Article

Reflecting on Corporate Governance in South Africa: Lessons Learned and the Way Forward

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Abstract

Background: South Africa is a corporate governance pioneer. The King Reports have offered guidance to listed companies in the country since 1994 and unlisted entities since 2016. In the drive for corporate change, attention is increasingly placed on the role of activist shareholders, in particular institutional investors, given the size of their investments.
Purpose/objectives: This study aimed to gauge institutional investors' views on the differences between the King III and IV Reports related to positive aspects and room for improvement.
Design/methodology/approach: Semi-structured interviews were conducted with selected institutional investors. Themes were then derived by conducting an interpretive thematic analysis.
Findings: Interviewees commended the format and scope of the latest King Report but suggested that outcomes-based training should be offered to directors to ease implementation. Executive remuneration, director independence and auditor independence were highlighted as areas that require attention. Some interviewees questioned whether the current non-binding vote on executive remuneration is sufficient. They suggested that executive remuneration should be tied to performance outcomes across the triple bottom line. Participants recommended that director independence should be considered on a case-by-case basis, instead of strictly applying King IV's suggested tenure guideline. Furthermore, mandatory audit firm rotation could enhance auditor independence, and hence transparency. Stakeholders are encouraged to demand enhanced transparency on corporate matters to enable more informed decision-making.

Keywords: corporate governance; King III; King IV; institutional investors; South Africa

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Introduction

Corporate governance has been a critical business issue since the inception of the first organisation (Petersen 2013). However, initial guidelines in this regard were only published in the early 1990s. Despite the subsequent development of reports in several countries, including South Africa, the 2008 global financial crisis was partly ascribed to weaknesses and failures in corporate governance mechanisms (Kirkpatrick 2009). The negative effects of this crisis contributed to the enhanced focus on corporate governance practices globally (Claessens and Yurtoglu 2012). As a result, guidelines in several countries were amended by accounting for country-specific considerations. As there are numerous factors that contribute to the development of corporate governance guidelines, a one-size-fits-all model is impractical (Mintz 2005).

If a country is associated with effective directorates, it could enhance the attraction of foreign direct investment (Agyemang et al. 2019). Ethical values and the protection of shareholder interests also have a considerable impact in this regard. Cabinets should caution against political interference in corporate governance structures (Agyemang et al. 2019). Institutional culture should be governed to align the pluralistic interests of business, society and government (Kana 2020).

As a result of the 2008 global financial crisis, several investors became reluctant to invest in developing markets (Cali, Massa, and Te Velde 2008). In addition, countries that exhibit poor governance are often regarded as poor investments (Khanna and Zyla 2017). Therefore, a sound corporate governance framework is essential to enhance investor confidence (Hawas and Tse 2016) and contribute to sustainable economic development (International Finance Corporation 2018). The King III Report, published in 2009, reflected several amendments to incorporate regulatory developments and was aimed at listed companies (Institute of Directors in Southern Africa [IoDSA] 2009).

Challenges such as globalised trade, inequality, social tension and rapid technological advancement contributed to the publication of King IV in 2016 (Foster 2017; IoDSA 2016). Since non-profit organisations, private companies and public sector entities criticised the King III Report as being challenging to implement, the King committee ensured that the latest King IV Report is applicable to a range of organisations (Foster 2017; Harduth and Sampson 2016). Renewed focus is placed on board composition and director emolument (IoDSA 2016).

Previous researchers mainly focused on the practical implementation of King IV's predecessors. Mans-Kemp, Erasmus and Viviers (2016) reflected on the corporate governance practices of listed companies, based on their compliance with the King II Report. Langeni (2018) compared the perceived value of King III and II by conducting interviews with non-executive directors. Participants in his study cautioned against compliance becoming a "tick box" exercise. The King IV Report was built on the strengths of King III and the perceived weaknesses were used to amend and develop the latest guidelines (Harduth and Sampson 2016). There are several differences between

the King III and King IV Reports, including its format and regime, recommendations relevant to directors' remuneration, and independence (IoDSA 2016; 2009).

Despite efforts to address the perceived shortcomings of the King III Report, stakeholders publicly highlighted that there is still scope for improvement regarding some King IV recommendations (Levenstein 2017). In light of the King Reports' inclusive stakeholder approach, corporate leaders should aim to balance the needs of material stakeholders with the best interests of the organisation. Corporate governance can be seen as a means of relationship management between stakeholders (IoDSA 2016).

Institutional investors have considerable power to change corporate behaviour and enforce sound corporate governance, given the size of their investments in investee companies (Sandberg 2013). Their views on the South African corporate governance framework are of specific importance to policymakers. There is limited information available on the implementation and implications of King IV and there are substantial differences between the latest reports. This study hence aimed to gauge institutional investors' views on the differences between the King III and IV Reports, related to positive aspects and room for improvement, during semi-structured interviews. To ensure that corporate governance guidelines are apt for the context in which they are applied, evaluation is essential to pave the way for corporate governance compliance in future.

In order to reflect on the South African corporate governance framework, it is important to understand prominent theories and key transitions from King III to King IV.

Theoretical Lens: Agents, Stakeholders and Organisational Legitimacy

Corporate governance models could be categorised as Anglo-American, European or Japanese. According to Reed (2002), developing countries typically adopt the Anglo-American model. In line with this model, a one-tier board structure is applied in South Africa. Shareholders are regarded as critical corporate governance participants when this model is adopted. Corporate governance research largely stems from the agency theory that is based on the complex relationships between shareholders (principals) and managers (agents). While shareholders expect that managers will make decisions that are in their best interests, managers' actions might be driven by self-interest (Jensen and Meckling 1976). Corporate governance guidelines are, therefore, developed to aid boards in managing and aligning such divergent interests (Chen, Lu, and Sougiannis 2012).

In contrast to the agency theory's principal-agent relationship, stakeholder theory suggests that directorates should manage a complex network of stakeholder relationships (Borlea and Achim 2013). An underpinning philosophy of the King IV Report is stakeholder inclusivity, as stakeholders are regarded as the ultimate

compliance officers. Shareholders could serve as proxies for broader stakeholder interests, as their rights are enshrined in legislation (IoDSA 2016).

Another theory that is of particular interest to this study is organisational legitimacy. The term legitimacy is related to the perception that an organisation's actions are proper within a socially constructed system (Suchman 1995). This theory implies that companies could seek legitimacy by adopting symbolic or substantive practices. Substantive managerial actions could result in considerable, concrete changes to processes and practices. In contrast, superficial actions could create the impression that management aims to address specified goals without actually meeting them. Symbolic excuses could then be offered to explain their lack of action (Ashforth and Gibbs 1990; Soobaroyen and Ntim 2013).

The Evolution of King III to IV: Moving to an Outcomes-based Approach

The King Committee aimed to make the King IV Report more outcomes-oriented after the King III Report was labelled a symbolic "tick box" compliance approach by some stakeholders (KPMG 2016). In the King IV Report, the governing body is now held accountable to achieve specific outcomes instead of just complying with the guidelines. These outcomes include an ethical culture and effective control. King IV adapted its terminology by referring to a "governing body" which is viewed as a more inclusive term in a multi-organisation setting than "board of directors" (IoDSA 2016).

The King III "apply *or* explain" approach was furthermore replaced by an "apply *and* explain" approach for the King IV Report. During the King III-regime, companies had to disclose details on their application *or* explain why they did not apply specific guidelines. In contrast, mindful disclosure *and* details of actual practices are required by King IV, while accounting for each organisation's unique circumstances (IoDSA 2016; KPMG 2016). Stakeholders are hence enabled to better assess whether the outcomes of good governance have been achieved (IoDSA 2016).

The King IV Report is regarded as more concise and compact than its predecessor. While King III contained 75 principles, King IV comprises only 17 principles. Sixteen principles apply to all organisations, while the 17th principle is applicable to institutional investors. Sector supplements now offer corporate governance guidance to municipalities, non-profit organisations, retirement funds, small- and medium-sized enterprises, and state-owned entities (IoDSA 2016; 2009). Masegare and Ngoepe (2018) remark that the governance structures of municipalities can considerably improve if they adopt the King IV recommendations. As these guidelines are applied on a voluntary basis, the concern has been raised that unlisted entities might not apply the guidelines in the absence of external incentives (Candor Governance Specialists 2017).

Aspects of the King IV Report have been publicly criticised by shareholder activists, in particular audit firm rotation, director remuneration, independence and tenure (Barron 2018; Viviers et al. 2019).

Mandatory Audit Rotation and Combined Assurance

The rotation of audit firms gained considerable attention during the 2000s as tenure seemed to have a negative impact on audit quality in several instances (Carey and Simnett 2006). Monroe and Hossain (2013) argued that mandatory rotation would enhance audit quality and auditor independence. King IV addressed the mandatory rotation of audit firms by stating that it could be applied to the discretion of an organisation's audit committee and governing body (IoDSA 2016). Such rotation is subject to legal requirements. The Independent Regulatory Board for Auditors (2016) requires mandatory audit firm rotation after an auditor has been appointed for 10 consecutive financial years.

A combined assurance model was introduced in King III to explain the responsibilities of management, audit committees and external assurance providers to offer a coordinated assurance and risk-management approach (IoDSA 2009). Decaux and Sarens (2015) reported that the implementation of such a model is a learning process for organisations. They recommended that organisations must ensure that they truly understand the concept to successfully implement the model. It was evident that a more evolved understanding of a combined assurance model was required to enhance its effectiveness. King IV hence expanded the notion of assurance beyond the technical definition by stating that such a model should incorporate and optimise all functions and services that enable an effective control environment. Assurance is essential to support the integrity of information used for internal decision-making and external reporting (IoDSA 2016).

Contrasting views have been expressed pertaining to mandatory audit firm rotation. In the United States, regulators oppose such rotation, while European regulators support a dual mandatory rotation rule in which audit firms and audit partner rotations are required (Horton, Livne, and Pettinicchio 2020). By employing surveys, Harber and Marx (2020) report that auditors, chief financial officers and the chairs of audit committees in South Africa strongly oppose mandatory audit firm rotation. They caution against the potential loss of knowledge and experience resulting from such rotation.

Director Independence and Diversity Considerations

Directors are supposed to act on an informed basis in an organisation's best interests. The business judgment rule included in the Companies Act (No. 71 of 2008) protects board members from personal liability for losses if they can prove that they have taken reasonable steps to be informed about the matter, have no conflict of interest or have complied with the rules if such conflicts exist, and rationally believe that their actions are in the company's best interest (Muswaka 2013). There is a link between possible

conflict of interest and a director not being classified as independent. Enhanced focus is, therefore, placed in King IV on director independence. All directors are expected to act with independence of mind in the best interest of their organisation (IoDSA 2016).

King IV also recommends that director independence should be periodically assessed. A director might continue to serve in an independent capacity for longer than nine years if the annual assessment confirms that the director exercises objective judgment and that there is no consideration that could result in biased decision-making (IoDSA 2016). The renewed regulatory focus on director independence, and by implication tenure, has resonated in research (Graham, Kim, and Leary 2020; Shan 2019). There is considerable controversy surrounding long-serving independent directors. Questions are being raised about whether board members can truly be classified as independent based on the criteria included in corporate governance guidelines (Neville et al. 2019). While it might be argued that a director cannot be truly independent after a long tenure (Reguera-Alvarado and Bravo 2017), long-serving directors could provide valuable knowledge referred to as "institutional memory" (Brougham-Cook 2015).

In addition to director independence, renewed focus is placed on board diversity, in particular the gender and race composition of local directorates. King IV proposes that companies should set targets in this regard and report regularly on their progress (IoDSA 2016). A growing number of local and international researchers urge nomination committees to account for board diversity (Brieger et al. 2019; Mans-Kemp and Viviers 2019; Sarhan, Ntim, and Al-Najjar 2019). Diverse directors often receive multiple invitations to serve on several boards concurrently. Some researchers hence caution companies to consider the positive and negative implications of potential director "overboardedness" (Ferris, Jayaraman, and Liao 2020; Handschumacher et al. 2019; Mans-Kemp, Viviers, and Collins 2018). A director becomes overboarded if he/she serves on too many boards simultaneously (Ferris et al. 2020). Directors' contributions to the board and their ability to effectively fulfil multiple responsibilities should be evaluated, as explained next.

Board Oversight, Transparency and Performance Evaluations

Given the considerable impact of corporate crises on investors, companies and markets, enhanced focus is placed on transparency, disclosure and trust (Lins, Servaes, and Tamayo 2019; Tseng et al. 2019). Although the values that a company claims to embed in its organisational culture should be reflected in directors' behaviour, this is not necessarily the case. A growing number of stakeholders, in particular activist shareholders, hence demand enhanced accountability and transparency from boards, inter alia on board composition, executive emolument and performance considerations (Alkalbani, Cuomo, and Mallin 2019; Deloitte Insights 2020; Proxy Insight 2020).

Directors should oversee risk management and disclosure on the application of a range of capital sources, including natural resources (IoDSA 2016). Shareholders increasingly require detailed information on environmental and social matters, in addition to

governance and financial performance considerations to enable them to make informed decisions (Tseng et al. 2019). Sustainability concerns hence receive enhanced attention from boards (Deloitte Insights 2020). Investors can, however, only hold directorates to account if disclosure is meaningful. During the Covid-19 pandemic, renewed warnings were issued that directors should caution against “boilerplate” disclosure that is too generic (Vickovich and Thomson 2020). In the aftermath of this crisis, social considerations are likely to receive more attention from investors and investee companies.

Due consideration should hence be given to the performance of the board and individual directors pertaining to financial and sustainability performance considerations. While King III recommended that formal annual board evaluations should be conducted, King IV suggests that such evaluations should be conducted at least every two years (IoDSA 2016; 2009). This time frame provides the governing body with sufficient time to respond to the results of the evaluations. Concerns can then be addressed and corrective measures can be taken (IoDSA 2016).

Director Remuneration

King IV offers definite disclosure requirements on director emolument due to enhanced focus on pay inequality in South Africa (Viviers et al. 2019). Given their important monitoring role, directors should be fairly rewarded in the context of overall employee emolument. Remuneration committees should give due consideration to the link between pay and performance (IoDSA 2016). Firms are also expected to publish a background statement, an overview of their remuneration policy and an implementation report (IoDSA 2016). The King IV remuneration-related recommendations will, however, not necessarily result in lower executive remuneration, as several firms use pay benchmarking to reward executives (PwC 2018).

There was considerable pressure to revise the non-binding vote on director remuneration introduced in King III, as other jurisdictions have a binding vote on remuneration (Viviers 2015). Wells (2015) conducted a study on the regulation of executive remuneration in the United Kingdom and found that it is difficult to enforce such a vote. Although a binding vote is not recommended by the King IV Report, remuneration policies should now express the measures that a directorate commits to in the event that 25% or more shareholders vote against the remuneration and/or implementation report (IoDSA 2016). Organisations are hence being forced to engage with shareholders and take their concerns pertaining to excessive director emolument into consideration (Deloitte 2017).

Research Design and Methodology

Institutional investors typically use corporate governance criteria in addition to financial considerations when making investment decisions (Van der Ahee and Schulschenk 2013). The primary objective of this exploratory study was hence to investigate the

views of institutional investors on the King IV Report in relation to King III, by conducting semi-structured interviews. The authors aimed to gauge interviewees' responses on positive aspects and on room for improvement pertaining to corporate governance in South Africa. The phenomenological paradigm that was adopted allowed the researchers to conduct an in-depth analysis and interpretation of the views of the individuals under investigation.

Research Context and Sample Selection

South Africa is regarded as a corporate governance pioneer that remains at the forefront of corporate governance developments (Armstrong, Segal, and Davis 2005). The King Reports address challenges that are unique to the country and are in line with global best practices. Given changes in the global and local corporate governance landscape, the amendment of the reports remains a dynamic process as reflected in the three revisions since 1994.

The target population comprised all institutional investors in the country. Asset managers who directly invest in equities or bonds listed on the Johannesburg Stock Exchange formed part of the sample frame. A combination of judgement and snowball sampling was used to select the sample. Firstly, an industry contact assisted in determining the sample frame and providing contact details to make initial contact with a number of potential participants. Snowball sampling was thereafter employed to contact other possible participants based on the recommendations of interviewees.

Literature indicates that there is not an "ideal" sample size for qualitative studies but that focus should rather be placed on the adequacy of the selected individuals (Bowen 2008; O'Reilly and Parker 2013). Sample size largely depends on the richness of the collected data, the relevance thereof to address the research objectives, and the extent of data saturation (Moser and Korstjens 2018). Thirteen representatives of 12 local institutional investors provided expert input on the local corporate governance framework. Their industry experience ranged from six to 26 years. The sample size was deemed sufficient, as the extensive feedback provided by interviewees indicated saturation.

Data Collection and Analysis

A funnel method was adopted to guide participants from expressing broader viewpoints to more focused responses during semi-structured interviews. The interview guide was developed based on applicable literature and the King III and IV Reports. The relevance of the questions was discussed with three corporate governance experts before commencing with the interviews. The experts provided valuable recommendations regarding the content and formulation of some questions. Twenty-eight main questions were included in the applied interview guide based on the format and regime of the King III and IV Reports, board composition and evaluations, director remuneration, audit considerations, responsible investing and shareholder activism, and the future of

corporate governance. The main questions, for example, included (additional prompting questions are included in brackets):

- The 75 principles of the King III Report were reduced to 17 principles in King IV, of which one applies to institutional investors only. Do you think this approach is more user-friendly? (Additional questions: Do you have any concerns regarding the new format? What are the implications of Principle 17 for your governing body?)
- King IV recommends formal board performance evaluations at least every two years, instead of annually. Which aspects are critical to be discussed during such evaluations? (Additional questions: Do you agree with this time frame? Should environmental, social and corporate governance [ESG] dimensions be considered when evaluating a board's performance?)
- Recommendations regarding directors' remuneration were considerably expanded in the King IV Report, including more definitive disclosure requirements. Do you think these requirements will result in more transparent disclosures? (Additional question: Do you think that these recommendations are too restrictive?)
- King IV does not prescribe the design of the combined assurance model but allows for the governing body to exercise judgement in this regard. Do you think more guidance should be provided? (Additional question: Do you think sufficient details are offered on the audit committee's responsibilities?)

After informed consent was obtained, participants were requested to complete biographical details and questions on their employer via email before the interviews took place. Seven of the interviews were conducted in person and the remainder via individual teleconferences. The duration of the interviews ranged between 40 and 90 minutes. In some cases, clarifying questions were asked, e.g.: Can you expand on this discussion or provide any examples?

After the interviews had been transcribed, thematic analysis as specified by Braun and Clarke (2006) was used to derive themes (refer to Table 1). Inductive coding was used. Lincoln and Guba's (1985) criteria for trustworthiness were taken into account while collecting and analysing the data, including credibility, dependability, confirmability and transferability.

Table 1: Explanation of the thematic analysis approach

Step 1: Familiarisation with the collected information	The recorded interviews were transcribed. To ensure that the researchers were well acquainted with the data, the transcriptions were repeatedly read to detect preliminary patterns and make notes.
Step 2: Initial coding of the data	Preliminary codes were assigned based on

	the data features that appeared meaningful. These codes provided an indication of the context of the interviews.
Step 3: Searching for themes	Preliminary main and sub-themes were identified by means of interpretive analysis of the allocated codes.
Step 4: Reviewing and modifying preliminary themes	The preliminary themes were re-analysed to determine whether they accurately described the coded extracts and the entire data set.
Step 5: Defining the themes	The essence of each theme, as well as sub-themes where applicable, was finalised.
Step 6: Providing conclusions	Conclusions were formulated based on the identified themes, direct quotes, the King IV and III Reports and relevant literature.

Source: Braun and Clarke (2006)

In order to enhance confirmability, the researchers revisited the recordings of the interviews (refer to Steps 1 and 3 in Table 1) and discussed the transcripts to ensure that the derived themes are based on the participants' views. Pertaining to theme frequency, initial coding focused on whether or not a theme was present. When the themes and sub-themes were finalised (Step 5), attention was given to the number of times that each author's responses related to the identified themes.

In addition to a discussion of the findings with an industry expert, findings were also discussed with some participants to ensure that their opinions were accurately conveyed, hence addressing credibility. The dependability criterion of trustworthiness was met, as the study can be replicated by following a similar approach. Regarding transferability, sufficient details were provided on the research context to allow reflection on the applicability of the results in other settings. No computer software was used in the analysis. Pertaining to inferential validity, a reliable framework (the King Reports) was used to develop the research instrument and to derive and interpret inferences. With regard to thematic analytical validity, the authors aimed to provide sufficient evidence of themes, supported by data extracts where applicable.

Ethical clearance was obtained to conduct the study. In line with the assurance of confidentiality, participants' responses were merged in themes and no participants were identified in reporting the findings of the study. One of the themes not reported on in this article, was on shareholder activism as a responsible investment strategy, which is the focus of a separate article.

Results and Discussion

Details are provided on four main themes that emerged from the analysis, namely format and application, assurance and audit requirements, board composition and performance evaluation, as well as director remuneration.

Format and Application of King IV

Participants agreed with auditors that the considerable reduction of principles makes the latest King Report more user-friendly (Deloitte 2016). Participants were furthermore supportive of Principle 17 that is specifically applicable to institutional investors. They expressed the view that it is essential that responsible investment practices should be "driven at board level, by the governing body, into organisations." One participant stated that Principle 17 should be "embedded entirely into the culture and investment philosophy of the business." Several interviewees remarked that their employers, by implication, already applied this principle by actively pursuing the Code for Responsible Investing in South Africa. This code was introduced in 2011 following the publication of King III.

The scope for "tick box" compliance based on King III was a concern for several stakeholders (KPMG 2016). A participant mentioned that when an organisation follows a "tick box" approach, the organisation might achieve "more compliance in form, but not in substance." Interviewees hence welcomed King IV's outcomes-based focus. Users are encouraged to reflect on their application of the principles by accounting for their organisation's unique context. The view was, however, expressed that it might be challenging to move beyond a "tick box mentality" due to the voluntary nature of the report. As the King guidelines are incorporated in the listing requirements of the local bourse, it might be regarded as a form of "soft regulation" (Du Plessis and Low 2017).

In line with the findings of Agyemang et al. (2019) and Demidenko and McNutt (2010), participants stressed that corporate governance and ethics must be embedded in corporate culture to facilitate the mindful application of governance guidelines. Mindful implementation was described as "seeing the benefit of inoculating these approaches and methodologies to their own organisations, and ultimately the triple bottom line." Two participants added that implementers should have common sense and "business sense." Common sense reasoning entails that an individual reflects and makes inferences based on his/her understanding of the available information (Mueller 2015). As it is essential that directors should continuously develop their reasoning capacity, participants suggested outcomes-based training.

Views on Sector Supplements and Compliance Costs

Participants regarded the inclusion of proportionality in King IV as a major improvement on King III. Proportionality relates to the way in which the King principles are applied. The sector supplements were welcomed, as these broaden the scope of King IV's implementation to include unlisted entities. Since institutional investors are invested in debt and listed equity, they could "suffer from governance failings in both spheres." In line with Masegare and Ngoepe (2018), several participants indicated that state-owned enterprises and municipalities could considerably benefit by applying King IV.

Several participants highlighted that compliance costs were rapidly increasing. Escalating costs might considerably affect the sustainability of organisations, in particular small entities. A remark was made that organisations are "overburdened with compliance, which is extremely costly, to try and correct wrongs of the past." This is disconcerting, given the King committee's vision to make the guidelines more applicable to entities of varying sizes. Research confirms that such costs should be minimised, as high compliance costs can result in delisting or a lack of application of governance guidelines. Large companies have a higher capacity to absorb such costs than their smaller counterparts (Aguilera et al. 2008; Reddy, Locke, and Scrimgeour 2010).

Assurance and Audit Requirements

Although participants commended King IV's guidance on combined assurance, several concerns were raised. The role of auditors in the global financial crisis was highlighted as "a residual issue never fully dealt with." This "silence" of auditors during the crisis was also criticised by Sikka (2009). Participants hence welcomed the recommendation that audit committees should express their view on the quality of the external auditor, as it forces organisations to pay closer attention to the behaviour of their auditors.

The importance of independent auditors was emphasised by Zhang, Zhou, and Zhou (2007). They found that independent auditors are more likely to identify internal control weaknesses. Audit firm tenure could, however, have a negative impact on the quality of audits (Carey and Simnett 2006). Monroe and Hossain (2013) therefore suggested mandatory audit firm rotation. An interviewee agreed that audit firm rotation might become necessary due to "inherent conflicts of interest arising from longevity of contracts." Divergent views were raised internationally pertaining to mandatory audit firm rotation (Horton et al. 2020). Zhang et al. (2007) noted that firms which recently changed auditors were more likely to have internal control weaknesses. Likewise, several participants were not convinced that audit rotation would necessarily enhance auditor independence. Alternative approaches to ensure independence should hence be considered, including inspection reports issued by external regulators. As the external regulator has an "inside view into the internal workings of an auditor which no one else can have," such reports can be "very informative" for audit committee members.

Some participants were concerned that new auditors would not have the same level of insight as the previous ones, especially if a business operates in more than one industry or jurisdiction. Research by Harber and Marx (2020) confirmed that local auditors, chief financial officers and audit committees oppose mandatory audit firm rotation. The Independent Regulatory Board for Auditors (2016) suggested audit rotation after a tenure of 10 years. Participants had differing opinions regarding this guideline. Six of the 13 participants suggested a shorter rotation timeframe. Mandatory audit firm rotation will be enforced in South Africa from 1 April 2023 (PwC 2017).

Board Composition and Performance Evaluation

Pertaining to board composition, participants expressed views on board diversity, overboardedness, and director independence. The importance of board performance evaluation was also highlighted.

Board Diversity and Overboardedness

Although they expressed a positive view on board diversity, not all participants have engaged with investee companies on the topic. An interviewee remarked that it is difficult to implement King IV's suggested board race and gender targets, given the limited number of board candidates in the country. A survey confirmed this challenge (LinkedIn Talent Solutions 2016). A counterpart added that there is "no point in just appointing people for the sake of it since that will only result in window-dressing." Several counterparts stated that focus should rather be placed on directors' diverse skills to enhance integrated thinking. A growing number of researchers investigate the implications of board diversity, including the potential contribution thereof to the phenomenon of overboardedness (Brieger et al. 2019; Mans-Kemp and Viviers 2019; Sarhan et al. 2019).

Given the limited talent pool, eligible, diverse directors are likely to receive invitations to serve on multiple boards. Kaczmarek, Kimino, and Pye (2014) reported a link between overboardedness and diversity. All participants felt that the lack of guidance in King IV on the number of board positions that can be held concurrently contributes to overboardedness. They furthermore cautioned that multiple board positions might result in a conflict of interest. Researchers urge nomination committees to account for the potential contribution and challenges related to a busy schedule when appointing an overboarded individual to a board (Ferris et al. 2020; Handschumacher et al. 2019; Mans-Kemp et al. 2018). Directors might risk compromising their independence by taking on more board positions (Sharma 2011).

Director Independence

In line with the literature (Graham et al. 2020; Neville et al. 2019; Shan 2019), conflicting views were expressed regarding whether long-tenured non-executive directors could still be regarded as independent. Some interviewees remarked that long tenure could result in a conflict of interest and hence impair a director's independence. The view was expressed that a director could be in a "comfort zone and hence not asking the critically important questions." In line with Brougham-Cook (2015), other interviewees argued that the "institutional memory" of long-serving directors is invaluable.

Three participants shared the view that independence does not necessarily depend on tenure, but rather on how an individual approaches his/her duties. Reguera-Alvarado and Bravo (2017) confirmed this notion. An interviewee remarked that "depending on their personalities and their level of influence by social factors, such as peer pressure,

independence could be impacted before nine years." A counterpart added that just because an individual is classified as independent, he/she will not by implication act in the best interest of the firm. Interviewees, therefore, suggested that independence should be assessed on an individual basis. The tenure period of nine years indicated by King IV (IoDSA 2016) was regarded as an arbitrary number. Reference was also made to the business judgement rule while discussing director independence. A director remarked: "How often are directors actually held liable? And the answer is very, very, very rarely." Stricter implementation of the business judgment decision rule is essential to ensure that directors act on an informed basis.

Board Performance Evaluations

Several participants agreed with King IV's suggestion that formal board evaluations should be conducted every two years. In line with Epstein and Buhovac (2017), participants suggested that "softer" sustainability aspects should be considered in addition to financial performance outcomes. Interviewees emphasised the importance of meaningful dialogue and interaction during evaluations. Conflict might, however, arise when diverse boards engage in discussions (Walker, Machold, and Ahmed 2015). As such, it was mentioned that a facilitator might be required to evaluate a board, based on its complexity.

Several participants linked board performance evaluations to executive remuneration. They remarked that directors' emolument should be linked to positive outcomes across the triple bottom line and/or the six capitals. Reflection on the triple bottom line (economy, society and operating environment) and the six capitals (financial, manufactured, intellectual, human, social and relationship, and natural capital) is essential to ensure sustainable development (IoDSA 2016). The usage of a balanced scorecard was, therefore, recommended. Practitioners concur that more attention should be given to ESG considerations when reflecting on directors' oversight function and accountability to shareholders and other stakeholders (Deloitte Insights 2020).

Director Remuneration

The participants commended the King committee for expanding the director remuneration guidelines. The more definitive disclosure requirements are likely to enhance transparency. Some indicated that they already noted changes pertaining to shareholders' responses to executive remuneration. For example, shareholders recently voted against the implementation of remuneration policies at several local companies (Bodenstein and De Lange 2019; Viviers et al. 2019).

Views on the Determination of Executive Pay Packages

All participants strongly opposed excessive executive packages. This is not surprising, given South Africa's disconcerting inequality rate (The World Bank Group 2018). King IV urges that executive pay should be determined in the context of overall employee remuneration (IoDSA 2016). However, many interviewees remarked that this

recommendation would not necessarily have a considerable impact on the pay gap. They explained that it is challenging to attract talented individuals and remunerate them within a reasonable scale. An interviewee stated that "in reality you need to be competitive relative to all the other opportunities that the individuals have." A counterpart added that "the reality is, to get people to drive change you need to incentivise them properly." Ideally, optimal executive contracts should be offered to minimise agency costs (Nasdaq 2019). In practice, executive emolument contrasts are often based on benchmarking that could contribute to the growing wage gap (PwC 2018).

Concerns regarding the appropriateness of incentives offered to executives were also raised. A participant stated that remuneration is "wrongfully linked to share price performance, as the share price is the market expressing an opinion on the value of the company and could be driven by various factors." The risk then arises that short-term decisions could negatively impact the organisation in the long-run. In line with Marinovic and Varas (2019), some participants suggested that executive remuneration should rather be tied to long-term organisational performance. Careful consideration should be given to the combination of short- and long-term compensation.

Executive Remuneration: A Binding or Non-binding Vote?

The majority of participants stated that shareholders' votes on executive pay should be binding, instead of the non-binding vote suggested by King IV. Mounting pressure by institutional investors could possibly result in an amendment in this regard in future (Bodenstein and De Lange 2019). Although the introduction of a binding vote would be difficult to enforce (Wells 2015), the interests of shareholders and managers might be better aligned (Wagner and Wenk 2017). Some participants opposed a binding vote. An interviewee remarked that "majority shareholders can hold a company hostage and vote something down." A counterpart added that there is often not sufficient communication to shareholders regarding the reasoning behind the suggested remuneration policy. Viviers (2015) confirmed that local companies often fail to disclose sufficient information on remuneration policies.

Although the non-binding vote also appeared in King III, guidance was not offered on how to respond to "against" votes. King IV suggests that a firm's remuneration policy should indicate measures that the board commits to in the event that 25% or more shareholders vote against the remuneration policy and/or implementation report (IoDSA 2016). Some interviewees, however, mentioned instances where shareholders who were invited to engage did not use the opportunity. Some shareholders could not provide "good reasons" for suggested changes to the remuneration policy. All participants indicated that they had actively engaged with investee companies on executive remuneration. Some stated that they would prefer proactive engagement with investee companies.

The following comment highlights that other stakeholders should also contribute to discussions on director emolument: "It is not just shareholder pressure … but broader public scrutiny that reinforces alignment between executive remuneration and company performance."

Conclusions and Recommendations

Literature indicates that shareholders value sound governance practices (Hawas and Tse 2016). A growing number of investors also account for social and environmental considerations (Tseng et al. 2019). Institutional investors, in particular, play an important role to enforce investee companies' compliance with corporate governance guidelines. The corporate governance landscape in South Africa changed considerably between 1994 when the first King Report was published and 2016 when the latest King IV Report was released. Limited information is, however, available on the implementation and implications of King IV. Semi-structured interviews were therefore conducted with 13 participants from 12 institutional investors to gauge their views on the strengths and weaknesses of the current corporate governance guidelines. Thematic analysis was conducted to derive four main themes.

Participants expressed positive views pertaining to the future of corporate governance in South Africa. They regarded King IV as more succinct and user-friendly than its predecessor. In light of critique that King III encouraged "tick box" compliance, outcomes-based guidance was welcomed. Interviewees furthermore valued the shift towards an "apply and explain" regime as it encourages governing bodies and the board committees to critically think about the implementation of the principles. Outcomes-based training could be offered for company secretaries and governing bodies to ease the implementation of the King IV guidelines.

The inclusion of sector supplements was described as a major improvement on King III. Interviewees, however, mentioned that it is time consuming and costly to apply the recommendations. High compliance cost poses a considerable challenge for small organisations. The King Committee could, therefore, consider publishing a condensed document covering key issues applicable to the day-to-day operations of small entities.

Some interviewees expressed concerns regarding auditor independence. More guidance should be offered in King V on auditor independence in the light of mandatory audit rotation. The independence of non-executive directors also warrants more consideration. A stringent limit on board tenure should be balanced against ensuring that directors are truly independent, without losing invaluable institutional knowledge. Independent facilitators could be contracted to facilitate challenging discussions on directors' independence and performance.

Divergent views were expressed on executive remuneration. Representatives of investee companies should be encouraged to proactively engage with shareholders. An interviewee recommended that road shows could be organised to facilitate robust

emolument discussions. A binding vote could be considered for some aspects of managerial compensation, in particular managerial targets. In the case of a binding vote, a majority vote (50%) could be considered in future, rather than 75% approval. Executive remuneration should be linked to positive outcomes across the triple bottom line by using a balanced scorecard.

As King IV only became effective in April 2017, more research should be conducted to reflect on the implementation thereof. Future researchers could analyse company reports to compare the application of King III relative to King IV. The implementation of sector supplements is another area for further investigation. Interviews can also be conducted with representatives of unlisted organisations to obtain their views regarding the application of King IV. The stakeholder community is encouraged to evaluate longitudinal findings and make recommendations when King V discussions are held in future.

In addition to their responses related to the identified themes, interviewees indicated that social and environmental considerations deserve more attention. The need for more industry-specific guidance in this regard was highlighted. Recent corporate scandals have raised difficult questions about the competence of local board members. It should be noted that even countries with strict corporate governance regulation cannot *per se* prevent corporate governance failures. Although the King IV Report provides invaluable assistance to a range of entities, its guidelines are not infallible. It is thus essential that stakeholders should take a stance and demand substantive, rather than symbolic application of the King guidelines.

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