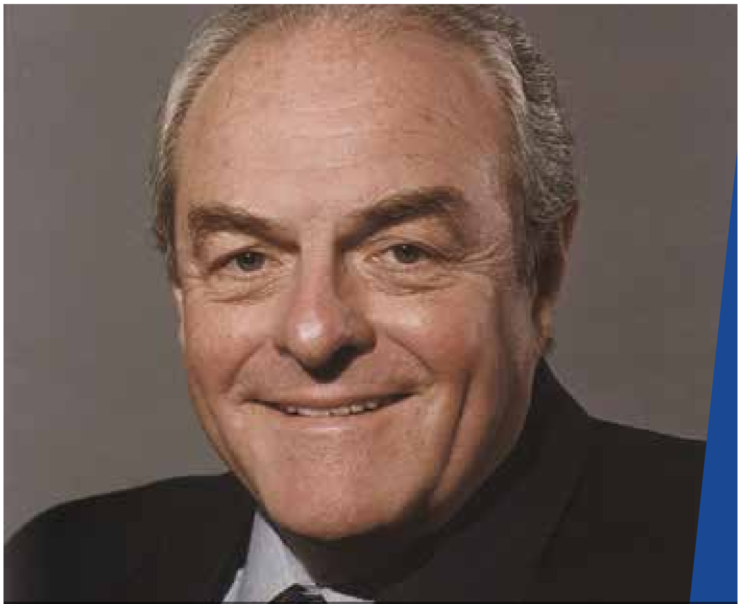
Interview by **CATHY DUFF,** Trialogue

King IV: Embracing integrated thinking



Mervyn King, *chairman of the King Committee on Corporate Governance*

Mervyn King needs little introduction. A former Supreme Court judge and currently chairman of the International Integrated Reporting Council (IIRC), the Integrated Reporting Committee of South Africa (IRCSA) and, of course, the King Committee on Corporate Governance, he discusses the concepts of good governance and integrated thinking.

How would you define good governance?

The new Companies Act sets out the duties of directors as good faith, care, skill and diligence, but this doesn't provide enough content or guidance. To me, good governance is about quality and not quantity. It is the honest application of the board's collective mind in the best interests of the company, which is an incapacitated, statutory entity.

If you were appointed to look after an incapacitated human being, you would act honestly and in their best interests. You would put aside your intellectual baggage; voluntarily give of your skills; diligently understand their circumstances; take great care in your decision-making; and plan strategically for the short, medium and long term in their interests. And so it should be with companies, which are even more incapacitated than disabled individuals. Directors are the heart, soul and mind of companies and acting as such is good governance.

What is the primary objective of the various King codes for corporate governance?

It is to get the board to apply its collective mind on an intellectually honest basis to what is in the best interests of the company at that time under those circumstances.

To do this, there needs to be a common understanding of the business's value drivers and the legitimate needs, interests and expectations of its major stakeholders. It is important that boards check the consistency of their decisions against these values and stakeholder expectations.

The King Committee is currently working on King IV. Can you tell us what changes we can expect?

We don't know the changes yet, but there are a number of issues the committee is considering. Firstly, many things have happened since King III was issued in September 2009 and we would like to refer to them in King IV. They include the changes made to the Companies Act, the introduction of the Code for Responsible Investing in South Africa, the IIRC guidelines for integrated reporting and IRCSA's recent work on integrated thinking.

Secondly, we are discussing the increasing importance of the internal audit function. The profession has moved from being one of hindsight (company makes a mistake and controls are developed) to one of insight (incorporating the issue of controls into strategy), and it is even progressing to one of foresight, where the internal auditor plays an advisory role. The internal auditor is currently appointed by the audit committee. Should they be appointed by shareholders at the AGM? This consideration is in line with the international trend towards strengthening the head of internal audit's independence.

Another issue we are discussing is ethical taxation. It used to be that tax policy was simply to pay 'as little tax as possible'. Lawful avoidance was the norm and the board did not apply its mind to the impacts on society. Today, one has to think of how an activist stakeholder will view tax avoidance. The US, for example, has developed an aversion to inversion by prohibiting reversing into companies registered in tax havens.

You've recently published a book called Integrate *with Leigh Roberts. What is the book's key message?*

Its key message is that companies deal with six resources/capitals (financial, manufactured, human, intellectual, natural and social) and that these are not dealt with by management in silos. They interact functionally and operationally every day. The book looks at inputs, the business model (governance, risk management and strategy), outputs and outcomes.

Coca-Cola focused on its outputs for over 100 years. Then two years ago in Mexico and the US, it became the alleged reason for obesity in children, which had adverse consequences for Coca-Cola.

As a result, its recent strategy includes nutritional labelling, lowering the calorie count, no advertising to children under the age of 12 and encouraging children to take part in physical activity. The company is now looking at the outcomes of its product as well as its outputs.

Now that we've developed the concept of integrated reporting and integrated thinking, it seems so logical. But it hasn't always been this way.