



# Enhancing Transparency in JSE-Listed Companies through Governance Integration within the ESG Framework

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## **Declaration**

I hereby declare that this mini-dissertation, submitted in partial fulfilment of the requirements for the Master of Laws degree in Mercantile Law at the Faculty of Law, North-West University, is my original work and has not been submitted to any other institution of higher education. All sources referenced in this study are properly cited.

A handwritten signature in black ink, appearing to be 'L. Erasmus', written in a cursive style.

## **ACKNOWLEDGEMENTS**

I want to take a moment to express my heartfelt gratitude to everyone who has supported me in reaching this milestone. I am truly thankful for all of you. However, I would like to dedicate this achievement to two special people in particular, my parents, Johan and Anita Le Roux.

From the bottom of my heart, thank you for building the stairs that have allowed me to climb to this point. I wouldn't be who I am or where I am without the countless opportunities you provided me without hesitation. I promise to honour your support and ensure that your belief in me has not been in vain.

This is to you.

Love Love.

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## Chapter 1

### ***1.1 Introduction***

*"Good corporate governance involves a commitment of a company to run its businesses in a legal, ethical and transparent manner – a dedication that must come from the very top and permeate throughout the organisation."*<sup>1</sup>

The origins of corporate governance can be traced back to the establishment of the first companies and the separation of control and ownership. This separation created the potential for conflict between shareholders and managers, leading to the need for supervision and control of managers.<sup>2</sup> In a narrow sense, corporate governance can be defined as "the practice by which companies are managed and controlled".<sup>3</sup>

Corporate governance is a crucial aspect of business operations as it encompasses various elements that contribute to the effective functioning of companies. It involves the structures, systems, and processes through which companies are, controlled, managed, and directed.<sup>4</sup> Ultimately, it provides a framework of practices, principles, and procedures that govern the interactions between a company's management, shareholders, board of directors, and all relevant stakeholders. The establishment of effective corporate governance is essential for ensuring the long-term prosperity and sustainability of any company.<sup>5</sup>

In the present day, corporate executives are under heightened scrutiny to prove that their actions align with their words. There is a rising trend of investors and governments questioning the reliability and accuracy of some corporate

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<sup>1</sup> Chandra *Confederation Ins. Report of the CII Task Force on Corporate Governance* 17.

<sup>2</sup> Wiese *Corporate Governance in South Africa: with International Companies* 2.

<sup>3</sup> Cadbury *Report of the Committee on the Financial Aspects of Corporate Governance* 24.

<sup>4</sup> Tricker *Corporate Governance: Principles, Policies, and Practices* 34.

<sup>5</sup> Barnes and Thornburg *Prioritizing the G in ESG* 1.

disclosures.<sup>6</sup> Stakeholders are no longer blindly accepting companies' assertions about their efforts to address concerns. Instead, as the demand for transparency grows and businesses are facing increased scrutiny pertaining the repercussions of their actions, many stakeholders are taking a closer look in reviewing the disparities between what companies disclose and what they truly accomplish.<sup>7</sup> Companies are now being held responsible for matters that extend beyond their traditional market activities.<sup>8</sup> Dr Leila Fourie, the CEO of the JSE Group, stated that: "The JSE recognizes the need to create an enabling environment for better disclosure practices to thrive".<sup>9</sup>

Well-known instances of corporate fraud have played an important role in advocating for more robust corporate governance practices.<sup>10</sup> It is essential to recognize that transparency in a company extends beyond proactive anti-corruption initiatives, but also includes the need to disclose information about subsidiaries and other affiliated companies.<sup>11</sup>

Due to the lack of transparency and accountability in reporting accurate metrics, especially when different companies follow diverse frameworks, there is a risk of whitewashing.<sup>12</sup> Whitewashing refers to the act of offering misleading information to divert public attention from a company's unethical behaviour.<sup>13</sup>

Transparency and corporate governance are intertwined concepts that are vital for all stakeholders and investors. When formalizing and elaborating on this

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<sup>6</sup> Fortuna 2022 <https://cleantechnica.com/2022/03/10/esg-lawsuits-in-2022-challenge-environmental-reporting-discrepancies/>.

<sup>7</sup> Fortuna 2022 <https://cleantechnica.com/2022/03/10/esg-lawsuits-in-2022-challenge-environmental-reporting-discrepancies/>.

<sup>8</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy* 45.

<sup>9</sup> JSE *Leading the Way for a Better Tomorrow* 4.

<sup>10</sup> Corporate fraud instances: Steinhoff, VBS Bank and Tongaat Hulett.

<sup>11</sup> NBI *Transparency in Corporate Reporting South Africa 2020* 8.

<sup>12</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy* 61.

<sup>13</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy* 61.

relationship, it becomes clear that transparency is crucial in providing stakeholders with comprehensive information about a company's governance practices.<sup>14</sup>

## **1.2 Background to the problem**

The King IV principles merely serve as a set of voluntary principles and leading practices, applicable to all types of companies regardless of their form of incorporation.<sup>15</sup> However, all companies listed on the JSE are obliged to comply with all the corporate governance requirements of King IV.<sup>16</sup> Failure to do so will result in the JSE suspending the company.<sup>17</sup>

In the context of King IV, corporate governance refers to the responsible and efficient leadership of the governing body, with the aim of attaining the following desired outcomes: credibility, effective control, strong performance, and a culture of ethics.<sup>18</sup> The fundamental principle underlying King IV is the imperative of transparency, which highlights the significance of companies being open and forthcoming about their internal affairs.

If someone were to summarize King IV in a single term, "transparency" would be the immediate thought.<sup>19</sup> King IV builds on predecessors by emphasizing the significance of healthy corporate governance as a vital component of ethical corporate conduct. Proper corporate governance recognizes that a company does not exist in isolation, but is an integral part of society, thus bearing responsibility towards both present and future stakeholders.<sup>20</sup>

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<sup>14</sup> Slack 2019 <https://slack.com/intl/en-gb/blog/collaboration/transparency-in-business-company-evolution>.

<sup>15</sup> PWC 2016 <https://www.pwc.co.za/en/publications/king4.html>.

<sup>16</sup> JSE 2021 *The Issuer Regulation Guide* 12.

<sup>17</sup> Michalsons 2017 <https://www.michalsons.com/blog/jse-listing-requirements-king-iii-iv/11545>.

<sup>18</sup> Ramalho 2016 *Institute of Directors Southern Africa* 20.

<sup>19</sup> PWC 2016 <https://www.pwc.co.za/en/publications/king4.html>.

<sup>20</sup> PWC 2016 <https://www.pwc.co.za/en/publications/king4.html>.

Recognizing the crucial role of transparency in the context of King IV and the requirement for JSE-listed companies to embrace it, an important question arises: is the status quo the most effective approach to enhance transparency, or is there a more optimal path to be pursued? This inquiry delves into the exploration of alternatives that could potentially yield greater transparency outcomes for JSE-listed companies. This is where the governance component found in the environmental, social and governance (hereinafter referred to as ESG) framework can play a significant role in addressing the aforementioned question. Given the emphasis on transparency in King IV and the need for enhanced transparency among JSE-listed companies, the governance aspect of ESG becomes particularly relevant.

The term ESG describes all the environmental, social, and governance aspects that pertain to a company or investment. The environmental criteria assess a company's commitment to preserving and safeguarding natural ecosystems, while the social criteria evaluate a company's responsibility towards various stakeholders such as partners, employees, suppliers, customers, and the local community.<sup>21</sup> Lastly, the governance criteria assess a company's level of responsibility in areas like leadership, internal controls, executive compensation, shareholder rights, financial practices, internal controls, and audits.<sup>22</sup>

The incorporation of ESG performance metrics into the criteria for determining short-term and long-term incentives for JSE-listed companies has gained increasing attention. Institutional investors and other stakeholders have placed significant emphasis on ESG outcomes.<sup>23</sup> Boards and management teams have responded differently to the imperative of overseeing and addressing ESG issues. While some

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<sup>21</sup> Young In and Rook 2019 *GER* 237.

<sup>22</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy* 31.

<sup>23</sup> Fortuna 2022 <https://cleantechnica.com/2022/03/10/esg-lawsuits-in-2022-challenge-environmental-reporting-discrepancies/>.

have been slow to act and have made minimal efforts, others acknowledge that ESG factors are crucial.<sup>24</sup>

Recent developments reveal that several of South Africa's largest institutional investors have made commitments to incorporate ESG metrics into their screening of potential investments.<sup>25</sup> An illustration of this is the case of Standard Bank, which introduced the ESG-linked deposit. Under this arrangement, investments are exclusively directed to companies that have achieved high ESG ratings.<sup>26</sup> This demonstrates the increasing importance of ESG considerations in shaping investment decisions and corporate strategies. This heightened engagement goes hand-in-hand with an amplified scrutiny of investment activities, as stakeholders seek transparency and accountability.<sup>27</sup> Consequently, companies and investment institutions are under pressure to disclose relevant ESG information, demonstrate their commitment to sustainable practices, and implement robust reporting mechanisms.<sup>28</sup>

### **1.3 Motivation**

Transparency is defined as the lack of hidden agendas, coupled with the availability of full disclosures necessary for cooperation, collaboration and collective decision making.<sup>29</sup> Transparency is about bringing clarity, knowing the what, why, and how much. It is a strong defence against corruption and plays a crucial role in building trust in the individuals and institutions that shape our future.<sup>30</sup>

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<sup>24</sup> Davids and Kitcat *Environmental, Social and Governance Law South Africa 2024*.

<sup>25</sup> Davids and Kitcat *Environmental, Social and Governance Law South Africa 2024*.

<sup>26</sup> Standardbank *ESG Index Linked Deposit 5*.

<sup>27</sup> Davids and Kitcat *Environmental, Social and Governance Law South Africa 2024*.

<sup>28</sup> Du Plessis and Hargovan *Principles of Contemporary Corporate Governance* 116.

<sup>29</sup> Business Dictionary 2017 [www.businessdictionary.com/definition/transparency.html](http://www.businessdictionary.com/definition/transparency.html).

<sup>30</sup> Transparency International 2017 <https://www.transparency.org/en/gcb?gclid>.

With sufficient data, one can accurately monitor, address and report the issue, enabling lasting change. Without proper measurement, it becomes impossible to effectively manage something, let alone gain insights into the outcomes of implemented changes. This feedback loop of iteration and continuous improvement relies on measuring and understanding the results.<sup>31</sup> “You can’t manage it, if you can’t measure it”.<sup>32</sup> To bring about change, it is essential to grasp the fundamental issue at hand. Understanding the problem requires measuring it, making data crucial.

ESG factors have gained significant importance among investors and other stakeholders of companies, in measuring such results.<sup>33</sup> Transparent reporting enables stakeholders to comprehend a company's ESG performance and recognize areas that require improvement. This includes the disclosure of key ESG metrics. Companies can promote transparency by providing updates on their progress towards achieving ESG goals and commitments.<sup>34</sup>

Creating transparent and well-defined lines of accountability is vital for companies to ensure that their governance practices are in line with their ESG goals. This requires the implementation of procedures and policies that govern decision making, risk management, and engagement with stakeholders. Accountability also encompasses holding company leaders and managers accountable for their actions and decisions, reinforcing their responsibility in upholding ESG principles.<sup>35</sup>

This research seeks to address the question: To what extent can the integration of the "G" component of ESG practices enhance transparency levels among companies listed on the JSE?

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<sup>31</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy xxvii*.

<sup>32</sup> Whitfield 2022 <https://www.rmb.co.za/page/esg-matters>.

<sup>33</sup> Barnes and Thornburg *Prioritizing the the G in ESG 2*.

<sup>34</sup> Barnes and Thornburg *Prioritizing the G in ESG 2*.

<sup>35</sup> Barnes and Thornburg *Prioritizing the the G in ESG 3*.

In addressing this question, the study will establish whether the efforts to enhance transparency through the incorporation of ESG governance practices are necessary or if they represent an attempt to fix something that is not broken. By analysing the impact of the incorporation of ESG governance practices on transparency levels, this study aims to provide valuable insights into the potential benefits and effectiveness of these practices in the context of JSE-listed companies.

#### ***1.4 Aims and objectives***

Firstly, a comparative analysis must be done of the established King IV principles and the governance component of ESG. This comparative analysis serves to distinguish and highlight the fundamental differences between the two frameworks. By gaining a thorough understanding of the extent of the disparities between these two approaches, it becomes possible to assess the potential impact of implementing any necessary changes. This evaluation will determine whether the disparities are significant enough to yield a substantial difference or if they are of such a nature that they may not substantially alter the current state of affairs.

Moving on, the next objective entails evaluating the effectiveness of the current approach in South Africa. Specifically, the aim is to ascertain whether this framework represents the most effective pathway towards achieving transparency among JSE listed companies. This evaluation will shed light on whether the principles elucidated in King IV have effectively facilitated enhanced information disclosure, and elevated governance practices.

In conducting a study focused on transparency among companies listed on the JSE, it is imperative to recognize the significance of the JSE Listings Requirements, which regulate the conduct and reporting obligations of these entities. However, this study specifically aims to evaluate the efficiency and effectiveness of the King IV Report on Corporate Governance, without any intention to diminish the importance of the JSE Listings Requirements.

The next goal is to reveal the effects and possible results of integrating ESG, specifically focusing on governance. The objective is to offer valuable perspectives on the importance and efficacy of implementing ESG practices in companies listed on the JSE. This analysis explores the potential modifications in reporting, disclosure, and accountability systems that can enhance the transparency of the JSE framework.

Lastly, the aim is to answer the research question, providing a summary of the study, and offering practical recommendations. This will contribute to our understanding of how the incorporation of governance in ESG can or cannot effectively enhance transparency levels among JSE listed companies.

### ***1.5 Research Methodology***

This study adopts a qualitative research approach based on a desktop study methodology. Given the conceptual nature of the research question, a non-empirical, literature-based approach was deemed most appropriate. Rather than generating new primary data, the study synthesizes insights from existing academic and professional literature to construct a theoretical and practical understanding of governance practices and their influence on transparency outcomes.

The research involved the systematic review and analysis of existing literature, including peer-reviewed journal articles, academic books, official reports, case law, legislation, regulations and other credible secondary sources. The objective was to synthesize existing knowledge to explore, to what extent the integration of the “G” component of ESG practices can enhance transparency levels among companies listed on the JSE. Sources were selected based on relevance, academic credibility, and publication date, with a focus on the most recent and authoritative literature.

A key limitation of this approach is the reliance on the availability, relevance, and quality of existing literature. The integration of ESG principles—especially the governance aspect—within the JSE context is still an evolving research area, resulting in a relative scarcity of direct academic work. This limitation was partly

mitigated by drawing on international ESG literature and adapting those insights to the South African regulatory landscape, while remaining anchored in local governance frameworks such as King IV. Despite these constraints, the study sought to fill some of the identified gaps by offering a critical synthesis of existing knowledge and proposing theoretical linkages between governance mechanisms and enhanced corporate transparency.

## ***1.6 Overview of Chapter Structure***

### *1.6.1 Chapter 1: Introduction*

This chapter introduces the study by outlining the background and context of the research problem. It clearly defines the problem statement and explains the motivation for undertaking the research. In addition, it sets out the primary research question along with the key objectives the study seeks to achieve.

### *1.6.2 Chapter 2: King IV corporate governance principles and the government component in ESG*

This chapter offers a comprehensive introduction to both KING IV and the governance component of ESG. It examines the KING IV Code, outlining the regulatory processes that underpin its implementation. Additionally, the chapter addresses the imperative of the ESG reporting method, providing an overview of how these metrics are measured. Finally, it aligns KING IV with the governance aspect of ESG, exploring both the similarities and differences between these two frameworks to provide a nuanced understanding of their interrelationships.

### *1.6.3 Chapter 3: Evaluation of the Effectiveness of the King IV Framework in Enhancing Transparency among JSE Listed Companies*

This chapter critically assesses the practical application of the King IV Code among companies listed on the JSE. The analysis considers both the

successes and limitations of information disclosure under the framework, drawing attention to areas where implementation has been effective and where challenges persist. It evaluates the current state of corporate governance practices, focusing on the extent to which King IV has contributed to improving transparency and accountability.

#### *1.6.4 Chapter 4: Incorporation of Governance in ESG as a Catalyst for Enhanced Transparency among JSE Listed Companies*

This chapter explores the integration of the governance component of ESG into corporate reporting and practices among JSE-listed entities. It investigates the implications of adopting ESG principles—particularly governance—for enhancing transparency and long-term stakeholder trust. The chapter also examines whether ESG implementation, in practice, meets its intended objectives, and identifies the potential benefits and barriers for companies transitioning to ESG-aligned governance models.

#### *1.6.5 Chapter 5: Recommendations and Conclusion*

This chapter presents the key findings of the study in relation to the research objectives and questions posed at the outset. It revisits the problem statement and evaluates how effectively the study has addressed the core issue of transparency within JSE-listed companies through the lens of King IV and ESG governance principles. The chapter provides a conclusive summary of the research, synthesizing insights drawn from the analysis. Based on these conclusions, it offers practical recommendations aimed at enhancing corporate transparency and governance practices.

## Chapter 2

### **King IV corporate governance principles and the government component in ESG**

Corporate governance has become critical. The stability and effectiveness of a company's procedures, internal structures, and accountability systems have drawn much attention.<sup>36</sup> In understanding the extent to which the integration of the "governance" component of ESG practices can enhance transparency levels among JSE listed companies, is it important to examine the status quo and measure it against the new incentive introduced by ESG.

This chapter begins by defining both the King IV principles and the "governance" aspect of ESG, exploring the rationale and significance of each approach. By exploring the key tenets and requirements, we can begin to unpack the potential interconnections and synergies between both frameworks. This highlights the magnitude of change between the two approaches.

By gaining a thorough understanding of the extent of the disparities between these two governance frameworks, it becomes possible to assess the potential implications of implementing any necessary changes. The core objective is to ascertain whether the introduction and integration of the ESG framework has the potential to bolster the transparency levels of companies or not. This evaluation will determine whether the identified differences are significant enough to yield a substantial shift in corporate transparency, or if they are of such a nature that they may not substantially alter the current state of the art.

The intent of this section is not to undertake an exhaustive comparative analysis of the two frameworks, but rather to furnish an adequate understanding of each. To properly address the research question, a foundation must be established of both

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<sup>36</sup> Samans and Nelson 2022 *Sustainable Enterprise Value Creation* 103.

the status quo and the novel incentive introduced by ESG. This enables the determination of whether transparency levels will indeed increase or not.

## **2.1 Introduction to King IV**

After foreign financial institutions re-entered South Africa in 1994, they required companies to implement reforms in their corporate structures and governance practices as a condition for providing capital investment.<sup>37</sup> The influx of foreign capital prompted a demand for changes to the existing corporate landscape and management oversight in South African companies.<sup>38</sup>

The period of significant political reform in South Africa, coupled with intense market pressures and global attention, led the country to recognize the critical importance of robust corporate governance practices.<sup>39</sup> This realization prompted the issuance of the updated and comprehensive King Committee Report (King II) in 2002. It was intended to guide companies in developing countries like South Africa with respect to the best practices in corporate governance.<sup>40</sup> From there on, King III was introduced in 2009 as an update and expansion of the earlier King I and King II reports. King III represented a significant advancement in corporate governance principles, placing a stronger emphasis on sustainability, ethics, and integrated reporting.<sup>41</sup> Then, in 2016, King IV was formally adopted as the latest iteration of the King Report series. King IV built on the foundations established in King III but incorporated several key enhancements as it shifted towards a more outcomes-based and sustainable approach.<sup>42</sup>

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<sup>37</sup> Kakabadse and Korac-Kakabadse 2002 *Journal of Change Management* 305.

<sup>38</sup> Kakabadse and Korac-Kakabadse 2002 *Journal of Change Management* 305.

<sup>39</sup> Abdo and Fisher 2007 *Investment Analysts Journal* 43.

<sup>40</sup> Abdo and Fisher 2007 *Investment Analysts Journal* 43.

<sup>41</sup> Hendrikse and Hefer *Corporate Governance Handbook: Principles and Practice* 208.

<sup>42</sup> Bowmans <https://bowmanslaw.com/wp-content/uploads/2017/04/Guide-Corporate-Governance-in-South-Africa.pdf> 3.

### *2.1.1 Understanding the King IV Code of Corporate Governance*

In South Africa, similar to numerous other regions globally, a hybrid model of corporate governance has emerged.<sup>43</sup> Over time, principles and practices from the King Codes have been incorporated into legislation, while legal requirements have also shaped the evolution of these codes.<sup>44</sup>

The main approach of the King IV principles on corporate governance centres on the theme of fostering value creation in a sustainable manner.<sup>45</sup> The King IV framework consists of 17 core governance principles that serve as a guiding template, containing the key objectives that companies should strive to achieve.<sup>46</sup> Sixteen of these principles apply to all organizations, while one principle is specifically targeted at institutional investors. The 16 general principles have 208 associated recommended practices.<sup>47</sup> The 17th principle for institutional investors has an additional six recommended practices.<sup>48</sup>

These principles aim to cultivate an ethical culture within the organization, ensuring that the company remains a responsible corporate citizen and enabling stakeholders to make informed decisions based on transparent company reporting.<sup>49</sup> Importantly, the King IV principles also emphasize the importance of maintaining an appropriate balance of experience, power, skills, knowledge, and diversity on the governing body of the company.<sup>50</sup> In essence, these principles aim to foster an

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<sup>43</sup> Natesan 2019 *Journal of Global Responsibility* 158.

<sup>44</sup> Natesan 2019 *Journal of Global Responsibility* 158.

<sup>45</sup> Wiese *Corporate Governance in South Africa: with International Companies* 19.

<sup>46</sup> Wiese *Corporate Governance in South Africa: with International Companies* 19.

<sup>47</sup> KPMG "King IV Summary Guide" 6.

<sup>48</sup> KPMG "King IV Summary Guide" 7.

<sup>49</sup> Mimecast *The King IV Report on corporate governance* 4.

<sup>50</sup> Mimecast *The King IV Report on corporate governance* 4.

ethical organizational culture, establish effective control mechanisms, enable good performance, and ensure legitimate and transparent business practices.<sup>51</sup>

One may question the necessity of the King IV Code given the existence of the *Companies Act 71* of 2008 and the requirement for companies to have a memorandum of incorporation.<sup>52</sup> One of the main rationales behind the need for King IV lies in the distinction between substantive law and procedural law.<sup>53</sup>

The *Companies Act 71* of 2008 serves as the substantive law that governs the operation, formation, and regulatory framework for companies in South Africa.<sup>54</sup> On the other hand, King IV plays a crucial role as procedural law in the realm of corporate governance, as it provides guidance on the practical implementation, processes, and recommended best practices for effective governance.<sup>55</sup> These “recommended best practices” outline the implementation process and act as a guiding framework for each principle.<sup>56</sup>

The governing body and the King IV principles on corporate governance work closely together. The governing body refers to the group of individuals, chosen by the shareholders, who are given the power and authority to set the policies and overall strategic direction for the company.<sup>57</sup> The primary responsibility of the governing body, as outlined in the King IV principles, is to protect the rights, interests, and well-being of all the stakeholders on whose behalf the company is operating.<sup>58</sup>

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<sup>51</sup> Wiese *Corporate Governance in South Africa: with International Companies* 22.

<sup>52</sup> Wiese *Corporate Governance in South Africa: with International Companies* 22.

<sup>53</sup> Hendrikse and Hefer *Corporate Governance Handbook: Principles and Practice* 207.

<sup>54</sup> *Companies Act 71* of 2008.

<sup>55</sup> Hendrikse and Hefer *Corporate Governance Handbook: Principles and Practice* 207.

<sup>56</sup> Werksmans *King IV A Review of the King IV Report on Corporate Governance* Booklet.

<sup>57</sup> Wiese *Corporate Governance in South Africa: with International Companies* 22.

<sup>58</sup> Wiese *Corporate Governance in South Africa: with International Companies* 22.

### *2.1.2 King IV Process: "Apply and explain" approach*

The King IV principles are designed to complement and align with existing laws and regulations.<sup>59</sup> The application regime for King IV follows an "apply and explain" approach, where listed companies are required to provide a narrative statement detailing which recommended practices have been implemented and how these practices give effect to the relevant governance principles.<sup>60</sup> While companies are granted a degree of discretion in the implementation of the recommended practices, their narrative disclosures must not only include details on their compliance with the King IV principles, but also provide explicit reasons for any instances of non-compliance.<sup>61</sup>

Requiring companies to not just apply the governance rules, but also explain their reasoning when they deviate, provide stakeholders with more insight and information about how the company is governed.<sup>62</sup> King IV requires governing bodies to justify the actions they take, rather than simply complying with recommended practices.

Requiring an explanation forces these bodies to carefully consider how their decisions align with principles and goals that the company aim to achieve.<sup>63</sup> They cannot simply go through the motions, they must demonstrate that they have applied their minds to the challenges and explain how their actions are moving the organization towards achieving the intended objectives.<sup>64</sup> This shifts the focus from blind compliance to a more thoughtful, principle-driven approach.<sup>65</sup>

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<sup>59</sup> Hendrikse and Hefer *Corporate Governance Handbook: Principles and Practice* 207.

<sup>60</sup> *JSE Listing Requirements* 8.63 (a)(i).

<sup>61</sup> *JSE Listing Requirements* 2019 8.63 (a)(ii).

<sup>62</sup> Stakeholders include: shareholders, employees, customers, regulators, etc.

<sup>63</sup> Natesan and Du Plessis *Why King IV's "Apply and Explain" is so important* 3.

<sup>64</sup> Hendrikse and Hefer *Corporate Governance Handbook: Principles and Practice* 207.

<sup>65</sup> Natesan and Du Plessis *Why King IV's "Apply and Explain" is so important* 3.

These corporate disclosures include the appointment of directors, highlighting the formal procedure for their appointment and the specific capacity or role in which each selected director will serve.<sup>66</sup> Additionally, the listed entities need to publicly disclose a comprehensive policy that demonstrates a clear balance of power and decision-making authority at board level.<sup>67</sup> This policy must ensure that no single director possesses unfettered or unchecked decision-making power within the company.<sup>68</sup> Furthermore, listed companies can appoint an audit committee and remuneration committee, with the primary responsibility of validating the appropriateness, experience, and expertise of the companies' financial directors.<sup>69</sup> This serves to safeguard the integrity and reliability of the company's financial reporting and remuneration practices.<sup>70</sup>

However, it is important to note that King IV emphasizes that companies are not required to specifically report on whether each recommended practice has been implemented. It is ultimately in the hands of the governing body.<sup>71</sup> Additionally, there's no obligation to disclose results related to governance outcomes. Instead, it is suggested that users interpret the information based on the narrative presented.<sup>72</sup> Furthermore, King IV does not dictate specific locations for disclosures, giving the governing body the flexibility to decide where to report.<sup>73</sup>

The King IV code of corporate governance in South Africa takes an outcomes-based approach, requiring the governing body to ensure that the King IV principles are applied and explained. This requires the governing body to provide transparency with respect to the decisions they make and the reasoning behind those decisions.

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<sup>66</sup> Wiese *Corporate Governance in South Africa: with International Companies* 24.

<sup>67</sup> Sadler and Marais *Meditari* 9.

<sup>68</sup> Wiese *Corporate Governance in South Africa: with International Companies* 24.

<sup>69</sup> Sadler and Marais 2008 *Meditari* 9.

<sup>70</sup> *JSE Listing Requirements* 2019 3.84.

<sup>71</sup> *King IV* 2016 37.

<sup>72</sup> *King IV* 2016 37.

<sup>73</sup> IR Network *Disclosures of Governance Information the Integrated Report* 3.

This transparency with respect to decision making lays the foundation for evaluating a company's governance practices, which can then, if applied correctly, feed into an ESG assessment.

## **2.2 Introduction to ESG**

The origins of ESG can be traced back to the concept of socially responsible investing (SRI), which emerged in the 1970s.<sup>74</sup> SRI provided a means for investors to align their investment portfolios with their personal values and social/ethical concerns. This investment approach gained considerable momentum during the 1980s, as investors increasingly opted to divest from companies conducting business operations in South Africa's apartheid era.<sup>75</sup>

However, it was not until the 1990s that ESG factors were incorporated into mainstream investment strategies.<sup>76</sup> During this period, shareholders increasingly demonstrated a propensity to invest based on principles and considerations of social impact, rather than prioritizing profits alone.<sup>77</sup> The end of apartheid in 1994 ushered in a new era, with a heightened emphasis on corporate governance and social responsibility.<sup>78</sup> Today ESG is a widely recognized concept across the financial services industry.<sup>79</sup>

ESG as a concept encompasses a wide range of environmental, social, and governance factors that are relevant to companies, investments, and other entities.<sup>80</sup> While certain ESG aspects may be more pertinent than others for a

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<sup>74</sup> IBM 2024a <https://www.ibm.com/blog/environmental-social-and-governance-history/>.

<sup>75</sup> IBM 2024a <https://www.ibm.com/blog/environmental-social-and-governance-history/>.

<sup>76</sup> GARP 2024 [https://www.garp.org/risk-intelligence/sustainability-climate/esg-why-it-matters-063023?utm\\_term=&utm\\_campaign=FRM](https://www.garp.org/risk-intelligence/sustainability-climate/esg-why-it-matters-063023?utm_term=&utm_campaign=FRM)

<sup>77</sup> GARP 2024 [https://www.garp.org/risk-intelligence/sustainability-climate/esg-why-it-matters-063023?utm\\_term=&utm\\_campaign=FRM](https://www.garp.org/risk-intelligence/sustainability-climate/esg-why-it-matters-063023?utm_term=&utm_campaign=FRM)

<sup>78</sup> George *Money Marketing* 13.

<sup>79</sup> Dolan and Zalles *Transparency in ESG and the Circular Economy* 30.

<sup>80</sup> Dolan and Zalles *Transparency in ESG and the Circular Economy* 31.

particular company, the governance structure is the foundation that shapes a company's environmental and social practices. Ultimately, environmentally and socially responsible business undertakings originate from the decision-making processes and oversight embedded in a company's governance framework.<sup>81</sup> Therefore, the governance dimension is a crucial component underpinning the effective integration and implementation of ESG considerations.

### *2.2.1 The "governance" component to ESG*

While the environmental "E" and social "S" aspects of ESG are undoubtedly important, they cannot function effectively without an underlying foundation of robust and efficient corporate governance "G".<sup>82</sup> Effective corporate governance is the key driver that enables sustainable business conduct. A strong governance framework requires the board of directors and company management to promote sustainable practices, and encourage environmentally conscious research and benefits.<sup>83</sup> In essence, good corporate governance is the linchpin that holds the entire ESG compliance structure together.

The governance dimension of ESG pertains to the internal structures, policies, and practices that a company has in place to ensure transparent, responsible, and accountable decision making.<sup>84</sup> This includes the decision-making processes, control mechanisms, and oversight systems that the company has implemented.<sup>85</sup> The governance practices of a company reflect how it exercises leadership and how it aligns the behaviours and incentives of its executive team with the long-term, sustainable success of the company.<sup>86</sup>

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<sup>81</sup> Dolan and Zalles *Transparency in ESG and the Circular Economy* 32.

<sup>82</sup> Singh and Goyal 2021 *The Journal of Governance* 9.

<sup>83</sup> Singh and Goyal 2021 *The Journal of Governance* 9.

<sup>84</sup> Atan and Alam *An International Journal* 184.

<sup>85</sup> Atan and Alam *An International Journal* 184.

<sup>86</sup> Jain and Keneley 2015 *Social Responsibility Journal* 5.

Fundamentally, the governance component of ESG is about instituting the right checks and balances, as well as fostering a culture of responsiveness and openness. It's about having the proper control mechanisms to ensure compliance, monitor risks, and ultimately hold the company accountable to its stakeholders.<sup>87</sup>

### *2.2.2 The Imperative of the ESG Reporting Metric*

To evaluate a company's governance practices, ESG reporting frameworks and rating agencies have developed comprehensive metrics and scoring methodologies.<sup>88</sup> In essence the ESG metric report is an attempt to quantify and grade companies based on their ESG performance and practices.<sup>89</sup> Similar to a credit score or bond rating, an ESG score is meant to provide an assessment of a company's ability to uphold its ESG-related commitments, its overall ESG-related performance, and the level of ESG-related risks it faces.<sup>90</sup> This metric is intended to serve as performance indicators used to evaluate the efficacy and impact of a company's ESG policies and practices.<sup>91</sup>

Companies approach this by using ESG frameworks, which are sets of guiding principles that they can use to identify, assess, document, and measure their ESG commitments.<sup>92</sup> The corporate landscape has seen a proliferation of ESG reporting frameworks, developed by a diverse array of companies. These include non-governmental organizations (NGOs), stock exchanges, business associations, non-

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<sup>87</sup> Jovanovic and Jovanovic 2022 *Intereulaweast* 272.

<sup>88</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>89</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>90</sup> Wolters and Kluwer 2022 <https://www.wolterskluwer.com/en/expert-insights/the-abcs-of-esg-reporting>.

<sup>91</sup> Anderson 2023 <https://greenly.earth/en-gb/blog/company-guide/understanding-esg-metrics-in-2023>.

<sup>92</sup> Anderson 2023 <https://greenly.earth/en-gb/blog/company-guide/understanding-esg-metrics-in-2023>.

profit entities, research institutions, and government bodies.<sup>93</sup> These frameworks outline various ESG reporting metrics to track and monitor a company's performance against certain benchmarks.<sup>94</sup> This reporting process involves identifying the company's material ESG issues, establishing its ESG strategy and goals, selecting an appropriate ESG reporting framework, planning how to govern ESG in the organization, collecting relevant ESG data, and presenting the data in the company's ESG report.<sup>95</sup>

The critical question that arises is: who compiles the metric scoring of company ratings? Typically, companies appoint third-party organizations,<sup>96</sup> to calculate the ESG scores, or alternatively they conduct their own internal audit.<sup>97</sup> Each rating agency or provider uses its own unique set of criteria and methodologies to evaluate and score the ESG performance of companies and organizations.<sup>98</sup>

In the compilation of a company's metrics, the following are some of the aspects that are taken into consideration:<sup>99</sup>

- Compensation to executives
- Tax saving strategy
- Risk management
- Board composition and independence

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<sup>93</sup> IBM 2024b [https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG\)%20aspects%20of%20the%20business.](https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG)%20aspects%20of%20the%20business.)

<sup>94</sup> These benchmarks are known as ESG Standards, which outline the commitments the company must meet.

<sup>95</sup> Quantive 2023b <https://quantive.com/resources/articles/esg-reporting.>

<sup>96</sup> Organisations like Bloomberg ESG Data Services, Sustainalytics ESG Risk Ratings, Dow Jones Sustainability Index Family, and RepRisk.

<sup>97</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance.>

<sup>98</sup> Wolters and Kluwer 2022 <https://www.wolterskluwer.com/en/expert-insights/the-abcs-of-esg-reporting.>

<sup>99</sup> Kumat 2022 *International In-House Counsel Journal* 8029.

- Committee structures
- Protecting the interests of shareholders
- Anti-corruption and anti-bribery policies
- Policies on donations and political contributions
- Whistleblower schemes

Through the systematic measurement and assessment of ESG metrics, companies can monitor and evaluate their advancement towards enhanced business sustainability and ethical operational practices.<sup>100</sup> Ultimately, this enables companies to better understand and demonstrate their contributions to long-term value generation for stakeholders.<sup>101</sup>

ESG metrics can be divided into two main groupings: quantitative and qualitative.<sup>102</sup> Quantitative metrics are based on numerical data that can often be measured and compared directly, such as greenhouse gas emissions, energy usage, reported human rights violations and employee turnover rates.<sup>103</sup> In contrast, qualitative ESG indicators are based on non-numerical data and tend to be inherently more challenging to measure and compare across entities. An illustrative example of a qualitative ESG metric would be an assessment of a company's demonstrated commitment to advancing equity, diversity, and inclusion within its workforce and operational practices.<sup>104</sup>

The use of these metrics fosters greater transparency, enabling the company's stakeholders and investors to more thoroughly assess the risks and opportunities

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<sup>100</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

<sup>101</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

<sup>102</sup> Kumat 2022 *International In-House Counsel Journal* 8029.

<sup>103</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

<sup>104</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

associated with ESG-related topics that are relevant to the company.<sup>105</sup> These frameworks, metrics, and other qualitative declarations allow companies to create comprehensive ESG reports.<sup>106</sup>

ESG disclosure serves as an important communication tool that play a critical role in convincing sceptical observers that the company's actions and commitments are genuine and authentic.<sup>107</sup>

### ***2.3 Aligning King IV with the Governance Pillar of ESG***

According to ESG expert Emma Leigh, the JSE has played a pivotal role in advancing ESG transparency and accountability in South Africa.<sup>108</sup> This is evident as King IV principles and the governance pillar of ESG share the common goal of promoting ethical, effective, and sustainable corporate practices, as they are built on similar foundational principles. This discussion explores the key similarities between these two approaches and examines how they differ. Paving the way for a deeper understanding of their complementary roles in enhancing corporate transparency, as well as the significance of their differences.

#### *2.3.1 Aligning King IV and ESG Governance: Exploring the Similarities*

As stated above the development and adoption of ESG reporting practices have drawn heavily on the foundations laid by the King IV Report on Corporate Governance.<sup>109</sup> This is evident as the alignment between ESG and the King IV Code both share emphasis on adopting a stakeholder-inclusive approach,<sup>110</sup> and

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<sup>105</sup> Anderson 2023 <https://greenly .earth/en-gb/blog/company-guide/understanding-esg-metricsin-2023>.

<sup>106</sup> Quantive 2023a <https://quantive.com/resources/articles/esg-metrics>.

<sup>107</sup> PWC 2023a <https://www.pwc.com/sk/en/- corporate-governance-esg/esg-reporting.html>.

<sup>108</sup> George *Money Marketing* 13.

<sup>109</sup> Shepstone and Wylie Attorneys 2023 <https://www.wylie.co.za/ Articles /Read /1383/ THE- RELATIONSHIP - BETWEEN -ESG -THE- JSE- AND -SUSTAINABILITY- DISCLOSURES->.

<sup>110</sup> Wiese *Corporate Governance in South Africa: with International Companies* 19.

embedding sustainability considerations into core business strategy and operations.<sup>111</sup>

Both approaches exhibit a salient convergence in their focus on facilitating transparent and accountable business practices within the corporate sphere.<sup>112</sup> This is achieved with the implementation of rigorous internal structures and mechanisms. These are designed to cultivate transparency, empower stakeholder participation,<sup>113</sup> and hold the governing body - typically the board of directors - accountable for its stewardship of the company.<sup>114</sup>

When looking at who is responsible for reaching the above-mentioned goals in the company, both approaches state that it is the responsibility of the governing body to ensure that the principles of King IV are complied with or,<sup>115</sup> in the alternative, that the ESG frameworks are met.<sup>116</sup> This underscores the central role of the board of directors in driving the adoption and integration of these influential corporate responsibility frameworks. Fundamentally, both methodologies recognize the pivotal role that the board of directors plays in upholding the principles of ethical leadership, effective control, and legitimate compliance within the organization.<sup>117</sup>

Furthermore, both the ESG approach and the King IV framework demonstrate a marked emphasis on the diligent monitoring of the appointment process for the board of directors.<sup>118</sup> These frameworks underscore the paramount importance of

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<sup>111</sup> Jain and Keneley 2015 *Social Responsibility Journal* 5.

<sup>112</sup> Wiese *Corporate Governance in South Africa: with International Companies* 19.

<sup>113</sup> Kumat 2022 *International In-House Counsel Journal* 8029.

<sup>114</sup> Jovanovic and Jovanovic 2022 *Intereulaweast* 272.

<sup>115</sup> Sadler and Marais 2008 *Meditari* 11.

<sup>116</sup> IFAC 2024 [https:// www.ifac.org/knowledge-gateway/discussion/board-oversight-sustainability-and-esg](https://www.ifac.org/knowledge-gateway/discussion/board-oversight-sustainability-and-esg).

<sup>117</sup> Atan and Alam *An International Journal* 184.

<sup>118</sup> Wiese *Corporate Governance in South Africa: with International Companies* 24.

delineating and scrutinizing the scope of decision-making authorities vested in this central governing authority.<sup>119</sup>

In conclusion, both methodologies exhibit a pronounced emphasis on the imperative for corporate entities to institute robust and comprehensive internal structures and oversight mechanisms. Furthermore, both the ESG approach and the King IV framework demonstrate a marked alignment in their focus on the pivotal role of the governing body, typically the board of directors, in upholding the principles of ethical leadership, effective control, and legitimate compliance. This extends to the selection process for the members of this central governing authority. The convergence of the ESG approach and the King IV framework in these critical areas serves to reinforce their complementary nature in cultivating a more ethical, transparent, and accountable governance mechanisms.

### *2.3.2 Distinguishing the Differences between King IV and the "G" in ESG*

Based on the analysis of the salient similarities between the ESG approach and the King IV framework, it is evident that both of these influential corporate responsibility methodologies share the fundamental goal of cultivating a more transparent, accountable, and ethically grounded corporate landscape. However, the primary distinction between these two frameworks lies in the specific means by which they seek to achieve this overarching goal.

Before we can compare the measuring mechanisms of each of these frameworks, we must first look at the structure of each approach. Firstly, the King IV Report on Corporate Governance is based on 17 fixed core principles.<sup>120</sup> These principles aim to ensure that companies have clearly defined governance structures and that those tasked with oversight and decision making act with the necessary care, skill and diligence to fulfil their fiduciary duties to the company and its stakeholders. These

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<sup>119</sup> Wiese *Corporate Governance in South Africa: with International Companies* 24.

<sup>120</sup> KPMG "King IV Summary Guide" 6.

principles are designed to be universally applicable, regardless of the type of company.<sup>121</sup>

In contrast, ESG reporting relies on many different frameworks. Each of these ESG frameworks typically outlines the specific metrics and qualitative disclosures that companies should report on, as well as the recommended format and frequency of such reporting.<sup>122</sup> The flexibility of these frameworks allows companies to select the one that best aligns with their unique circumstances, priorities, and stakeholder requirements.<sup>123</sup> There is no one-size-fits-all approach to ESG reporting.

The key distinction between the two frameworks lies in their underlying approach and reporting mechanisms. The King IV framework adopts an "apply and explain" approach, where companies are required to apply the King IV principles and recommended practices, and then provide a narrative explanation of how they have done so.<sup>124</sup> This focus is on demonstrating adherence or non-compliance through a descriptive, qualitative reporting process.<sup>125</sup>

In contrast, the ESG framework uses a more quantitative "metric" approach, aiming to quantify and grade companies based on their ESG practices and outcomes.<sup>126</sup> ESG reporting involves the use of both numerical (quantitative) and non-numerical (qualitative) data to assess and benchmark ESG performance, emphasizing

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<sup>121</sup> Institute of Directors South-Africa <https://www.iodsa.co.za/news/389613/Understanding-King-IV-and-what-it-is-intended-to-achieve.htm> 4.

<sup>122</sup> IBM 2024b [https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG\)%20aspects%20of%20the%20business.](https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG)%20aspects%20of%20the%20business.)

<sup>123</sup> IBM 2024b [https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG\)%20aspects%20of%20the%20business.](https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG)%20aspects%20of%20the%20business.)

<sup>124</sup> *JSE Listing Requirements* 2019 8.63 (a)(i).

<sup>125</sup> Wiese *Corporate Governance in South Africa: with International Companies* 22.

<sup>126</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

measurable, data-driven metrics that allow for objective comparison and assessment.<sup>127</sup>

While the King IV reporting is narrative-based, focusing on a descriptive explanation of how the organization has applied the principles and recommended practices, ESG reporting is more standardized and metric-driven, often including numerical scores, ratings, or grades that assess the company's performance across environmental, social, and governance dimensions.<sup>128</sup>

The King IV framework and the ESG approach may work towards similar goals of promoting responsible and sustainable corporate governance, but the application of these frameworks is vastly different. The King IV report follows a "box-ticking" approach, where the focus is on ensuring that the company has adhered to the principles outlined in the framework.<sup>129</sup> This implies a more binary, compliance-driven mentality, where the emphasis is on demonstrating adherence to the prescribed principles. In contrast, the ESG framework takes a much more comprehensive and in-depth approach.<sup>130</sup> The ESG frameworks are structured in a manner that goes to "extreme measures" to cover every corner of the environmental, social, and governance sphere.

## ***2.4 Conclusion***

The analysis conducted in this chapter has provided a comprehensive understanding of the key tenets and requirements underlying both the King IV principles and the "governance" aspect of ESG practices. After unpacking the interconnections and disparities between these two governance frameworks, it is now possible to assess

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<sup>127</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

<sup>128</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>129</sup> Institute of Directors South-Africa <https://www.iodsa.co.za/news/389613/Understanding-King-IV-and-what-it-is-intended-to-achieve.htm> 5.

<sup>130</sup> Bose S 2020 *The ESG exchange* 29.

the potential implications of integrating the ESG approach within the context of JSE-listed companies.

Both governance approaches centre on the critical objective of value creation in a sustainable manner, providing a more stakeholder-inclusive approach to corporate stewardship. The "apply and explain" methodology introduced by the King IV serves to provide stakeholders with greater insight into how a company is governed.<sup>131</sup> This outcome-based approach aims to foster transparency within the governing body, enabling stakeholders to assess the effectiveness of the company's governance practices. With the same aim as King IV, ESG seeks to cultivate a culture of openness and responsiveness, with appropriate control mechanisms in place to monitor risk and establish robust accountability.<sup>132</sup>

However, the analysis has revealed that the differences between these two governance approaches are quite significant. While the King IV principles have established a foundational set of governance guidelines, the ESG model introduces a novel incentive structure that goes beyond mere compliance. Although they share the common goal of promoting sustainable and transparent business practices, the implementation of the respective frameworks differs markedly. The integration of the governance framework is the crux of transparency in a company, and the findings of this chapter suggest that the introduction of the ESG model has the potential to bring a substantial shift in corporate transparency levels for companies listed on the JSE.

This understanding of the foundational elements of each of these governance frameworks sets the stage to thoroughly evaluate the status quo and assess the need for change. In answering the research question, it is essential to examine the current state of transparency within the King IV framework and to determine whether the integration of the ESG approach can indeed enhance the overall

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<sup>131</sup> Stakeholders include: shareholders, employees, customers, regulators, etc.

<sup>132</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

transparency of JSE-listed companies or whether it is merely an attempt to fix something that is not broken.

## Chapter 3

### Evaluation of the Effectiveness of the King IV Framework in Enhancing Transparency among JSE Listed Companies

The conventional definition of corporate governance dates back to the early 1990s, when it was described as the system by which companies are directed and controlled.<sup>133</sup> The King Committee, which oversees the development of corporate governance codes in South Africa, chose not to adopt a limited view of governance while drafting King IV.<sup>134</sup> They recognized that such an approach would be inadequate for the South African context, as companies must address the complex challenges posed by the economic, social, and environmental factors in their operating environments.<sup>135</sup> As a result, the definition of corporate governance has evolved throughout the King journey from a mere system to "the exercise of ethical and effective leadership by the governing body."<sup>136</sup>

Ultimately, the level of transparency is determined by the governing body, which is responsible for deciding what information to disclose and what to withhold.<sup>137</sup> Consequently, this chapter focuses on the effectiveness of the King IV report in enhancing information disclosure and establishing robust governance practices. The interplay between these two elements is crucial, as neither can be successfully achieved without the active engagement of the governing body.

While King IV outlines the principles, practices, and desired outcomes that establish a standard for corporate governance in South Africa,<sup>138</sup> it is essential to examine both its successes and shortcomings. Recognizing the areas where the framework

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<sup>133</sup> Financial Reporting Council 2018 *The UK Corporate Governance Code*

<sup>134</sup> Ramalho 2019 *Journal of Global Responsibility* 175.

<sup>135</sup> Ramalho 2019 *Journal of Global Responsibility* 175.

<sup>136</sup> *King IV* 2016 20.

<sup>137</sup> Esser and Delport 2018 *University of Glasgow Publications* 9.

<sup>138</sup> Werksmans *A Review of the King IV Report on Corporate Governance* .

is effective, will showcase best practices that can be replicated, while pinpointing its shortcomings will expose challenges that require attention.

To explore whether the "G" component of ESG practices enhances transparency levels among companies listed on the JSE, it is crucial to establish a baseline for the current state of governance. This baseline will provide a clear reference point against which changes can be measured, allowing for a contextual understanding of the existing transparency levels and how they compare to the proposed enhancements from ESG practices. Evaluating the status quo enables us to assess the effectiveness of the King IV Code in achieving its objectives; without this baseline, it would be challenging to determine whether any changes in transparency could stem from ESG practices or are simply a continuation of existing trends.

### **3.1 Analysis of Information Disclosure**

The King IV Report on Corporate Governance has set a benchmark for transparency and accountability in corporate practices.<sup>139</sup> At the heart of this framework is Principle 5, which states: "Reports issued by the organization must enable stakeholders to make informed assessments of the organization's performance and its short-, medium- and long-term prospects."<sup>140</sup> This principle underscores the critical need for clear and comprehensive information disclosure, which fosters stakeholder trust and facilitates informed decision making.<sup>141</sup>

In exploring both the successes and shortcomings of information disclosure as required by King IV, we can gain a more comprehensive understanding of its effectiveness in promoting a culture of transparency and accountability within companies.<sup>142</sup> While significant strides have been made in enhancing transparency

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<sup>139</sup> Wiese *Corporate Governance in South Africa: with International Companies* 20.

<sup>140</sup> JSE *2023 Application of King IV principles* 2.

<sup>141</sup> Hendrikse and Hefer *Corporate Governance Handbook: Principles and Practice* 207.

<sup>142</sup> RSM 2017 <https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.>

and stakeholder engagement, challenges such as the complexity of reporting and inconsistencies in disclosure practices remain.

### *3.1.1 Successes of King IV in Information Disclosure*

King IV grants governing bodies the flexibility to determine the appropriate context for disclosures, whether in the integrated report, the social and ethics committee's report, or using online and printed formats.<sup>143</sup> It offers a comprehensive "roadmap to disclosure," which serves as valuable guidance on how to implement King IV in practice.<sup>144</sup> As discussed in Chapter 2, the disclosure process should begin by referencing all 17 principles in the Code, followed by a narrative explanation of the specific matters recommended under each principle.<sup>145</sup> This approach ensures clarity and coherence in communicating compliance with the Code.<sup>146</sup>

The King Report on Corporate Governance outlines key principles for corporate governance disclosures and integrated reporting.<sup>147</sup> Notably, the King Report was developed with significant emphasis on the Integrated Reporting (IR) Framework, which promoted transparency and accountability in financial and non-financial reporting.<sup>148</sup> This approach not only enhances the quality of information disclosed but also aligns with the growing demand from stakeholders for a clearer understanding of how corporate activities affect broader societal and environmental contexts.<sup>149</sup>

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<sup>143</sup> *King IV* 2016 part 3 para 5.2.

<sup>144</sup> *King IV* 2016 38.

<sup>145</sup> Esser and Delport 2018 *University of Glasgow Publications* 9.

<sup>146</sup> Esser and Delport 2018 *University of Glasgow Publications* 10.

<sup>147</sup> Integrated reporting serves as a practical manifestation of the principles outlined in King IV, helping organizations improve their governance practices while effectively communicating their overall value proposition to stakeholders.

<sup>148</sup> Wiese *Corporate Governance in South Africa: with International Companies* 16.

<sup>149</sup> Wiese *Corporate Governance in South Africa: with International Companies* 16.

An illustrative example of this trend can be observed in recent years in South Africa, where there has been an increasing demand for enhanced transparency concerning director remuneration.<sup>150</sup> The legacy of corporate scandals has intensified scrutiny of executive pay.<sup>151</sup> The King Code addresses this issue by recommending that companies must develop and publicly disclose a comprehensive remuneration policy for each reporting period.<sup>152</sup> Additionally, they are required to provide a detailed report on the implementation of this policy.<sup>153</sup>

The need to provide a detailed report on the implementation of this policy further strengthens governance practices.<sup>154</sup> Such reports outline how the remuneration policy has been applied, including any changes made and the rationale behind them. This level of disclosure fosters accountability and allows stakeholders to assess whether the company is adhering to its stated principles.<sup>155</sup> When boards report publicly on how the policy is implemented, they are incentivized to ensure that their decisions align with the companies' values and stakeholder expectations.<sup>156</sup>

Another example of this can be seen in companies complying with risk management disclosures.<sup>157</sup> These disclosures entail comprehensive reports that articulate the various risks and potential threats that the company face.<sup>158</sup> It urges directors and managers to promptly identify and address risks, enabling companies to pinpoint significant threats stemming from their strategic decisions.<sup>159</sup> Through the risk

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<sup>150</sup> Zijp 2022 *The Corporate Governance Review* 237.

<sup>151</sup> Corporate Scandals such as Steinhoff (2017), Tongaat Hulett (2019), EOH Holdings (2019) and Kuruman Mines (2021).

<sup>152</sup> Zijp 2022 *The Corporate Governance Review* 237.

<sup>153</sup> Zijp 2022 *The Corporate Governance Review* 237.

<sup>154</sup> Institute of Directors in Southern Africa 2022 <https://www.iodsa.co.za/news/>

<sup>155</sup> PWC 2022 <https://www.pwco.za/en/assets/pdf/executive-compensation-and-corporate-governance-in-south-africa>.

<sup>156</sup> Institute of Directors in Southern Africa 2022 <https://www.iodsa.co.za>

<sup>157</sup> Elsevier 2023 <https://www.sciencedirect.com/science/article/abs/pii/S0361368222000678>.

<sup>158</sup> Elsevier 2023 <https://www.sciencedirect.com/science/article/abs/pii/S0361368222000678>.

<sup>159</sup> Eccles and Krzus 2010 *Financial Executive* 29

analysis process, companies gain a clearer understanding of opportunities that can help mitigate strategic risks.<sup>160</sup> Furthermore, those that comply with risk management disclosure requirements tend to be less vulnerable to regulatory risks, ultimately enhancing their governance and decision-making processes.<sup>161</sup>

### *3.1.2 Limitations in Information Disclosure*

Due to the prevalence of compliance-focused reporting among many companies, there is often a lack of genuine transparency in their disclosures.<sup>162</sup> This tendency to adopt a minimalistic approach to reporting can be attributed, in part, to the relatively nascent understanding of ethics management in these companies.<sup>163</sup>

In 2021, a study was undertaken to analyse corporate governance disclosures in the integrated reports of companies listed on the JSE.<sup>164</sup> The objective was to assess whether there had been an improvement in compliance with the King principles between the years 2016, 2017 and 2018.<sup>165</sup> The study looked at JSE listed companies such as Netcare Ltd, Momentum Holdings, The Foschini Group, The Spar Groups, and the Clicks Group.<sup>166</sup>

The key findings of the study indicate that King IV promotes the issuance of a unified report that integrates both financial and non-financial performance. While most integrated reports provided a comprehensive range of information, some companies omitted specific elements, such as the audit committee report.<sup>167</sup> Although this report is typically included in the annual financial statements—an approach that

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<sup>160</sup> Ferguson 2019 *Journal of Business Continuity & Emergency Planning* 174.

<sup>161</sup> Eccles & Krzus 2010 *Financial Executive* 29.

<sup>162</sup> Schoeman 2013 <https://www.ethicsmonitor.co.za/Get-your-ethics-reporting-right.aspx>.

<sup>163</sup> Thonzhe 2017 *International Journal of Business and Management Studies* 138.

<sup>164</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 33.

<sup>165</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 34.

<sup>166</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 34.

<sup>167</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 36.

makes sense given its strong connection to those statements—it contradicts the principles outlined in King IV.<sup>168</sup>

Furthermore, the study found that while King IV recommends that companies provide a transparent assessment and management of both financial and non-financial risks, many companies faced significant challenges in doing so.<sup>169</sup> JSE-listed companies tended to provide more accurate disclosures regarding key financial risks, but they fell short in addressing non-financial risks.<sup>170</sup> Additionally, there was inadequate attention given to risk tolerance and appetite. Effective risk management is crucial as it helps prevent reckless risk-taking and allows for the anticipation of potential events when applied correctly.<sup>171</sup> Without clearly defined risk appetite and tolerance levels, companies become vulnerable to various risks, lacking the boundaries necessary to manage the risks they are willing to accept.<sup>172</sup> This oversight can lead to significant risks going unnoticed and increases the likelihood of the company straying from its strategic objectives.<sup>173</sup>

In the study conducted by Mashile, it was discovered that there was minimal to no disclosure regarding the evaluation of board performance.<sup>174</sup> After the introduction of King IV, the study suggests that the situation has not significantly improved since then.<sup>175</sup> While the responsibility for performance evaluations has been delegated to a specific board committee, the disclosures related to these evaluations remain superficial.<sup>176</sup> There is a notable absence of detailed information about the evaluation process itself, which undermines the core principle of "apply and explain."

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<sup>168</sup> Dzingai and Fakoya 2017 *Sustainability Journal* 9.

<sup>169</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 41.

<sup>170</sup> Ferguson 2019 *Journal of Business Continuity and Emergency Planning* 174.

<sup>171</sup> Ferguson 2019 *Journal of Business Continuity and Emergency Planning* 174.

<sup>172</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 42.

<sup>173</sup> Institute of Directors South-Africa 2018 <https://www.iodsa.co.za/news/389613/Understanding>.

<sup>174</sup> Mashile *Trends in Integrated Reporting by JSE Listed Companies* 15.

<sup>175</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 39.

<sup>176</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 39.

The same study by Mashile focused on risk management disclosures and found that companies typically offer comprehensive information about their committee compositions and meeting attendance.<sup>177</sup> However, they often neglect to detail the actual risk management processes in place.<sup>178</sup> Additionally, the study highlighted a lack of clarity regarding disclosures related to the establishment of risk tolerance and appetite in these companies.<sup>179</sup>

Another study conducted by Simnett found that 81% of participants in the International Integrated Reporting Council's (IIRC) public consultation agreed on the necessity of external assurance for integrated reports, whether for the entire document or specific sections.<sup>180</sup> This overwhelming consensus underscores a critical need for stakeholders to verify the information presented to them.<sup>181</sup> As companies increasingly combine financial and non-financial data in their reports, the complexity of these disclosures can make it challenging for stakeholders—such as investors, regulators, and the public—to assess their accuracy and reliability.<sup>182</sup>

The King IV principles are designed to function as aspirations and ideals that companies should endeavour to realize in order to facilitate effective governance outcomes. However, investors and stakeholders often assume the application of these principles.<sup>183</sup> Consequently, high-level disclosure practices are essential for the effective implementation of King IV. Disclosures are presented as a narrative by the governing body, incorporating details on materiality to enable stakeholders to effectively assess the quality of the company's corporate governance.<sup>184</sup>

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<sup>177</sup> Mashile *Trends in Integrated Reporting by JSE Listed Companies* 15.

<sup>178</sup> Ferguson 2019 *Journal of Business Continuity and Emergency Planning* 175.

<sup>179</sup> Mashile *Trends in Integrated Reporting by JSE Listed Companies* 15.

<sup>180</sup> Simnett and Huggins 2015 *Sustainability Accounting, Management and Policy Journal* 29.

<sup>181</sup> Geneve "Integrating reporting practices and King III vs King IV: Combined assurance" 5.

<sup>182</sup> Geneve "Integrating reporting practices and King III vs King IV: Combined assurance" 5.

<sup>183</sup> Arcot and Bruno 2010 *International Review of Law and Economics* 193.

<sup>184</sup> *King IV* 2016 37.

However, it is imperative that we recognize that companies are not required to provide an explanation for every individual principle. It is sufficient to indicate that the company is either achieving or actively working towards the relevant governance outcomes.<sup>185</sup> In Part 2 of King IV, it is indicated that companies do not need to explicitly disclose information concerning governance outcomes. Instead, users of the report can be trusted to derive their own insights from the narrative that is provided.<sup>186</sup> Ultimately, it is the responsibility of the governing body to determine what disclosures are made and which are left for stakeholders to make their own conclusions.<sup>187</sup>

It is essential to acknowledge that in many companies, the actual practices and discussions concerning governance and risk management that take place in the boardroom and among executive teams frequently exceed the provisions outlined in their formal governance guidelines or publicly available documents.<sup>188</sup> This discrepancy suggests that the practical application of governance principles may be more comprehensive and nuanced than what is publicly documented.<sup>189</sup>

### **3.2 Evaluation of Governance Practices**

The board acts as the central authority and guardian of a company's corporate governance, as outlined in Principle 6 of King IV.<sup>190</sup> As previously noted, fostering a strong corporate culture is a key outcome of effective corporate governance, making it the board's responsibility to cultivate it.<sup>191</sup> A positive corporate culture contributes

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<sup>185</sup> *King IV* 2016 part 3 para 5.2.

<sup>186</sup> Esser and Delpont 2018 *University of Glasgow Publications* 9.

<sup>187</sup> Esser and Delpont 2018 *University of Glasgow Publications* 9.

<sup>188</sup> Samans and Nelson 2022 *Sustainable Enterprise Value Creation* 109.

<sup>189</sup> Samans and Nelson 2022 *Sustainable Enterprise Value Creation* 109.

<sup>190</sup> Wixley, Everingham and Louw *Corporate Governance: The Director's Guide* 97.

<sup>191</sup> Reynolds 2023 [https:// www.reynoldsattorneys.co.za/flawed-corporate-cultures-contribution-to-corporate-failures-or-scandals/](https://www.reynoldsattorneys.co.za/flawed-corporate-cultures-contribution-to-corporate-failures-or-scandals/).

to the company's sustainable performance as a crucial asset in achieving long-term business and economic success.<sup>192</sup>

Evaluating governance quality focuses less on retrospectively determining if a specific decision was correct or incorrect, and more on the thoroughness of the decision-making process.<sup>193</sup> It is about examining whether the governance systems, processes, and practices reflect mere automatic compliance or a thoughtful application of principles.<sup>194</sup>

### *3.2.1 Successes of King IV in Governance Practices*

The principles of King IV represent the goals associated with the pursuit of effective governance and provide guidance on what companies should aim to achieve through the implementation of governance practices.<sup>195</sup> The goals of King IV are designed to promote good governance as a fundamental aspect of business operations. This approach aims to foster an ethical culture while improving reputation, performance, and legitimacy.<sup>196</sup>

Furthermore, one of the key objectives of King IV is to enhance the understanding and adoption of sound corporate governance practices across diverse organization.<sup>197</sup> It aims to achieve this by ensuring that its principles are adaptable and relevant for entities of varying sizes, resources, and levels of operational complexity.<sup>198</sup> By emphasizing accessibility, King IV encourages organizations—regardless of their scale or industry—to implement effective governance structures

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<sup>192</sup> Dibra 2016 *Scientific Journal* 283.

<sup>193</sup> IR Network *Disclosures of Governance Information the Integrated Report* 3.

<sup>194</sup> IR Network *Disclosures of Governance Information the Integrated Report* 3.

<sup>195</sup> *King IV* 2016 36.

<sup>196</sup> Esser and Delport 2018 *University of Glasgow Publications* 6.

<sup>197</sup> Reddy 2016 *Institute of Directors in Southern Africa* 5.

<sup>198</sup> Reddy 2016 *Institute of Directors in Southern Africa* 5.

that align with their unique strategic objectives,<sup>199</sup> recognizing that there is no "one-size-fits-all" approach to corporate governance. This not only enhances the effectiveness of governance practices but also ensures that they align with the companies' goals and stakeholder expectations, ultimately contributing to sustainable success.<sup>200</sup>

In a recent unpublished interview, Mervyn King, the former Chair of the King Committee, pointed out that the distinctive aspect of King IV is its encouragement for companies and governing bodies to abandon a mindless checklist strategy.<sup>201</sup> This change was driven by the concerning realization that, although King III was mandatory for listing on the JSE, many companies viewed it merely as an obstacle to overcome rather than a valuable governance framework.<sup>202</sup>

The governing body is responsible for fostering an ethical culture, promoting strong performance, and ensuring effective oversight.<sup>203</sup> Unlike previous frameworks, King IV requires a more engaged and meaningful commitment to governance principles.<sup>204</sup> By requiring governing bodies to articulate the rationale behind their actions, King IV effectively compels them to thoroughly engage with the challenge of fulfilling the objectives outlined by each principle.<sup>205</sup> This approach aims to prevent companies from resorting to superficial compliance with prescribed actions. Instead, they must provide insight into their decision-making processes and, ideally,

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<sup>199</sup> Institute of Directors South-Africa 2018 <https://www.iodsa.co.za/news/389613/Understanding-King-IV-and-what-it-is-intended-to-achieve.htm>.

<sup>200</sup> Du Plessis and Hargovan *Principles of Contemporary Corporate Governance* 116.

<sup>201</sup> Natesan 2019 *Journal of Global Responsibility* 159.

<sup>202</sup> Natesan 2019 *Journal of Global Responsibility* 159.

<sup>203</sup> RSM 2017 <https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors>.

<sup>204</sup> RSM 2017 <https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors>.

<sup>205</sup> Institute of Directors South-Africa 2019 <https://www.iodsa.co.za/news/438882/Why-King-IVs>.

demonstrate how their actions have advanced the organization toward achieving each specific goal.<sup>206</sup>

Given this context, the significance of the board of directors becomes even clearer; as traditional financial statements offer no insights into the company's governance structure, the governing body itself provides this critical information.<sup>207</sup>

Therefore, King IV significantly enhances corporate governance by delineating the crucial role of the board of directors in fostering an ethical culture, driving strong performance, and ensuring effective oversight.<sup>208</sup> By moving beyond mere compliance and requiring a more engaged approach to governance principles, King IV empowers boards to make meaningful contributions to their companies.<sup>209</sup>

Therefore, King IV has established an outcomes-oriented approach to corporate governance by emphasizing accountability, ethical culture, performance enhancement, and effective oversight.<sup>210</sup> Its focus on meaningful engagement over mere compliance has transformed how organizations approach governance, making it a vital component of their overall strategy.<sup>211</sup>

Principles 7 and 8 of King IV recommend that organizational boards comprise a mix of executive and non-executive directors, with a majority of the non-executive

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<sup>206</sup> Institute of Directors South-Africa 2019 [https://www.iodsa.co.za/news/438882/ Why-King-IVs-](https://www.iodsa.co.za/news/438882/Why-King-IVs-Mashile)

<sup>207</sup> Mashile *Trends in Integrated Reporting by JSE Listed Companies*

<sup>208</sup> Wiese *Corporate Governance in South Africa: with International Companies* 19.

<sup>209</sup> RSM 2017 [https://www.rsm.global/ southafrica/ news /king-iv-report-importance - corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.](https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.)

<sup>210</sup> RSM 2017 [https://www.rsm.global/ southafrica/ news /king-iv-report-importance - corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.](https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.)

<sup>211</sup> RSM 2017 [https://www.rsm.global/ southafrica/ news /king-iv-report-importance - corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.](https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors.)

directors being independent.<sup>212</sup> This approach ensures that the board's decisions consider both operational perspectives and impacts, as well as independent viewpoints and judgments.<sup>213</sup> Furthermore, it reinforces the commitment of board members to uphold the highest standards of business ethics.<sup>214</sup>

### *3.2.2 Limitations in Governance Practices*

While King IV has been praised for its comprehensive and principles-based approach, it also has certain limitations. Previous research examining adherence to King IV has highlighted the necessity for enhancements in corporate governance practices.<sup>215</sup> A quantitative study conducted by the Institute of Internal Auditors South Africa (IIASA) in 2018 involved distributing questionnaires to assess key dimensions of corporate governance.<sup>216</sup> The findings revealed that the quality of corporate governance in South Africa was rated at 3.0 out of 4.0 under King III in 2017, but this rating decreased to 2.8 out of 4.0 under King IV in 2018.<sup>217</sup> This decline suggests potential significant non-compliance issues with the recently implemented King IV framework.<sup>218</sup>

The idea of good corporate governance centres on effective and ethical leadership. Leadership issues begin at the board level, where each director holds responsibility, and are reflected by the board or governing body.<sup>219</sup> The board establishes the overall tone, known as ethical governance.<sup>220</sup>

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<sup>212</sup> Principle 6 and 7 of *King IV 2016*.

<sup>213</sup> IODSA 2016 *General Guidance Note: Board Composition* 19.

<sup>214</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 18.

<sup>215</sup> IR Network *Disclosures of Governance Information the Integrated Report* 6.

<sup>216</sup> Peterson *The Role of the Internal Auditor in Enhancing Corporate Governance* 75.

<sup>217</sup> Peterson *The Role of the Internal Auditor in Enhancing Corporate Governance* 76.

<sup>218</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 6.

<sup>219</sup> Othman and Rahman 2014 *International Journal of Business and Society* 359.

<sup>220</sup> Kimber and Lipton 2011 *Business and Society* 178.

As outlined in King IV, it is the governing body's duty to foster an ethical culture in the organization that aligns with the tone they set.<sup>221</sup>

Steinhoff serves as a pertinent example of the collapse of ethical leadership and a significant lack of organizational ethics.<sup>222</sup> Once considered a shining success story for South Africa on the global stage, its failure to maintain ethical standards has led to a dramatic drop in its share price, which now holds only 10% of its original value.<sup>223</sup> The downfall of Steinhoff brings into question the effectiveness of the King codes of corporate governance, which were designed to prevent governance failures like those experienced at Steinhoff.<sup>224</sup> These codes have not achieved the required levels of transparency and accountability, as boards often merely pay lip service to them rather than genuinely adhering to their principles.<sup>225</sup> This means that they may publicly endorse the codes without genuinely adhering to their principles, undermining their intended purpose.

Another example would be the case of Tiger Brands. In 2017, Tiger Brands' integrated report declared that it had reviewed and aligned its governance structures, policies, and standard operating procedures with King IV principles to support its new operating model and strategy, highlighting that robust corporate governance is fundamental to achieving sustainable value.<sup>226</sup> However, contrary to these assurances, the company faced severe scrutiny after the former Minister of Health, Dr Aaron Motsoaledi, revealed that a deadly Listeriosis outbreak was traced back to a processed meat facility owned by Tiger Brands.<sup>227</sup> While the annual report

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<sup>221</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>222</sup> Tuan 2012 *Social Responsibility Journal* 8(1):133.

<sup>223</sup> Naude and Hamilton 2018 *Stellenbosch Business School* 223

<sup>224</sup> Barron 2018 *Business Times* 1.

<sup>225</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>226</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 59.

<sup>227</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 60.

reassured stakeholders that effective corporate governance was established at Tiger Brands, the contrary soon became evident.

Although many companies assert their compliance with King IV principles, the business world continues to experience significant corporate failures, often linked to shortcomings in corporate governance.<sup>228</sup> JSE-listed companies frequently report adherence to the tenets of good corporate governance as outlined in King IV. However, a closer examination reveals that this compliance does not effectively prevent corporate failures, which can be partially attributed to inadequate governance practices.<sup>229</sup>

### **3.3 Conclusion**

The King IV report has achieved significant successes in enhancing information disclosure within corporate governance. One of its primary strengths is the flexibility it provides to governing bodies, allowing them to determine the appropriate context for disclosures.<sup>230</sup> Moreover, the emphasis on the Integrated Reporting (IR) Framework has further advanced transparency and accountability in both financial and non-financial reporting.<sup>231</sup> As a result, companies have improved their transparency regarding critical areas, such as director remuneration,<sup>232</sup> and risk management disclosures.<sup>233</sup>

However, despite these accomplishments, several limitations remain in the practical implementation of King IV disclosures. While JSE-listed companies have tended to provide more accurate disclosures of key financial risks, they often fall short in adequately addressing non-financial risks.<sup>234</sup> Additionally, there has been

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<sup>228</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 61.

<sup>229</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 61.

<sup>230</sup> *King IV* 2016 part 3 para 5.2.

<sup>231</sup> Wiese *Corporate Governance in South Africa: with International Companies* 16.

<sup>232</sup> Zijp 2022 *The Corporate Governance Review* 237.

<sup>233</sup> Elsevier 2023 <https://www.sciencedirect.com/science/article/abs/pii/S0361368222000678>.

<sup>234</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 41.

insufficient attention to the articulation of risk tolerance and appetite, leading to disclosures that are often superficial and lack clarity.<sup>235</sup> As companies increasingly combine financial and non-financial data in their reports, the complexity of these disclosures can pose challenges for stakeholders seeking to grasp the full scope of the company's risk landscape.<sup>236</sup> Furthermore, as governing bodies are responsible for determining what information to disclose, there is a risk that decisions made in the boardroom and among executive teams may frequently go beyond the provisions set forth in their publicly available documents.<sup>237</sup>

When evaluating governance practices, it is evident that King IV has made significant strides by expanding the discretion available to governing bodies.<sup>238</sup> This flexibility enables organizations to customize their governance structures.<sup>239</sup> This has fostered a more engaged and proactive attitude towards governance.<sup>240</sup> Moreover, King IV emphasizes the commitment of board members to uphold the highest standards of business ethics, reinforcing the importance of ethical leadership in achieving sustainable success. Collectively, these elements contribute to a more robust and effective governance framework that enhances organizational integrity and stakeholder trust.<sup>241</sup>

While King IV has made notable advancements in governance practices, it also faces several limitations that warrant attention. One significant issue is the prevalence of

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<sup>235</sup> Nkhi Trends in *Integrated Reporting by JSE Listed Companies* 39.

<sup>236</sup> Geneve "Integrating reporting practices and King III vs King IV: Combined assurance" 5.

<sup>237</sup> Samans and Nelson 2022 *Sustainable Enterprise Value Creation* 109.

<sup>238</sup> Esser and Delpont 2018 *University of Glasgow Publications* 6.

<sup>239</sup> Institute of Directors South-Africa 2018 <https://www.iodsa.co.za/news/389613/Understanding>

<sup>240</sup> RSM 2017 <https://www.rsm.global/southafrica/news/king-iv-report-importance-corporate-governance#:~:text=King%20IV%20is%20outcomes%20based,is%20the%20board%20of%20directors>.

<sup>241</sup> Nkhi Trends in *Integrated Reporting by JSE Listed Companies* 18.

non-compliance among companies that have adopted the framework.<sup>242</sup> Despite its intention to enhance governance standards, many entities have struggled to fully embrace its principles, raising concerns about the effectiveness of King IV in driving genuine change.<sup>243</sup> This gap between reporting and real-world application undermines the framework's credibility and its potential to bring about meaningful improvements in corporate governance.<sup>244</sup> It has become evident that the aims and objectives outlined by King IV are not being effectively realized in practice.

Ultimately, while King IV has made significant progress in promoting transparency and accountability through enhanced information disclosure and governance practices, its limitations highlight the necessity for ongoing improvement. By examining the current status of King IV in relation to JSE-listed companies, we have established a baseline for measuring the incorporation of ESG practices. This evaluation will assess whether the implementation of the governance components of ESG aligns with the successes of King IV and effectively addresses its identified shortcomings.

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<sup>242</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>243</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 61.

<sup>244</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 39.

## Chapter 4

### **Incorporation of Governance in ESG as a Catalyst for Enhanced Transparency among JSE Listed Companies**

In recent years, South Africa has undergone a notable transformation in its ESG reporting landscape, driven by a growing demand for transparent and comprehensive disclosures.<sup>245</sup> Although South African investors have historically been slow to engage with the boards of investee firms on ESG matters, a significant shift is now occurring, as investors are increasingly recognizing the importance of integrating these factors into their investment strategies and decision-making practices.<sup>246</sup>

In Chapter 3, we conducted a comprehensive evaluation of the strengths and weaknesses of the King IV framework, with the primary objective of establishing the current baseline upon which JSE-listed companies operate. Having identified this baseline, we can assess the potential for ESG practices to genuinely enhance transparency among JSE-listed companies. To achieve meaningful improvements, it is essential to address the shortcomings identified in King IV by incorporating ESG considerations in a manner that not only mitigates these deficiencies but also preserves the advantages offered by the King IV framework.

In addressing our research question, this chapter begins by focusing on the implementation of the governance component of ESG practices. The chapter explores how this framework can be integrated in a practical manner. Following this, the discussion transitions to an analysis of the methodologies used to measure their effectiveness. While both King IV and ESG share a common overarching objective of promoting sustainable and transparent business practices, the primary distinction

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<sup>245</sup> DataTracks 2024 <https://www.datatracks.com/za/blog/south-africas-roadmap-to-esg-reporting-preparednessin2024/#:~:text=Introducing%20a%20New%20ESG%20Framework,and%20bolsterin%20external%20s%20takeholder%20confidence.>

<sup>246</sup> Viviers and Smith 2015 *Investment Analysts Journal* 39.

lies in the methods by which these two approaches are measured.<sup>247</sup> Consequently, this study places greater emphasis on the measurement of ESG practices.

Additionally, the study investigates the implications of this integration for companies, looking at how it may affect their performance and overall governance structures. By taking this approach, we aim to assess the practicality of incorporating ESG governance in real-world scenarios, moving beyond theoretical discussions to evaluate its feasibility for companies. The rationale behind this analysis is to ascertain whether the implementation of ESG governance can be as user-friendly as the King IV framework. Ultimately, this will provide insights into whether adopting ESG governance is a realistic objective for companies or simply an idealistic aspiration.

Once the implications of incorporating ESG practices for companies have been established, the focus will shift to the crux of the matter: the impact on transparency. Here we will explore the role that ESG can play in enhancing transparency in a company, examining how it influences company disclosures and the overall flow of information to stakeholders.

Furthermore, the chapter assesses whether ESG can ultimately achieve its intended goals of transparency and effectively bridge the gap between intended achievements and actual outcomes in practice. Investigating these dimensions provides a comprehensive understanding of how effective ESG implementation can contribute to greater transparency.

#### ***4.1 Implementation of the governance component of ESG***

Companies that choose to implement ESG practices must adopt a structured and strategic approach.<sup>248</sup> This process primarily involves conducting a thorough

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<sup>247</sup> Wiese *Corporate Governance in South Africa: with International Companies* 19.

<sup>248</sup> RSM 2023 <https://www.rsm.global/southafrica/insights/consulting-insights/introduction-esg-companies>.

evaluation of the current governance performance, aligning it with the objectives of ESG governance, and identifying both strengths and areas for improvement.<sup>249</sup> By understanding their existing governance frameworks, companies can pinpoint specific gaps that should be addressed to effectively integrate ESG principles.<sup>250</sup>

Following this assessment, companies should develop their governance policies and procedures to effectively integrate ESG principles into their already existing organizational framework.<sup>251</sup> This involves establishing clear guidelines that not only promote ethical behaviour but also enhance risk management practices and ensure compliance with relevant regulations.<sup>252</sup>

Furthermore, companies of all sizes can adopt a structured approach to implementing ESG practices.<sup>253</sup> This adaptability is a significant advantage, as it allows both large corporations and smaller enterprises to tailor their ESG initiatives to fit their specific circumstances, resources, and operational capacities.<sup>254</sup> The implementation of ESG practices is attainable, as it can be tailored to align with a company's size and the specific objectives it seeks to achieve.<sup>255</sup>

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<sup>249</sup> Brundland 2023 <https://www.brundtland.co.za/learn/explainer-on-esg/>.

<sup>250</sup> Brundland 2023 <https://www.brundtland.co.za/learn/explainer-on-esg/>.

<sup>251</sup> PWC 2023 <https://www.pwc.com/ca/en/today-s-issues/environmental-social-andgovernance/insights /prepare- your-esg-regulatory-compliance.html>

<sup>252</sup> PWC 2023 <https://www.pwc.com/ca/en/today-s-issues/environmental-social-andgovernance/insights /prepare- your-esg-regulatory-compliance.html>

<sup>253</sup> RSM 2023 <https:// www.rsm.global/southafrica/ insights/consulting-insights/introduction –esg-companies>.

<sup>254</sup> TechTarget 2024 <https://www.techtarget.com/sustainability/tip/Top-ESG-reporting-challenges-and-how-to-overcome-them#:~ :text=The%20complexity%20increases%20when%20dealing,potential%20damage%20to%20its%20reputation>.

<sup>255</sup> TechTarget 2024 <https://www.techtarget.com/sustainability/tip/Top-ESG-reporting-challenges-and-how-to-overcome-them#:~ :text=The%20complexity%20increases%20when%20dealing,potential%20damage%20to%20its%20reputation>.

The preceding discussion provides only a brief overview of the implementation of ESG practices. While this topic can be explored in greater depth, it is imperative to shift our focus to the measurement of ESG performance, as the measurement is a critical aspect that distinguishes ESG from the King IV framework.

#### *4.1.1 Scope of ESG Implementation*

As discussed in Chapter 2, ESG reporting frameworks and rating agencies have developed comprehensive metrics and scoring methodologies to evaluate a company's governance practices.<sup>256</sup> The ESG score is designed to provide an objective and transparent evaluation of a company's ESG performance.<sup>257</sup>

Given that the ESG market is still in its developmental stages, there is currently no significant market concentration.<sup>258</sup> This has resulted in a diverse array of ESG indices and metrics being offered by various organizations. Each provider may use different methodologies and criteria for assessing ESG performance.<sup>259</sup>

This study focuses specifically on the data provided by London Stock Exchange Group (LSEG), which is recognized as one of the largest data providers in this field.<sup>260</sup> The methodology LSEG uses is notably intricate, as it integrates a diverse array of data aggregation techniques. The database comprises 185 distinct data points, which are categorized as either Boolean indicators, or numeric indicators.<sup>261</sup>

Boolean indicators are data points that are typically answered with 'Yes,' 'No,' or 'Null.' For instance, consider the question, "Does the company maintain a formal code of conduct for its board members?" If the company does have such a code,

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<sup>256</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>257</sup> Grant *ESG for Small- and Medium-Sized Businesses: What You Need to Know 2*.

<sup>258</sup> Castro and Gradillas *The Capco Institute Journal of Financial Transformation* 170.

<sup>259</sup> Castro and Gradillas *The Capco Institute Journal of Financial Transformation* 170.

<sup>260</sup> Ehlers and Elsenhuber *Deconstructing ESG scores* 3.

<sup>261</sup> Ehlers and Elsenhuber *Deconstructing ESG Scores* 6.

the response would be 'Yes' (equivalent to a value of 1).<sup>262</sup> On the other hand, if the company lacks this code or only provides incomplete information about its governance practices, the answer would be 'No' (represented by a value of 0).<sup>263</sup>

These data points are further organized across the three pillars of ESG: Environmental (E), Social (S), and Governance (G). When looking at the weight assigned to the governance pillar it is standardized across all industries.<sup>264</sup> Key aspects considered in this evaluation include the company's corporate social responsibility (CSR) strategy, the quality and transparency of ESG reporting, the structural independence of board members, the diversity of governance bodies, the effectiveness of committees, compensation practices, and the rights afforded to shareholders.<sup>265</sup>

When assessing the 'transparency weight,' the concept of materiality—essentially, the importance of a data point—is determined by the level of disclosure in a specific company.<sup>266</sup> Each company is evaluated to identify the percentage of disclosures related to data points that are considered material to its operations. Based on this disclosure percentage, decile ranks are assigned. These decile ranks play a crucial role in determining the relative weight assigned to each data point, influencing the overall weight attributed to the company on a scale from 1 to 10.<sup>267</sup>

Fundamentally, the extent of disclosure directly influences a company's score; the more comprehensive and transparent the disclosures, the higher the resulting score will be.<sup>268</sup> These scores are percentile-ranked, meaning that they reflect a company's performance relative to its peers in the same industry. For instance, a

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<sup>262</sup> LSEG Data and Analytics *Sustainable Growth* 11.

<sup>263</sup> LSEG Data and Analytics *Sustainable Growth* 11.

<sup>264</sup> Ehlers and Elsenhuber *Deconstructing ESG scores* 6.

<sup>265</sup> Ehlers and Elsenhuber *Deconstructing ESG scores* 6.

<sup>266</sup> LSEG Data and Analytics *Sustainable Growth* 14.

<sup>267</sup> LSEG Data and Analytics *2023 Sustainable Growth* 14.

<sup>268</sup> Hayes 2023 <https://www.investopedia.com/company-esg-score-7480372>.

score of 80 indicates that the company outperforms 80% of its competitors, positioning it in the top 20% of its industry.<sup>269</sup>

#### *4.1.2 Implication for companies adapting the governance component of ESG*

The implementation of ESG principles has evolved beyond being merely a facet of corporate social responsibility; it is now essential for effective risk management, enhancing operational efficiency, and uncovering new growth opportunities.<sup>270</sup> In today's business environment—characterized by heightened connectivity and transparency—companies that embrace a sustainable approach gain a substantial competitive edge.<sup>271</sup> Such companies are better positioned to attract long-term, sustainable investments and establish themselves as leaders in innovation, contributing to the development of a more sustainable future.<sup>272</sup>

In 2023, Matemane conducted a study to examine the impact of implementing ESG indicators on the financial performance of companies listed on the JSE.<sup>273</sup> The research relied on a dataset spanning the years 2012 to 2022, which included 67 firms listed on the JSE. The findings indicated that disaggregated ESG indices show a positive effect on financial performance.<sup>274</sup> This suggests that strong ESG performance can enhance a company's reputation, improve risk management, and foster innovation, all of which may lead to better financial outcomes.<sup>275</sup> Numerous of other studies have shown that companies with strong ESG performance often enjoy lower capital costs, higher returns on investments, and reduced risk profiles.<sup>276</sup>

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<sup>269</sup> Hayes 2023 <https://www.investopedia.com/company-esg-score-7480372>.

<sup>270</sup> Doloksaribu and Kirom 2024 *Tema* 301.

<sup>271</sup> Widia 2024 *IJESS* 851.

<sup>272</sup> Doloksaribu and Kirom 2024 *Tema* 301.

<sup>273</sup> Matemane and Msomi 2023 *SAJEMS* 3.

<sup>274</sup> Alduais 2023 *Cogent Economics and Finance* 11.

<sup>275</sup> Matemane and Msomi 2023 *SAJEMS* 7.

<sup>276</sup> Alduais 2023 *Cogent Economics and Finance* 11.

The implementation of ESG practices offers significant advantages in enhancing a company's reputation. However, like any framework, it also presents a range of challenges. A primary difficulty lies in the effective measurement and reporting of corporate governance.<sup>277</sup>

Companies often find it challenging to determine the relevant indicators and metrics that can be accurately quantified to assess their ESG performance.<sup>278</sup> Another challenge companies may face is the integration of ESG practices into their existing reporting frameworks. This process necessitates a careful alignment of ESG metrics with financial reporting systems, while also ensuring that the current reporting processes remain uninterrupted.<sup>279</sup>

Evaluating corporate performance is a complex process that involves a multitude of factors and indicators.<sup>280</sup> This complexity is further heightened when incorporating ESG considerations, as these aspects introduce additional dimensions to the assessment.<sup>281</sup> While financial objectives and metrics—such as revenue growth, profitability, and return on investment—are widely used for performance evaluation, integrating ESG criteria requires careful deliberation of various non-financial elements, regulatory frameworks, and stakeholder expectations.<sup>282</sup> This multifaceted nature makes the incorporation of ESG practices both challenging and essential for a holistic understanding of corporate performance.<sup>283</sup>

The incorporation of ESG practices presents certain challenges, particularly due to the complexities associated with understanding and implementing the measurement

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<sup>277</sup> Ningwati and Septiyanti 2022 *Goodwood Akuntansi dan Auditing Reviu* 67.

<sup>278</sup> IrisCarbon 2023 <https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/>.

<sup>279</sup> IrisCarbon 2023 <https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/>.

<sup>280</sup> Eskantar and Zopounidis 2024 *International Review of Financial Analysis* 2.

<sup>281</sup> Eskantar and Zopounidis 2024 *International Review of Financial Analysis* 2.

<sup>282</sup> Güney 2019 *International Journal of Sustainable Development and World Ecology* 26.

<sup>283</sup> Eskantar and Zopounidis 2024 *International Review of Financial Analysis* 2.

frameworks. Despite these difficulties, it is important to emphasize that overcoming these challenges is feasible.<sup>284</sup> When considering the long-term implications, the benefits for companies are substantial.<sup>285</sup> Embracing ESG principles not only contributes to the development of a more sustainable future but also enhances the organization's resilience and competitiveness in an evolving market landscape.<sup>286</sup> By integrating ESG practices, companies can foster stakeholder trust, improve innovation, and align their operations with the increasing demand for responsible business practices.<sup>287</sup> Ultimately, the commitment to ESG is not merely a response to regulatory pressures but a strategic investment in the longevity and sustainability of the company.<sup>288</sup>

#### **4.2 Transparency in Disclosures of ESG**

Companies must ensure that their ESG disclosure is fully aligned with their brand identity, corporate vision, and strategic direction for the future.<sup>289</sup> Offering only lip-service for ESG principles or resorting to whitewashing—without credible evidence to back up such claims—can be far more damaging than failing to engage with ESG factors altogether.<sup>290</sup> A lack of authenticity in these efforts not only risks eroding consumer trust but also carries long-term repercussions for the company's reputation.<sup>291</sup>

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<sup>284</sup> TechTarget 2024 <https://www.techtarget.com/sustainability/tip/Top-ESG-reporting-challenges-and-how-to-overcome-them#:~:text=The%20complexity%20increases%20when%20dealing,potential%20damage%20to%20its%20reputation.>

<sup>285</sup> Doloksaribu and Kiron 2024 *Tema* 301.

<sup>286</sup> Hannay *Sustainability News* 3.

<sup>287</sup> Alduais 2023 *Cogent Economics and Finance* 11.

<sup>288</sup> Su Xue 2023 *Applied Economics Letters* 4.

<sup>289</sup> Apiday 2024 <https://www.apiday.com/blog-posts/why-is-esg-environmental-social-and-governance-important-for-a-business.>

<sup>290</sup> Apiday 2024 <https://www.apiday.com/blog-posts/why-is-esg-environmental-social-and-governance-important-for-a-business.>

<sup>291</sup> Krieger and Mauck 2021 *Journal of International Financial Markets, Institutions and Money* 217.

Historically, investors often faced challenges in obtaining a clear understanding of a company's sustainability practices, primarily because many companies provided limited information on non-financial aspects.<sup>292</sup> This lack of detailed reporting made it difficult to assess the true sustainability of a company. However, the emergence of ESG frameworks, along with the development of ESG strategies and reporting standards, has transformed this landscape.<sup>293</sup>

#### *4.2.1 The Role of ESG in Enhancing Transparency*

ESG reporting, metrics, and ratings play a crucial role in enabling external stakeholders to gain insight into a company's current ESG-related practices.<sup>294</sup> These tools help identify the extent to which a company is exposed to governance risks and highlight the specific issues that should be addressed to enhance its ESG performance.<sup>295</sup>

The measurement of ESG performance is largely determined by the level of disclosure within a specific company.<sup>296</sup> The extent and quality of this disclosure directly influence the company's ESG score; companies that provide comprehensive and transparent disclosures are likely to achieve higher scores.<sup>297</sup> This scoring system enables stakeholders to compare the ESG performance of companies in the same industry, facilitating informed decision-making based on these comparative metrics.<sup>298</sup>

Companies that prioritize transparent reporting not only enhance their standing in the eyes of investors and other stakeholders, but they also attract greater interest

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<sup>292</sup> Hannay *Sustainability News* 3.

<sup>293</sup> Hannay *Sustainability News* 3.

<sup>294</sup> Castro and Gradillas 2022 *The Capco Institute Journal of Financial Transformation* 173.

<sup>295</sup> Castro and Gradillas 2022 *The Capco Institute Journal of Financial Transformation* 173.

<sup>296</sup> LSEG Data and Analytics *Sustainable Growth* 14.

<sup>297</sup> LSEG Data and Analytics *Sustainable Growth* 11.

<sup>298</sup> Castro and Gradillas 2022 *The Capco Institute Journal of Financial Transformation* 173.

and engagement from potential investors.<sup>299</sup> Conversely, companies that provide minimal disclosure will likely receive lower scores, which can hinder their ability to attract investment and support.<sup>300</sup>

As a result companies are increasingly under pressure to disclose both qualitative and quantitative ESG-related information, enabling external stakeholders to evaluate their sustainability performance.<sup>301</sup> This approach ensures that companies do not merely pay lip service, to their commitments discussed in the boardroom, while failing to substantiate these claims in their disclosures.<sup>302</sup> In this context, the measurement systems serve as a safeguard against superficial compliance, compelling companies to provide meaningful and accurate disclosures.<sup>303</sup>

Furthermore, to ensure the validity of the disclosures, ESG reporting often incorporates independent assurance processes that validate the accuracy of the information presented.<sup>304</sup> This independent verification not only serves to enhance the credibility of the data but also reinforces the importance of transparency in corporate governance.<sup>305</sup> The inclusion of independent assurance processes directly links to the previous discussion on the necessity for companies to move beyond mere lip service to their stated commitments. When stakeholders are aware that a

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<sup>299</sup> Doloksaribu and Kirom 2024 *Tema* 301.

<sup>300</sup> Alduais 2023 *Cogent Economics and Finance* 11.

<sup>301</sup> Taylor *Harvard Business Review*.

<sup>302</sup> Apiday 2024 <https://www.apiday.com/blog-posts/why-is-esg-environmental-social-and-governance-important-for-a-business>.

<sup>303</sup> IrisCarbon 2023 <https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/>.

<sup>304</sup> Consultivo 2024 <https://www.linkedin.com/pulse/leveraging-independent-assurance-enhance-esg-performance-transparency-qdtwf>.

<sup>305</sup> Consultivo 2024 <https://www.linkedin.com/pulse/leveraging-independent-assurance-enhance-esg-performance-transparency-qdtwf>.

third party has verified the accuracy of the disclosed information, their confidence in the company's ESG practices is significantly bolstered.<sup>306</sup>

Upon examining the structure of the ESG framework, it becomes evident that it is designed to encourage transparency among companies, while also outlining repercussions for those that fail to comply. These repercussions are not obscured in a narrative report; instead, they are articulated through comprehensive metrics and scoring methodologies.<sup>307</sup>

#### *4.2.2 Bridging the Gap between Intended Achievements and Actual Outcomes in Practice*

As highlighted above, the integration of ESG criteria aims to motivate transparency. Nonetheless, it is one matter to articulate these ideals and present an appealing vision of their potential benefits, and quite another to ensure their actual implementation. This challenge was notable in the King IV framework, where companies acknowledged the principles but failed to fully adopt them.<sup>308</sup> Consequently, it is imperative to examine whether companies will genuinely implement the ESG framework or if their efforts will simply replicate existing practices.

We have already determined the benefits of implementing ESG principles. However, to effectively address compliance gaps, it is essential to consider the consequences that may arise should a company opt not to incorporate ESG principles into its operations. The consequences of non-compliance may incentivize companies to adhere to the established principles more rigorously.

As discussed above, when examining the measurement framework established by ESG principles, it is evident that a company's failure to effectively embrace these

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<sup>306</sup> Farmer 2023 <https://www.techtarget.com/sustainability/feature/ESG-metrics-Tips-and-examples-for-measuring-ESG-performance>.

<sup>307</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>308</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 61.

principles will be reflected in its scoring.<sup>309</sup> By assigning a numeric value to the level of compliance with the established principles, stakeholders are equipped with a quantifiable means of comparison.<sup>310</sup> This aspect is particularly significant as stakeholders can compare a company's score with those of its competitors, allowing them to assess relative performance within the industry.<sup>311</sup> Such comparisons can reveal disparities in commitment to ESG practices, ultimately influencing investment decisions and stakeholder engagement.<sup>312</sup>

In contrast, the King IV framework requires that companies issue a narrative report that provides a detailed account of their compliance with the established principles.<sup>313</sup> While this narrative approach provides valuable context, it can also enable companies to obscure their actual performance behind carefully crafted language.<sup>314</sup>

As a result, stakeholders may find it challenging to ascertain the true alignment between a company's stated intentions and its operational practices.<sup>315</sup> Conversely, the ESG framework places companies in a glass house, increasing transparency and exposing any failure to adhere to the principles. This heightened visibility compels companies to align their actions with their commitments.

Moreover, companies that fail to comply with ESG standards may encounter significant financial implications in the long term.<sup>316</sup> The phrase "affecting a company's financial returns" refers to the notion that robust ESG practices can foster increased investor confidence, which may lead to reduced capital costs and

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<sup>309</sup> LSEG Data and Analytics *Sustainable Growth* 11.

<sup>310</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>311</sup> Castro and Gradillas 2022 *The Capco Institute Journal of Financial Transformation* 173.

<sup>312</sup> Serafeim 2020 *Harvard Business Review* 38

<sup>313</sup> *JSE Listing Requirements* 2019 8.63 (a)(i).

<sup>314</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy* 61.

<sup>315</sup> Samans and Nelson 2022 *Sustainable Enterprise Value Creation* 109.

<sup>316</sup> Matemane and Msomi 2023 *SAJEMS* 7.

enhanced profitability.<sup>317</sup> In contrast, companies that do not provide adequate ESG reporting are at risk of being undervalued.<sup>318</sup> Additionally, a company's ESG disclosure and performance play a critical role in determining its capacity to raise capital in financial markets and the conditions under which it secures funding.<sup>319</sup>

Incorporating ESG factors into investment decision-making processes helps uncover and evaluate risks that traditional investment analysis might overlook.<sup>320</sup> Companies with excellent ESG ratings are generally viewed as lower risk and more sustainable, making them more appealing to investors and allowing them to secure capital at reduced costs.<sup>321</sup> If companies do not adhere to the ESG disclosure standards established by entities, they may find themselves in a difficult position as they try to adopt strategies to protect themselves from stakeholder concerns.<sup>322</sup>

ESG is a growing trend among both retail and institutional investors, creating pressure for companies—especially publicly traded international firms—to comply with or at least align with these standards.<sup>323</sup> Legislation has also started to steer companies towards ESG compliance, as evidenced by Regulation 28 of the *Pension Funds Act*, which states:

*“Prudent investing should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund’s assets, including factors of an ESG nature”.*<sup>324</sup>

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<sup>317</sup> Serafeim 2020 *Harvard Business Review* 38

<sup>318</sup> Taylor *Harvard Business Review*.

<sup>319</sup> Serafeim 2020 *Harvard Business Review* 38

<sup>320</sup> Krieger and Mauck 2021 *Journal of International Financial Markets, Institutions and Money* 217.

<sup>321</sup> Krieger and Mauck 2021 *Journal of International Financial Markets, Institutions and Money* 217.

<sup>322</sup> Khamisu and Paluri 2024 *Journal of environmental Management* 302.

<sup>323</sup> Pompella and Costantino 2023 *Sciendo* 113.

<sup>324</sup> Regulation 28(2)(b) of the *Pension Funds Act* 24 of 1956.

However, regulation 28 does not mandate ESG investing, but it does require funds to take ESG criteria into account when making investment decisions.<sup>325</sup> This requirement was recently emphasized by the South African Financial Sector Conduct Authority (FSCA), which released a guidance note outlining what retirement funds should disclose regarding ESG practices, in their investment policy statements.<sup>326</sup> Notably, the FSCA indicated that funds with assets that restrict the use of ESG factors must clarify how this limitation benefits the fund and its members.<sup>327</sup>

It is clear that if a company fails to genuinely embrace the established ESG principles, such non-compliance will be noticeable to the public and may lead to significant long-term financial repercussions.<sup>328</sup> Additionally, legislation is beginning to pressure companies to comply with the ESG framework. The benefits of ESG, coupled with the consequences of non-compliance, will motivate companies to fully adopt these principles, thereby closing the gap between intended achievements and actual outcomes.

### **4.3 Conclusion**

We have demonstrated the growing necessity of the incorporation of ESG frameworks, as investors and stakeholders increasingly acknowledge the significance of ESG considerations and seek to understand the potential roles these practices can play in promoting informed decision making.<sup>329</sup>

Our analysis reveals that the implementation of ESG practices offers significant advantages for companies, including improved financial performance characterized by reduced capital costs and enhanced returns on investments, thereby making them more attractive to investors.<sup>330</sup> However, the adoption of ESG frameworks is

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<sup>325</sup> Geral 2019 *Thorts* 44.

<sup>326</sup> Geral 2019 *Thorts* 44.

<sup>327</sup> Geral 2019 *Thorts* 44.

<sup>328</sup> Taylor *Harvard Business Review*.

<sup>329</sup> Viviers and Smith 2015 *Investment Analysts Journal* 39.

<sup>330</sup> Alduais 2023 *Cogent Economics and Finance* 11.

not without challenges.<sup>331</sup> A primary difficulty identified is the complexity of measurement systems, which complicates the integration of ESG principles into existing governance structures.<sup>332</sup>

The challenges associated with the implementation of ESG practices may not be as user-friendly compared to the King IV framework. However, while the implementation process may be complex, it is not impossible.<sup>333</sup> As awareness of the benefits of ESG practices continues to grow among companies and stakeholders, it warrants serious consideration. As noted by author John C. Maxwell, "*Change is inevitable. Growth is optional.*"<sup>334</sup> This statement underscores the idea that although change can be challenging, choosing not to embrace it solely due to its difficulties can impede progress.<sup>335</sup> In the context of implementing change—especially within ESG practices—the potential for positive impact significantly outweighs the associated obstacles.

While the measurement framework is inherently complex, this complexity significantly enhances its overall efficiency.<sup>336</sup> The depth of the framework equips stakeholders with the ability to assign a numerical value to the company, thereby facilitating comparisons with its competitors.<sup>337</sup> As a result, companies are motivated to pursue higher scores to attract investors, which in turn compels them to adopt greater transparency in their practices to achieve these elevated scores.<sup>338</sup>

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<sup>331</sup> Eskantar and Zopounidis 2024 *International Review of Financial Analysis* 2.

<sup>332</sup> IrisCarbon 2023 <https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/>.

<sup>333</sup> TechTarget 2024 <https://www.techtarget.com/sustainability/tip/Top-ESG-reporting-challenges-and-how-to-overcome-them#:~:text=The%20complexity%20increases%20when%20dealing,potential%20damage%20to%20its%20reputation.>

<sup>334</sup> Maxwell 2019 *The 21 Irrefutable Laws of Leadership* 76.

<sup>335</sup> Maxwell 2019 *The 21 Irrefutable Laws of Leadership* 76.

<sup>336</sup> Doloksaribu and Kirom 2024 *Tema* 301.

<sup>337</sup> Hannay *Sustainability News* 3.

<sup>338</sup> Hannay *Sustainability News* 4.

Moreover, the measurement systems act as a safeguard against superficial compliance, ensuring that companies are held accountable for providing meaningful and accurate disclosures.<sup>339</sup> These incentives will ensure that companies genuinely adhere to the principles established by the ESG framework, aligning the intended objectives with actual outcomes in practice.

Furthermore, companies that do not incorporate ESG practices may encounter significant challenges in attracting investors over the long term, as ESG ratings are widely regarded as indicative of lower risk and greater sustainability.<sup>340</sup> Additionally, legislative measures have begun to guide companies towards ESG compliance,<sup>341</sup> requiring that funds consider ESG criteria when making investment decisions.<sup>342</sup>

Ultimately, the implementation of the ESG framework serves as a catalyst for enhanced transparency among companies listed on the JSE. This framework not only incentivizes companies to pursue higher standards of transparency in their reported achievements but also compels them to adopt more rigorous practices in their operations.

We are now positioned to effectively answer the research question posed at the outset of this study. We have established the current status quo regarding the standards of the King IV framework and gained a comprehensive understanding of how ESG practices can be compared to these existing standards. This positions us to address the extent to which the integration of the "G" component of ESG practices can enhance transparency levels among companies listed on the JSE.

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<sup>339</sup> IrisCarbon 2023 <https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/>.

<sup>340</sup> Krieger K and Mauck N 2021 *Journal of International Financial Markets, Institutions and Money* 217.

<sup>341</sup> Regulation 28(2)(b) of the *Pension Funds Act* 24 of 1956.

<sup>342</sup> Geral 2019 *Thorts* 44.

## Chapter 5

### ***Recommendations and Conclusion***

The primary focus of this study has been on transparency. This research highlights the most effective strategies that companies can adopt to not only earn the trust of stakeholders but also establish a framework that offers stakeholders a clear and accurate representation of the company's standing. In today's environment, stakeholders are increasingly reluctant to accept corporate statements at face value.<sup>343</sup>

Initially, we examined the status quo of corporate governance practices among companies listed on the JSE. As discussed in Chapter 2, the KING IV framework is predicated on an "apply-and-explain" approach, which requires listed companies to submit a narrative report detailing the recommended practices they have implemented in accordance with the established principles. The primary objective of these principles is to foster an ethical culture within the organization and to equip stakeholders with the necessary information to make informed decisions based on transparent corporate reporting.<sup>344</sup> However, it is important to note that KING IV does not impose an obligation on companies to disclose specific results related to governance outcomes; rather, it leaves stakeholders to interpret the information and draw their own conclusions based on the narratives provided by the companies.<sup>345</sup>

The study examined both the successes and shortcomings of the KING IV framework, to serve as a reference point against which the incorporation of ESG practices can be measured. Our findings indicate that a key strength of the KING IV framework is its flexibility, which accommodates companies of all sizes. This

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<sup>343</sup> Fortuna 2022 [https:// cleantechnica .com /2022/03/10/ esg-lawsuits- in-2022 -challenge-environmental-reporting-discrepancies/](https://cleantechnica.com/2022/03/10/esg-lawsuits-in-2022-challenge-environmental-reporting-discrepancies/).

<sup>344</sup> Mimecast *The King IV Report on corporate governance* 4.

<sup>345</sup> *King IV* 2016 37.

adaptability allows companies to effectively determine the most suitable context for their disclosures.<sup>346</sup> The framework places significant emphasis on the disclosure of non-financial aspects, such as director remuneration and risk management practices, with the aim to provide stakeholders with a more comprehensive understanding of the company's governance and operational integrity.<sup>347</sup>

Despite these principles, limitations persist. We observed that many companies exhibited a lack of genuine transparency, particularly in the disclosure of non-financial risks.<sup>348</sup> While companies tend to provide more accurate and detailed disclosures regarding financial risks, they often fell short in their reporting of non-financial information.<sup>349</sup> This disparity underscores a noteworthy deficiency in transparency, leaving stakeholders without sufficient insight into the wider risks that could affect the company's long-term sustainability and ethical integrity.<sup>350</sup>

The disclosures made by companies are ultimately determined by their governing bodies, leaving stakeholders to draw their own conclusions.<sup>351</sup> As a result, governing bodies possess the power to present the company in the most favourable light. They may be reluctant to highlight their limitations,<sup>352</sup> often choosing to obscure them rather than placing them front and centre. This tendency can lead to a distorted representation of the company's true circumstances,<sup>353</sup> making it challenging for stakeholders to obtain a fully informed perspective on the organization's performance and risks.

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<sup>346</sup> *King IV* part 3 para 5.2.

<sup>347</sup> Institute of Directors in Southern Africa 2022 <https://www.iodsa.co.za/>.

<sup>348</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 41.

<sup>349</sup> Ferguson 2019 *Journal of Business Continuity and Emergency Planning* 174.

<sup>350</sup> Institute of directors South-Africa 2018 <https://www.iodsa.co.za/news/389613/Understanding>.

<sup>351</sup> Esser and Delport 2018 *University of Glasgow Publications* 6.

<sup>352</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>353</sup> Cristina and Zalles *Transparency in ESG and the Circular Economy* 45.

Moreover, a substantial issue persists regarding compliance with KING IV among governing bodies.<sup>354</sup> Many companies publicly endorse the codes established by KING IV, yet fail to genuinely adhere to its principles.<sup>355</sup> While KING IV outlines important goals and aspirations, its effectiveness is ultimately undermined if governing bodies do not commit to these principles in practice. This situation raises concerns that companies may be providing superficial compliance rather than genuinely committing to the principles articulated in KING IV.<sup>356</sup>

Although KING IV has made significant progress in promoting transparency among JSE-listed companies, the limitations inherent in the framework underscore the need for improvement. As we consider the potential effects of incorporating the ESG framework, it is essential that this new framework not only achieves the successes of KING IV but also addresses and resolves its shortcomings.

Both KING IV and the ESG framework fundamentally share the objective of fostering transparent business practices. They are aligned in their commitment to cultivating a more transparent and ethically grounded corporate landscape.<sup>357</sup> However, the primary distinction between the frameworks lies in their reporting mechanisms and systems for measuring corporate governance. The ESG framework has developed a comprehensive metric and scoring methodology, essentially translating qualitative assessments into quantitative scores,<sup>358</sup> thereby "scoring" a company. This framework provides a recommended format that allows companies to choose the

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<sup>354</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>355</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>356</sup> Chauke "Critical Analysis of Principle One and Two of King IV Report on Corporate Governance: Leadership and Ethics" 603.

<sup>357</sup> Geneve "Integrating reporting practices and King III vs King IV: Combined assurance" 5.

<sup>358</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

metrics that best align with their unique circumstances, mirroring the advantages of the KING IV framework.<sup>359</sup>

The scoring of a company is crucial, as it significantly influences the company's willingness to be transparent regarding its public disclosures. In our examination of KING IV, we identified compliance with the established principles as one of the primary challenges. While the KING IV principles advocate for enhanced transparency in business practices, many companies have not fully embraced this requirement.<sup>360</sup> This is where the ESG framework distinguishes itself.

As discussed in Chapter 4, the ESG framework operates on a scoring methodology.<sup>361</sup> Data points are allocated based on the level of disclosure within the company.<sup>362</sup> If a company complies with the recommended practices outlined in the ESG framework, it will receive a data point. Conversely, if a company fails to comply or chooses not to disclose relevant information, it will not receive any points.<sup>363</sup> This approach effectively removes the power from the governing body regarding what information they choose to display to the public. If a company does not adhere to the recommended practices, this will be clearly reflected in their scores.<sup>364</sup> Consequently, this measure acts as a safeguard against superficial compliance.<sup>365</sup>

Another limitation of the KING IV framework is that it may not always be evident to stakeholders when companies are lacking in transparency, as the reporting framework relies on narrative reports that include extensive information, which can

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<sup>359</sup> IBM 2024 [https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG\)%20aspects%20of%20the%20business.](https://www.ibm.com/topics/esg-frameworks#:~:text=ESG%20reporting%20frameworks%20are%20used,ESG)%20aspects%20of%20the%20business.)

<sup>360</sup> Janse van Vuuren 2020 *International Journal of Business and Management Studies* 61.

<sup>361</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures.>

<sup>362</sup> LSEG Data & Analytics *Sustainable Growth* 14.

<sup>363</sup> LSEG Data & Analytics *Sustainable Growth* 11.

<sup>364</sup> Hayes 2023 <https://www.investopedia.com/company-esg-score-7480372.>

<sup>365</sup> IrisCarbon 2023 [https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/.](https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/)

obscure critical insights. As a result, stakeholders may find it challenging to discern whether there are valid grounds for concern, as companies may overwhelm them with an abundance of data.<sup>366</sup> In contrast, the ESG framework assigns a numeric value to the level of compliance demonstrated by a company, offering stakeholders a quantifiable means of comparison.<sup>367</sup> Companies that achieve strong ESG ratings are perceived as lower-risk,<sup>368</sup> more sustainable, and ultimately more attractive to investors.<sup>369</sup> Conversely, companies with lower ESG ratings may encounter significant challenges in addressing stakeholder concerns.<sup>370</sup>

Nevertheless, the ESG framework is not without its limitations. The KING IV code is recognized for its user-friendly approach, which can be easily adapted for implementation across various companies. In contrast, the ESG framework is considerably more complex. The challenge for companies lies in integrating the ESG measurement framework into existing governance systems without causing disruption.<sup>371</sup> However, when assessing the benefits of the ESG framework alongside the societal pressure for companies to adopt it,<sup>372</sup> it becomes clear that those unwilling to embrace these changes due to perceived challenges, risk not only stagnation but also potential undervaluation.<sup>373</sup>

With an understanding of both the current status quo and the newly introduced incentives, we can now address the research question.

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<sup>366</sup> Geneve "Integrating reporting practices and King III vs King IV: Combined assurance" 5.

<sup>367</sup> Diligent 2023 <https://www.diligent.com/resources/blog/disclosures>.

<sup>368</sup> Krieger and Mauck 2021 *Journal of International Financial Markets, Institutions and Money* 217.

<sup>369</sup> Krieger and Mauck 2021 *Journal of International Financial Markets, Institutions and Money* 217.

<sup>370</sup> Khamisu MS & Paluri RA 2024 *Journal of environmental Management* 302.

<sup>371</sup> IrisCarbon 2023 <https://www.iriscarbon.com/the-power-of-esg-disclosure-how-it-drives-sustainable-business-practices/>.

<sup>372</sup> Pompella and Costantino 2023 *Sciendo* 113.

<sup>373</sup> Taylor *Harvard Business Review*.

While KING IV demonstrated flexibility by permitting companies to determine the context of their disclosures, this very flexibility also introduced significant limitations. It allowed governing bodies the opportunity to offer only superficial compliance to stakeholders, rather than fostering genuine transparency. In contrast, the ESG framework similarly provides companies with the flexibility to select the framework that best aligns with their needs; however, its measuring system effectively places companies in a “glass house.” This heightened level of transparency prevents companies from obscuring their shortcomings behind narrative statements.

The KING IV principles are designed to promote good governance through effective governance practices that foster an ethical culture, reinforcing the commitment of board members to uphold the highest standards of business ethics.<sup>374</sup> While having this foundation is crucial, it is another matter entirely to ensure that companies genuinely build upon it. KING IV has struggled with compliance among companies, with many failing to adhere to the established principles and exhibiting genuine transparency.<sup>375</sup> In contrast, the ESG measuring framework is designed to make non-compliance evident to stakeholders, ultimately influencing their decision-making. The potential consequences of non-compliance serve as a powerful incentive for companies to adhere more rigorously to established principles. A lack of investor confidence can lead to increased capital costs and reduced profitability,<sup>376</sup> motivating companies to prioritize transparency in their governance practices.

The aim of this research was not to diminish the significance of the KING IV framework, as many companies have demonstrated that its successful incorporation can lead to effective governance when applied correctly.<sup>377</sup> While principles and even laws exist to guide corporate behaviour, they cannot entirely prevent corrupt

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<sup>374</sup> KING IV 2016 36.

<sup>375</sup> Nkhi *Trends in Integrated Reporting by JSE Listed Companies* 6.

<sup>376</sup> Serafeim 2020 *Harvard Business Review* 38

<sup>377</sup> Zijp 2022 *The Corporate Governance Review* 237.

companies from violating them. However, the aim of this study was to investigate whether the incorporation of new incentives could effectively address the issue of non-adherence by examining the potential of the ESG framework to empower stakeholders and mitigate the risk of being misled by companies. The analysis focused on identifying ways to provide stakeholders with greater transparency into a company's operations, effectively offering them a "magnifying glass" to scrutinize internal practices.

Throughout this study, we found that the effectiveness of the ESG framework is largely attributed to its unique quantifiable measuring system. Companies are incentivized to attain higher scores in order to attract investors. Achieving these elevated scores requires not only adherence to the established framework but also an enhancement of transparency in their governance practices. As governing bodies enhance their disclosures, their scores improve, leading to increased attention from stakeholders. This dynamic establishes a positive feedback loop that not only promotes ongoing transparency but also creates a mutually beneficial scenario for both companies and stakeholders. Companies gain enhanced credibility and trust, while stakeholders receive clearer insights into governance practices. This confirms that the integration of the "G" component of ESG practices will significantly enhance transparency among companies listed on the JSE. Bringing us back to the concept; *"You can't manage it, if you can't measure it"*.<sup>378</sup>

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<sup>378</sup> Whitfield 2022 <https://www.rmb.co.za/page/esg-matters>.

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## **List of abbreviations**

CILSA	Comparative and International Law Journal of Southern Africa
ESG	Environmental, Social, and Governance
FSCA	South African Financial Sector Conduct Authority
GER	Global Economic Review
IR	Integrated Reporting
IJESSS	International Journal of Environmental Sustainability and Social Science
IIASA	Institute of Internal Auditors South Africa
IIRC	International Integrated Reporting Council
IODOSA	Institute of Directors in South Africa
LSEG	London Stock Exchange Group
JSE	Johannesburg Stock Exchange
NBI	National Business Initiative
NGO	Non-Governmental Organizations
SAJEMS	South African Journal of Economic and Management Sciences
SRI	Socially Responsible Investing