integrated Reporting SA](#).

