

Effect of Corporate Governance Practices on the Performance of an Established Medium-Sized Enterprise in the Mining Industry in South Africa

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ABSTRACT: *It is evident that SMEs have formed a significant part of the broader South African mining industry, faced their fair share of constraints and challenges, and often experienced a high failure rate. In light of this, the research objective of this study is to identify the CG practices followed by an established medium-sized enterprise in the mining industry. The study explored ethical culture, good performance, effective control, and legitimacy as CG outcomes in this particular SME, aiming to determine whether these practices have effectively addressed the challenges faced by SMEs. The study employed a qualitative research approach with two stages. First, a review of previous research regarding SME challenges. Second, a case study research design with a single medium-sized enterprise mine in the North-West province will be used as the unit of analysis. Data were collected using MS Teams, telephonic, and semi-structured interviews. The transcribed interviews were analyzed using Microsoft Excel. The SME demonstrated a strong ethical culture, achieved good performance through regular performance reporting and evaluation of the company's core purpose, aligned to the effective control theme since the SME has a unique governing body and addresses the challenges of their size by implementing a governance structure and delegating authority and holds regular meetings with internal and external stakeholders to maintain a good relationship with stakeholders in order to fulfill the legitimacy theme. The study, therefore, concluded that CG outcomes are well understood and practiced by SMEs in the mining industry, affirming the effectiveness of these practices in addressing the challenges faced by SMEs.*

Keywords: *Corporate governance, Medium-sized company, Mining industry, Performance, South Africa.*

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INTRODUCTION

The mining industry is an important economic industry in South Africa and is widely recognized as playing a major role in the national economy (Grebe et al., 2016; Minerals Council of South Africa, 2019a; Stone & Merwe, 2010). According to the Minerals Council of South Africa (2019a) report, the mining industry contributed R350.8 billion to the gross domestic product (GDP) and employed 456,438 people in 2018. Furthermore, the South African mining industry accounts for R91.1 billion of fixed investment with a contribution of R498.7 billion. The mining industry also contributes R333.2 billion to primary mineral and export sales. In addition, the mining industry contributes R50.6 billion in taxes, including income tax, royalties, and Pay as You Earn (PAYE). However, the mining gross domestic product (GDP) growth rate declined by 1.7%, resulting in job losses of about 1.6% in the mining industry.

Small-to-medium enterprises (SMEs) in the mining industry form an important part of the broader South African mining industry and add to employment creation, income generation and poverty alleviation as key contributions to the South African economy (Ledwaba, 2017). SMEs have also created pride and a sense of achievement in previously disadvantaged entrepreneurs (Mkubukeli & Tengeh, 2016). Different categories and classifications of SMEs in the mining industry make up the SMEs' contribution to the broader South African mining industry.

According to the Revised Schedule 1 of the National Definition of Small Enterprise in South Africa, (Minerals Council of South Africa, 2019b), there are three categories of mining SMEs, classified in terms of the number of permanent employees and total annual turnover. The smallest category is made up of micro-scale companies with up to ten employees, followed by small companies with up to 50 employees. In terms of this classification, a medium-sized company is a medium-scale mining company with up to 250 employees, an annual turnover of up to R210 million. According to King IV (IODSA, 2016, p. 103), an SME is defined as a private, profit company that has a public interest score of at least 350 calculated in terms of regulation 26(2) under the Companies Act. According to section 30(2) b(i) of the Companies Act 71 of 2008, as amended in 2009, the points are calculated according to a combination of turnover, (1 point per R1 million), employees (1 point per employee), third-party liabilities (1 point per R1 million) and shareholders (1 point for each shareholder). For this study, "medium-sized enterprise in the mining industry" refers to the medium-sized mining company as described above, as it can be regarded as a formal company with a scale of operations that justifies the adoption of sound CG principles as outlined in part 6.5 of the supplement for small-to-medium enterprises (IODSA, 2016, p. 103).

Research also indicates that some SMEs in the mining industry face constraints and challenges that may limit their growth potential (Natal'ya, 2020). As stated by Mutemeri et al. (2010), there may be a lack of strategic planning at SMEs, influencing their development and success. Other researchers identified similar distressing performance issues that perpetuate low or negative growth (Rogerson, 2011). For example, Mahadea & Pillay (2011) associate the failure of SMEs with internal environmental factors. These include poor human resources capacity to manage operations, unavailability of business and operational strategies, poor innovation capacity, and financial resources management challenges. As emphasized by Sithole (2015), these internal environmental factors affect each SME differently, while the external environment relating to mineral prices and tax regulations generally affects the mining industry in a similarly negative manner. The failure rate of SMEs is as high as 63% in the first two years of trading (Minerals Council of South Africa, 2019b). The high failure rate of SMEs can be attributed to lack of growth, deficiency of business acumen and ignorance of good CG practices (Mafoyane, 2012, p. 12).

Given the challenges and high failure rates, good CG practices are necessary to help create transparency, legitimacy, accountability, effective control, ethical culture, and consequently good performance at SMEs in the mining industry (Gcaza & Urban, 2015). Aras & Crowther (2008) conclude that there is a tremendous need for the effective adoption and application of CG at SMEs in the mining industry as a way of perpetuating success. The importance of CG in SMEs has been highlighted as "a way for possible future growth" (Quartey et al., 2017).

Despite the aforementioned research efforts, CG within SMEs in the mining industry is a topic that has not been widely covered in the literature. Although SMEs' problems and successes in the mining industry are a topic that has received a fair amount of coverage in South African literature, and

internationally, not many works directly address these challenges from a CG perspective. For example, [Bezuidenhout \(2018, p. 45\)](#) studied CG frameworks within the mining industry but did not focus on SMEs. CG practices that have generally focused on large corporations and listed entities have proved to be of immense value to SMEs ([Sarah, 2017](#)). The literature has, therefore, not fully explored CG practices from the point of view of SMEs in the mining industry.

Since many scholars advocate good CG practices in all types of businesses, it has become important to explore the applicability of CG principles for SMEs in the mining industry. This study, therefore, sought to address the apparent information gap concerning good CG practices for SMEs within the mining industry. Particularly gap in the identification of CG practices followed by an established medium-sized enterprise in the mining industry. Therefore, the research objective of this study is to identify the CG practices followed by an established medium-sized enterprise in the mining industry.

LITERATURE REVIEW

Definition of corporate governance (CG)

In order to understand what CG in SMEs entails, a research study needs to look at the definition of CG. Various definitions of CG are found in the literature ([Briozzo et al., 2017](#); [Gonyora, 2014](#)), but the comprehensive definition in the King IV will be used in this study. Here CG is defined as “the exercise of ethical and effective leadership that should result in beneficial governance outcomes for the organization and ethical culture, sustainable performance and value creation, adequate and effective control by the governing body, protecting and building trust in the organization’s reputation and legitimacy” ([IODSA, 2016, p. 23](#)). From the above definition of CG, the King IV outlined four governance outcomes which include ethical culture, good performance, effective control, and legitimacy.

For SMEs, each of these outcomes entails a set of principles that guide the outcome, and in total, there are 16 such principles ([IODSA, 2016, p. 20](#)). The application of these four outcomes is expected to enhance companies' performance and success, including those of mining SMEs, through the avoidance and resolution of challenges relating to poor governance and management ([Sarah, 2017](#)). According to King IV ([IODSA, 2016, p. 101](#)), the 16 principles of King IV relate to how an SME's governing body can achieve the four outcomes: ethical culture, good performance, effective control, and legitimacy.

Outcomes of Corporate Governance

Ethical culture

Ethical culture is the first outcome of an effective application of CG principles ([IODSA, 2016, p. 20](#)). According to King IV ([IODSA, 2016, p. 3](#)), three of the sixteen principles of King IV specifically relate to how an SME's governing body could achieve an ethical culture as an outcome. These include leadership, ethics, and corporate citizenship. An ethical culture is a specific form of organizational culture that includes values and systems that can promote ethical behavior, as stated in [Huhtala et al. \(2015\)](#). A strong ethical culture leads to many favorable strategic outcomes and mitigates against risks of unethical behavior that could diminish the reputational value of the company ([Verschoor, 2018](#)). Ethical culture in a company boosts efficiency and employee productivity as a result of shared organizational core values, which promote good conduct and foster accountability ([Downe et al., 2016](#)). According to the Ethics Institute (2019), because several ethics-related challenges, such as corruption, fraud, and misconduct, are currently under the spotlight, most companies in South Africa are embracing an ethical culture.

Good performance

King IV defines good performance in an SME as “achieving its strategic objectives and positive outcomes in terms of its effects on the capitals it uses and affects” ([IODSA, 2016, p. 16](#)). Capitals, as per the integrated reporting framework, are referred to as financial, manufactured, human, intellectual, natural, social, and relationship capital ([IODSA, 2016, p. 10](#)). According to King IV ([IODSA, 2016, p. 16](#)), performance is therefore the result (positive and negative) of the value creation process. The value creation process is the process that results in increases, decreases, or transformations of the capital caused by the organization's business activities and outputs ([IODSA, 2016, p. 16](#)). Value creation is the performance of actions that increase the worth of goods and services or even a business ([Freudenreich et al., 2020](#)). King IV ([IODSA,](#)

2016, p. 41) identifies principles, including strategy, performance and reporting, that directly relate to good performance as an outcome.

Effective control

King IV emphasizes that the governing body should serve as the focal point and custodian of CG (Hove-Sibanda et al., 2017). Effective control, according to King IV, is centered around the management of skills, capabilities, and the governing body's powers (Mgijima, 2018, p.12). Furthermore, Mgijima (2018, p.12) recommends that if a member of the governing body is a shareholder and manager, formal processes should be implemented to achieve separation of powers when the member acts in different capacities. SMEs, therefore, depend heavily on such key individuals; consequently, where members exercise independent judgment, governance will be strengthened to the advantage of the company. SMEs should, therefore, consider appointing independent non-executive directors and, if such a step is not practically possible, should consider employing a governance professional on an ad-hoc basis (Stegmanns, 2016).

Legitimacy

The fourth outcome of King IV regarding CG is legitimacy (IODSA, 2016). P16 in Table 1 points out how the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests, and expectations of material stakeholders in the best interests of the company. Legitimacy demands that the governing body of SMEs take note of the best interests of stakeholders while balancing this against business needs (IODSA, 2016). The governing body of an SME, which often consists of family members, poses risks of conflict with management; they should fulfill their mandate and refrain from exercising their powers irresponsibly or beyond the scope of operations (Mgijima, 2018). For this to happen, adequate measures should ensure transparency in the execution of board mandates (Dzingai & Fakoya, 2017). The legitimacy of boards enhances the positive participation of internal and external stakeholders in SMEs' activities (Dzingai & Fakoya, 2017). These internal and external stakeholders include financiers and customers whose input is crucial for the success of any business (IODSA, 2016).

RESEARCH METHOD

The study employed a qualitative research approach to explore the CG practices that an established medium-sized enterprise in the mining industry follows to address its challenges. First, before we establish the participants' selection, we explore previous research regarding SMEs' CG challenges in mining. The articles were selected in line with the outcome of corporate governance, which includes ethical culture, good performance, effective control, and legitimacy. Based on this review of previous research, we conduct interviews with participants selected in the second stage of this research.

Second, non-probability sampling was used to select the research participants. Non-probability sampling is suitable for qualitative studies, which, unlike quantitative studies, are generally not designed to represent or be generalizable to a particular setting (Babbie, 2016, p. 14). Purposeful sampling was used in this study. The criteria used to select the participant company and individual participants were based on their ability to provide information that could be used to respond to the research objective and interview questions. The participants in this study consisted of two members of the governing body and three members of the executive management of the medium-sized enterprise. Data were collected using MS Teams, Telephonic and semi-structured interviews. The transcribed interviews were analyzed using Microsoft Excel based on the findings of the first-stage factors.

RESULTS AND DISCUSSION

Review of Corporate Governance (CG) to Address Challenges Facing Small-to-Medium Enterprises (SMEs) in the Mining Industry

Linking Challenges of SMEs in Mining to Corporate Governance Outcomes

We linked the outcome of corporate governance, which includes ethical culture, good performance, effective control, and legitimacy, with the challenges of SMEs in mining. Table 1 summarizes the linkage of these factors.

Table 1. Linking challenges of SMEs in mining to CG outcomes

| Category | Challenge | Source | Recommended principle of King IV |
|-------------------|--|---|----------------------------------|
| Ethical culture | Corruption, fraud, and misconduct | <ul style="list-style-type: none"> The Ethics Institute (2019, p. 45) Siregar & Tenoyo (2015, p. 331) Kolstad & Søreide (2009, p. 216) Lee (2011, p. 301) Young et al. (2014, p. 333) Bagnoli & Vedovato (2014, p. 620) Arslan & Alqatan (2020, p. 1-17) Sarah (2017, p. 273) | P1, P2 and P3 |
| Good performance | Lack of resources | <ul style="list-style-type: none"> Aragón-Correa et al. (2008, p. 2) Jessica Hwang & Lockwood (2006, p. 1) Ates et al. (2013, p. 29) Jamil & Mohamed (2011, p. 11) IODSA (2016, 105) | P4 |
| | Lack of communication boundaries and reporting structure | <ul style="list-style-type: none"> Ellerup Nielsen & Thomsen (2009, p.4) Ali & Ur Rehman (2020, p. 500) Stegmanns (2016, p. 123) | P5 |
| | Market access | <ul style="list-style-type: none"> Sanyal et al. (2020, p. 282) Ledwaba (2017, p. 34) Sithole (2015, p. 18) Hove-Sibanda et al. (2017, p. 11) Sarah (2017, p. 278) Hilson & McQuilken (2014, p. 105) Mkubukeli & Tengeh (2016, p. 7) | P4 |
| Effective control | Limited government and institutional support | <ul style="list-style-type: none"> Arslan & Alqatan (2020, p.12) Mkubukeli & Tengeh (2016, p. 8) Ledwaba (2017, p. 34) Kompanek (2016, p.2) Hove-Sibanda et al. (2017, p. 1) Sarah (2017, p. 273) Tafara & Peterson (2016, p. 1) Kitsios et al. (2015, p. 186) | P3, P6 and P11 |
| | Lack of conscious strategic planning and strategic decision-making | <ul style="list-style-type: none"> Hilson & McQuilken (2014, p. 105) Mkubukeli & Tengeh (2016, p. 5) Kitsios et al. (2015, p. 186) Mahadea & Pillay (2011, p. 421) Sithole (2015, p. 16) | P4, P8, P9, P10 and P14 |

| Category | Challenge | Source | Recommended principle of King IV |
|---|---|---|----------------------------------|
| Effective control | Inefficient operational methods | <ul style="list-style-type: none"> Arslan & Alqatan (2020, p.15) Mulaba-Bafubiandi & Mamba, 2009, p.10) Sarah (2017, p. 273) | P12 and P13 |
| | | <ul style="list-style-type: none"> Mkubukeli & Tengeh (2016, p. 20) Ledwaba (2017, p. 34) Mulaba-Bafubiandi & Mamba, 2009, p.10) Hilson & McQuilken (2014, p. 105) Olawale & Garwe (2010, p. 12) Sithole (2015, p. 15-18) Mahadea & Pillay (2011, p. 426) | |
| | | <ul style="list-style-type: none"> Arslan & Alqatan (2020, p.15) Open Society Foundation for South Africa (2017, p. 1824) Mulaba-Bafubiandi & Mamba, 2009, p.10) Kompanek (2016, p.2) Tafara & Peterson (2016, p. 1) Hove-Sibanda et al. (2017, p. 3) Sarah (2017, p. 275) | |
| | Capital expenditure challenges | <ul style="list-style-type: none"> Sitharam (2014, p. 26) Reid et al. (2002, p. 246) Kotey & Slade (2005, p. 25) Tang et al. (2020, p. 120) | P6, P7, P9, P10 |
| | Ownership and lack of management structure | <ul style="list-style-type: none"> Sifumba et al. (2017, p. 12) Pratono (2018, p. 362) Ledwaba (2017, p. 34) Phiri (2011, p. 25) Hove-Sibanda et al. (2017, p. 1) Arslan & Alqatan (2020, p.15) Sarah (2017, p. 272) Hooghiemstra (2012, p. 2) | P7, P8 and P11 |
| | Lack of expertise in CG and risk management by audit committees | <ul style="list-style-type: none"> Olutoyin & Flowerday (2016, p.3) Fira (2010, p. 2) Boamah-Abu & Kyobe (2015, p. 1150) Agusti & Sanawiri (2019, p. 67) | P13 and P14 |
| | Non - compliance with policy | <ul style="list-style-type: none"> Dzigba (2015, p. 18) SMEBANK (2020, p. 2) | P7 and P10 |
| | Limited or no business management knowledge | <ul style="list-style-type: none"> Ledwaba (2017, p. 34) Hove-Sibanda et al. (2017) Phiri (2011, p. 25) Sithole (2015, p. 54) Arslan & Alqatan (2020, p.15) Sarah (2017, p. 271) Hooghiemstra (2012, p. 2) | P7 |
| Lack of geological knowledge and management expertise | | | |

| Category | Challenge | Source | Recommended principle of King IV |
|-------------------|---|--|----------------------------------|
| Effective control | Poor or low technological support | <ul style="list-style-type: none"> • Olawale & Garwe (2010, p. 12) • Sithole (2015, p. 15-18) • Mahadea & Pillay (2011, p. 421) | P12 |
| | Lack of information on developments in the mining industry and non-compliance with mining charter | <ul style="list-style-type: none"> • Ledwaba (2017, p. 35) • Mkubukeli & Tengeh (2016, p. 17) • Mulaba-Bafubiandi & Mamba, 2009, p.10) • Hilson & McQuilken (2014, p. 105) | P7 and P15 |
| Legitimacy | Participation of internal and external stakeholders | <ul style="list-style-type: none"> • King III (IODSA, 2009, p. 14) • King IV (IODSA, 2016, p. 109) • Gunawan et al. (2021, p. 734) | P16 |

Source: Researchers (2024)

Theme 1. Ethical Culture

Corruption, fraud, and misconduct

The challenge of corruption, fraud, and misconduct faced by mining companies is linked to ethical culture, which includes effective leadership, the governance of an ethical culture, and the SMEs being seen as a responsible corporate citizen (Siregar & Tenoyo, 2015). Due to a lack of both applied CG practices and effective internal controls, corruption, fraud, and misconduct are challenges faced by SMEs (Ethics Institute, 2019). According to Kolstad & Søreide (2009), corruption has a high impact on economic growth. Lee (2011) asserts that corporate corruption in gold mining has negatively impacted the economy of mines. Effective whistle-blower mechanisms are therefore highly recommended. Accordingly, it was found that the effective application of CG in SMEs, especially through formal structures, could improve management practices such as implementing internal control to limit incidents of misconduct (Bagnoli & Vedovato, 2014). However, SMEs in South Africa lack these formal structures (Young et al., 2014), thus necessitating an effective CG framework. Therefore, it is suggested that an effective CG framework should be established to encourage ethical behavior and assist in preventing corruption, fraud, and misconduct (Arslan & Alqatan, 2020). Sarah (2017) states that good CG could benefit SMEs by protecting against the operational risks of fraud, unethical behavior, and corruption.

Theme 2. Good Performance

Lack of resources

Lack of resources is a concern, as evidenced in the observations made by Aragón-Correa et al. (2008), who assert that the majority of SMEs lack the resources to implement proactive environmental strategies beyond minimum regulatory compliance and expected strategic organizational capabilities such as shared vision, stakeholder management, and strategic objectivity. This implies that challenged SMEs invariably perform poorly in planning and management. Consequently, Ates et al. (2013) point out that SMEs need to develop good management practices for effective performance that focus more on long-term than on internal and short-term planning. Jessica Hwang & Lockwood (2006) agree with this view and emphasize the practice of applying appropriate and balanced strategic and operational planning that is driven, as Jamil & Mohamed (2011) state, by a shared vision, mission, and values guiding development, internal and external communication and a changed management horizon to improve the SMEs. King IV (IODSA, 2016, p. 105) recommends that performance should be understood as value creation, where "value" refers to economic value and performance within a triple context of the economy, society, and the environment within which SMEs operate. In other words, the economy, society, and the environment should be basic concerns for an SME that operates in mining and be assisted by effective communication. Contrary to expectation, effective communication appears to be yet another challenge that is a setback to SMEs in mining.

Lack of communication boundaries and reporting structure

Ellerup Nielsen & Thomsen (2009) show that SME managers tend not to communicate externally about company activities that could negatively affect the global economy. While a global economy may not be an immediate concern, it is worrying, as Ali & Ur Rehman (2020) observed, that financial reporting, which has implications for business growth and performance, is still a challenge (Ramadhan & Suryaningrum, 2020). However, in Stegmanns' (2016) view, SMEs can still salvage their poor organizational reputation by complying with reporting standards set for the company communication and reporting structure, which may increase the probability of market access.

Market access

Market access is determined partly by good governance. However, in the absence of good governance, as argued by Sithole (2015, p. 18) as a case in point, the compromised South African business environment exposes mining SMEs to corruption owing to access challenges and regulatory bottlenecks. The Small Enterprises Development Agency agrees with this view, asserting that low demand for mining output and increasing operational and energy costs, including the weak rand, have had a negative impact on the success of mining ventures in the past few years. Nevertheless, Hove-Sibanda et al. (2017) and Sarah (2017) contend that SMEs could improve market access and share growth by applying good CG. Invariably, improving market access and sharing growth implies the need for effective control of internal systems, including ownership and management structures. This implies that the organization should have been compliant with CG principles, thus earning recognition as a formal organization, and should have placed itself in an advantageous position with the ability to access investors and funders (Hove-Sibanda et al., 2017; Sanyal et al., 2020); Sarah, 2017:273). However, Hilson & McQuilken (2014), Ledwaba (2017), and Mkubukeli & Tengeh (2016) note that government and institutional support remain a challenge in mining SMEs.

Theme 3. Effective control

Limited government and institutional support

Research shows that for an organization such as an SME to command external stakeholder confidence, thus boosting its corporate reputation, it should receive government and institutional support Arslan & Alqatan (2020); Kompanek (2016, p.2). Hove-Sibanda et al. (2017) and Sarah (2017) state that SMEs could achieve a positive corporate reputation by applying CG principles which would then formalize the organization. When the organization gains greater recognition as a corporate citizen, this will increase the confidence of external stakeholders. Arslan & Alqatan (2020), Kompanek (2016, p.2), and Tafara & Peterson (2016, p. 1) concur with Sarah (2017) that the application of CG principles will have the benefit of affording greater access to investors and financiers within SMEs. While external factors such as lack of governmental and institutional support referred to above potentially pose a threat to the survival of mining SMEs, research indicates that many SMEs face other challenges, which are not confined to the lack of conscious strategic planning, decision making, and information sharing (Kitsios et al., 2015).

Lack of conscious strategic planning and strategic decision-making

Kitsios et al. (2015) maintain that many SMEs face challenges such as the lack of conscious strategic planning, strategic decision-making, and information sharing, making it difficult to increase profitability. These challenges highlight internal weaknesses, as observed by Mahadea & Pillay (2011), who state that the failure of mining SME entities is associated with internal environmental factors. These include inadequate human resources to manage operations, unavailability of business and operational strategies, poor innovation capacity, and financial resources management challenges. Sithole (2015, p. 16) emphasizes that internal environmental factors affect each SME mining entity differently. In contrast, the external environment relating to mineral prices and tax regulation generally similarly affects the whole mining industry. Arslan & Alqatan (2020) state that other reputational failures emanate from a poor contribution or a lack of direct contribution to community amenities and social schemes. Mulaba-Bafubiandi & Mamba, 2009) indicate that organizations cannot operate efficiently in a poor financial state. Sarah (2017) states that inefficient operational methods could benefit from good CG.

Inefficient operational methods

Mkubukeli & Tengeh (2016) outline the various outcomes of the above challenges. These challenges include illegality due to failing to formalize operations and comply with mining regulations, underproduction, and poor-quality output. Challenges include severe environmental and health risks to both miners and communities. In Ledwaba's (2017) view, these outcomes further perpetuate mining venture failure, creating a vicious cycle. This also suggests that some of the problems highlighted might be symptoms of key challenges in the industry. SME miners are generally associated with mining practices that endanger the environment and communities within mining localities (Mulaba-Bafubiandi & Mamba, 2009). Hilson & McQuilken (2014) note the above concerns but quickly point out that some of the above perceptions emanate from failing to distinguish between small miners (SMEs) and artisanal miners whose activities are mostly illegal and informal. Olawale & Garwe (2010) and Sithole (2015, p. 15-18) cite an unsupportive regulatory environment as a precipitant of failure in SME mining. They specifically cite the current labor regulations, which are too inflexible for small businesses that may not always be able to meet the minimum worker remuneration needs. Mahadea & Pillay (2011) concur that SMEs are compelled to hire labor at prices they cannot afford to comply with regulations. Some SMEs end up being understaffed and failing to meet operational needs.

Capital Expenditure Challenges

In this regard, Mulaba-Bafubiandi & Mamba (2009) cite incidences of exploitative labor practices that include child labor, poor remuneration, and lack of concern for employee health and safety, all of which damage the organization's reputation and diminish investor and government confidence. Other reputational failures emanated from the fact that an organization makes a poor or no direct contribution to community amenities and social schemes. In addition, some of the perceptions relating to poor remuneration and unsustainable mining practices emanated from financial and technical resource challenges that were not within the immediate control of the miners (Open Society Foundation for South Africa, 2017). When capital is poorly managed, this can lead to misappropriation of funds, corruption, and malpractice. Arslan & Alqatan (2020), Kompanek (2016, p.2), and Tafara & Peterson (2016, p. 1) argue that the application of CG practice could improve access to investors and financiers. Arslan & Alqatan (2020), Kompanek (2016, p.4), and Tafara & Peterson (2016, p. 1) emphasize that effective management of SMEs can help to align costs, which will ultimately reduce the cost of capital and thereby limit the capital expenditure challenges. Hove-Sibanda et al. (2017), Mulaba-Bafubiandi & Mamba (2009), and Sarah (2017) state that SMEs could attract a positive corporate reputation. Hove-Sibanda et al. (2017) and Sarah (2017) concur that applying CG could improve profitability and financial performance.

Ownership and lack of management structure

Lack of effective control in the literature is associated with a lack of ownership and poor management structures within SMEs. Regarding ownership and management, Sitharam (2014) states that effective control begins with ownership and control exercised by owners or managers in a relationship, such as membership of a governing body or a family management structure. Therefore, according to Tang et al. (2020), effective control in these structures is necessary for the interests of formalized role clarity because the lack thereof compromises organizational processes. It follows that it is necessary to formalize a description of each of these roles in writing, which includes signing performance agreements by the governing body (Tang et al., 2020). The absence of effective controls extends to structures other than management. For example, Reid et al. (2002) argue that a gap in people management and human resource strategies in SMEs is linked to poor performance. Kotey & Slade (2005) contend that this gap results from many SMEs being owner-managed, where owner-managers do not trust employees and are reluctant to delegate work and control. This implies that owner-managed organizations risk failure to develop personnel, implying a dearth of expertise in management, not just of the organization but of its finances as well. Evidently, an organization in such a state cannot comply with CG principles and risks diminished organizational reputation. Therefore, the need for guidance cannot be overemphasized.

Lack of expertise in CG, risk management, and management of audit committees

The lack of expertise in CG is not the only challenge faced by SMEs. [Pratono \(2018\)](#) observes a lack of effective risk management that negatively affects effective management. His research confirms that effective risk management is essential for capital management. Be that as it may, [Sifumba et al. \(2017\)](#) have found that the managers of SMEs are generally unaware of what makes risk management effective and that this hinders the development of SMEs, perpetuating the problems they face. Notwithstanding reports of lack of management or limited expertise and CG practice at SMEs, [Arslan & Alqatan \(2020\)](#), [Hooghiemstra \(2012\)](#), [Hove-Sibanda et al. \(2017\)](#), [Ledwaba \(2017\)](#), [Phiri \(2011, p. 25\)](#) and [Sarah \(2017\)](#) have found that a solution is possible in the application of CG practice at the SMEs to enhance managerial competence. This implies that SMEs in the mining industry must revisit their current practices and make adjustments with the guidance of CG to bolster effectiveness and productivity.

Compliance with policy

Research shows that some of the problems SMEs face are caused by noncompliance with an organizational policy where it exists. For example, [Olutoyin & Flowerday \(2016\)](#) assert that survival is nullified in the SME environment because structural controls are not mature enough to support strict compliance. The lack of strict compliance with policy may well be because there is no remuneration policy in SMEs, as [Fira \(2010\)](#) points out. Instead, the individual performance evaluation model is the only motivational factor influencing economic performance. This implies that improvement in CG compliance could maximize organizational performance. For instance, as [Boamah-Abu & Kyobe \(2015\)](#) observe regarding the current global economic crisis, SMEs could achieve long-term growth by optimizing good governance and compliance measures. [Agusti & Sanawiri \(2019\)](#) stated that good CG is an important aspect that supports business sustainability. Implementing CG for SMEs involves entrepreneurs' compliance with government regulations, such as regulations related to taxation. However, as shown in the preceding paragraphs, limited expertise, management competency, and lack of CG practice may contribute to the failure of the SME.

Limited or no business management knowledge

According to [Dzigba \(2015, p. 18\)](#) and the [SMEBANK \(2020, p. 2\)](#), it is imperative to have independent guidance as an intervention where there is a lack of knowledge in the SMEs about applying CG practice. Independent guidance includes having access to audit committees, something which the majority of SMEs lack. In that regard, SMEs lack the necessary financial support, which means they may fail to access credit. The [SMEBANK \(2020, p. 2\)](#) emphasizes the need for established support and development for the SME industry in Namibia. This, the SMEBANK maintains, is achieved by increasing value-added production, services, jobs, and income through access to financial services and effective business support. Such access could be enhanced by CG practice, and the lack thereof places organizations at risk.

Lack of geological knowledge and management expertise

Mining SMEs' productivity is linked in the literature to good CG practice and, as [Ledwaba \(2017\)](#) and [Phiri \(2011, p. 25\)](#) point out, also to geological knowledge and management expertise. Contrary to this fact, lack of geological knowledge and mismanagement implies failure on the part of the governing bodies, who may lack the necessary skills, including ethical awareness. Where this is the case, the products of SME mines may not be of appropriate quality, hence failing to reach markets. Products need to be of highly marketable grades if they are to compete effectively in the industry [Sithole \(2015, p. 54\)](#), and presumably in global markets as well. To emphasize the point of effective and efficient management to enhance productivity, [Hove-Sibanda et al. \(2017\)](#), in agreement with [Arslan & Alqatan \(2020\)](#), [Hooghiemstra \(2012\)](#), and [Sarah \(2017\)](#), underscore the fact that compliance with CG promotes organizational and environmental sustainability and can improve management accountability, ultimately boosting performance.

Poor or low technological support

However, while improvement in CG practice can guarantee improvement in performance, [Olawale & Garwe \(2010\)](#) and [Sithole \(2015, p. 15-18\)](#) point to further challenges, which include unsupportive regulatory

environments and limited or lack of technological support, both of which are common in mining SMEs. Additionally, current labor regulations are perceived as inflexible for small businesses and contribute to their inability to meet the minimum worker remuneration needs. This is confirmed by [Mahadea & Pillay \(2011\)](#), who states that SMEs are compelled to subscribe to high-standard labor practices at prices they cannot afford to coerce them to comply with regulations. However, it is not clear whether this is the sole cause of staff attrition and a resultant failure to meet operational needs.

Lack of information on developments in the mining industry and non-compliance with the mining charter. [Mkubukeli & Tengeh \(2016\)](#) outline the various outcomes of the challenges discussed above, which are due to a lack of information in the mining industry. Lack of information may cause non-compliance rather than reluctance to comply with regulations, but unfortunately, non-compliance leads to cases of illegality, for example, failure to formalize operations. In [Ledwaba \(2017\)](#) view, these challenges perpetuate mining venture failure and create a vicious cycle. This also suggests that some of the problems highlighted might be symptoms of key challenges in the industry. SME miners are generally associated with mining practices that endanger the environment and communities within mining localities ([Mulaba-Bafubiandi & Mamba, 2009](#)). [Hilson & McQuilken \(2014\)](#) take note of the above concerns but are quick to point out that some of the negative perceptions emanate from a failure to distinguish between small miners (SMEs) and artisanal miners whose activities are mostly illegal and informal. This brings the study to the issue of legitimacy discussed below.

Theme 4. Legitimacy

Participation of internal and external stakeholders

King III ([IODSA, 2009](#)) mentions that, in the company's best interests, the governing body ought to ensure an inclusive stakeholder approach in the decision-making process. This calls for a balanced, reasonable, legitimate consideration of stakeholder needs and expectations. Further, King IV ([IODSA, 2016, p. 109](#)) stresses that SMEs' governing bodies should ensure that stakeholders' rights, obligations, interests, and expectations are given due consideration. This calls for total member participation by internal and external stakeholders. To this end, King IV ([IODSA, 2016, p. 9](#)) suggests a triple bottom line, which is an inclusive structure that would enable the company to consider stakeholders in three categories relating to (a) the effect of the company's products or services in the environment; (b) its relationship with the public and (c) economic aspects of the company's operations. This inclusive approach further requires the company to define its purpose and values and communicate these to its stakeholders beyond those already identified in the three categories referred to previously ([Gunawan et al., 2021](#)).

Table 2. Themes and categories developed to address the research objective of the study

| Theme | Code |
|-------------------|--|
| Ethical culture | Effective leadership Governance of ethics Corporate citizenship |
| Good performance | Evaluation of the company's core purpose and reporting on performance |
| Effective control | Governing structures and delegation Composition of the governing body Evaluation of performance Governance functional areas |
| Legitimacy | Stakeholder management |

Source: Researchers, 2024

Four themes emerged from table 2, and their challenges are discussed below, as supported by the literature and primary data.

Theme 1: Ethical Culture

Theme 1, namely ethical culture, represents and provides a culture that promotes ethical behavior among the organization's members. Furthermore, the literature emphasizes that the governing body's responsibility is to lead ethically and effectively by ensuring ethical leadership is achieved as a dimension of good CG. The first theme has three supporting categories: effective leadership, code of conduct, and corporate citizenship. Leadership refers to attributes members of the governing body must possess, namely integrity, competence, responsibility, accountability, fairness, and transparency, including an established ethical tone. Principle 1 in King IV states that the governing body expects effective leadership (IODSA, 2016, p. 107). Establishing a code of conduct corresponds to the view that an ethical culture should be established in the organization and that the governing body should ensure that there is an observance of ethics and that this is monitored in the organization. Corporate citizenship refers to a company's responsibilities toward society. Furthermore, in section 42 of the Minerals and Petroleum Resources Development Act (MPRDA) 28 of 2002, an SLP is a document that sets out the commitments of the mining company which it makes to its employees and impacted communities and states how and when these objectives will be achieved.

Theme 2: Good Performance

This theme highlights the strategies followed by successful SMEs in the mining industry to ensure good performance within the organization. Principles 4 and 5 of King IV on CG state how the governing body should manage and support effective strategic performance and evaluation. The evidence collected under the following category, which evaluated the SME's core purpose and reported on performance, shows how the SME manages the reports to the stakeholders.

Evaluation of the company's core purpose and reporting on performance

The SME complies with the code as the governing body has set a course and identified the core business for the operations to ensure that risks and opportunities are identified to inform the SME's strategy formulation and business model. This is supported by King IV (IODSA, 2016, p. 105) as P4 recommends that the governing body should appreciate the company's core purpose, its risks and opportunities, strategy, business model, and performance, including sustainable development, which are all inseparable elements of the value creation process.

In conclusion, the SME is aligned with the theme of good performance as the governing body conducts performance evaluations and reports on the evaluations on set dates and for set periods. The SME utilizes the expertise of an independent mine surveyor and the mine site manager to ensure that performance reports are not compromised and that there is no lack of communication with stakeholders. In addition, it was found that performance is achieved by evaluating the SME's core purpose and reporting on performance. Secondly, participants indicated that signing performance contracts between the SME and stakeholders assisted the SME in achieving performance targets.

Theme 3: Effective control

The effective control theme is aligned with the third interview question of the study, which sought to identify how the SME ensures that effective control is achieved in SME structures and performance. The effective control is supported through four categories, namely governance structure and delegation (P6, P8, and P10), the composition of the governing body (P7), evaluation of performance (P9), and (P11 to P15) governance functional areas (IODSA, 2016, p. 4).

Theme 4: Legitimacy

This theme is aligned with the last interview question of the study, which sought to determine whether the selected established medium-sized enterprise ensures the effective participation of internal and external stakeholders. The category of stakeholder management supports the theme of legitimacy. To conclude the discussion on the legitimacy theme, the SME manages internal and external stakeholder relationships by holding regular meetings with stakeholders to allow them to participate and assess the progress of the SME so that they can make informed decisions. Community members get an opportunity to state their interests at these meetings.

CONCLUSION

The research objective of this study is to identify the CG practices followed by an established medium-sized enterprise in the mining industry. This research objective was achieved through the qualitative research approach using a case study design, whereby data were analyzed based on the responses obtained from the participants through semi-structured interviews. Through this, the study aligned the research objective with the findings. The findings of the established SME in the mining industry were tested against the 16 principles of King IV and their four governance outcomes within the CG theory. As summarized next, the outcomes that formed the themes of the findings are ethical culture, good performance, effective control, and legitimacy. Regarding understanding the study's objective, the researcher found that CG outcomes are well understood and practiced. The outcomes discussed as themes are ethical culture, good performance, effective control, and legitimacy.

Ethical culture. The SME demonstrated a strong ethical culture characterized by effective leadership. Effective leadership was achieved through the governing body's leading by example and giving clear directions. In addition, the SME demonstrates good ethical governance as the SME has an approved and operational code of conduct. The SME uses the code of conduct policy to ensure a high standard of ethics, combined with induction sessions to foster good conduct. Other policies, such as the governance board charter, human resources, remuneration, health and safety, and financial management policies, were used to enhance efforts to improve the governance of ethics. The SME demonstrates good corporate citizenship, which is marked by an employment strategy underpinned by DMRE guidelines and employment of the affected community workforce. The SME donated to the Solidarity Fund during the COVID-19 pandemic as part of corporate citizenship. Lastly, the SME procured goods from local enterprises to empower the affected community.

Good performance. The SME achieved good performance through regular performance reporting and evaluation of the company's core purpose. The SME utilizes the expertise of an independent mine surveyor for evaluation and that of the mine site manager to ensure that reports on performance are not compromised and that there is no lack of communication with stakeholders. Secondly, participants indicated that the signing of performance contracts between the SME and stakeholders assisted the SME in achieving its performance targets.

Effective control. The SME is aligned with the effective control theme since the SME has a unique governing body and addresses the challenges of its size by implementing a governance structure and delegating authority. The governing body of the SME comprises three governing body members, and there are no subcommittees to delegate tasks; delegation only takes place to individuals at the executive level. The governing body partly performs the function of the audit committee. The SME addressed the lack of knowledge in the mining industry by allowing access to professional and independent guidance.

Concerning the evaluation of performance, binding performance contracts are signed in the SME and include target and performance indicators used to calculate monthly incentive bonuses. They are based on safety measures. The last code relating to the governance functional areas includes risk governance, which is managed through SWOT analysis and a risk management plan. Although the SME's IT governance has poor and low technological support, the SME has insourced an IT technician. The SME has complied with DMRE statutory requirements, recruitment policies, SLP, and health and safety policies to align with applicable laws and legislation. The SME has also implemented remuneration policies, including incentive bonuses in applicable laws and regulations. The SME is quality assured by the involvement of internal and external auditors.

Legitimacy. The SME holds regular meetings with internal and external stakeholders to maintain good relationships and fulfil the legitimacy theme. The meetings allow the stakeholders to participate and assess

the SME's progress so that they can make informed decisions. In addition, community members get an opportunity to state their interests.

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Conflict of Interest

The authors declare no competing interests.

Data Availability

Research data can be obtained by requesting and providing information on the reasons for needing the data to the author via email.

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