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EVALUATING THE INFLUENCE OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE IN THE FREE STATE PROVINCIAL GOVERNMENT, SOUTH AFRICA

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ABSTRACT

The Free State Provincial Government (FSPG) faces persistent governance challenges that adversely affect fiscal outcomes, service delivery, and public trust. This study provided an empirical assessment of the impact of corporate governance practices on financial performance within this public sector entity. A qualitative approach was employed, utilising semi-structured interviews with a purposive sample of twelve key stakeholders, yielding a 100% participation rate. Thematic analysis revealed that the FSPG was beset by a deeply interconnected syndemic of governance failures rather than isolated inefficiencies. Three core pathologies were identified include the erosion of the politico-administrative dichotomy through pervasive political interference; chronic leadership instability and managerial incompetence; and systemic capacity deficits in core functions. The study concluded that the province's challenges stem not from deficient policy but from a fundamental crisis of

implementation. Recommendations include codifying politico-administrative roles, institutionalising a "Closed-Loop" accountability system for audit findings, developing mandatory Standard Operating Procedures, and stabilising leadership. Restoring financial health and public trust in the FSPG requires decisively addressing these foundational governance pathologies.

Keywords: Corporate governance, Financial performance, Politico-administrative dichotomy, Free State Provincial Government

1. INTRODUCTION

The influence of corporate governance on financial performance has become a critical focus in public administration scholarship. Effective governance, anchored in transparency, accountability, and ethical leadership, is a foundational prerequisite for optimal stewardship of public resources (Moji, Nhede & Masiya, 2022). This is particularly salient for provincial governments mandated to deliver essential services such as healthcare, education, and infrastructure.

In South Africa, the Free State Provincial Government (FSPG) bears this responsibility. However, empirical evidence reveals systemic failure, with deterioration of governance principles precipitating a crisis that undermines public welfare and socio-economic stability. Scholars have documented severe financial malfeasance, including chronic non-compliance with the Public Finance Management Act (PFMA), irregular expenditure exceeding R2 billion in a single financial year, and failure to implement corrective actions (Auditor-General of South Africa, 2022; Mathiba & Lefenya, 2019; Zweni, Yan & Uys, 2022). These deficits directly impair service delivery in a province with unemployment surpassing 30% and pervasive poverty (Mishi, Mbaleki & Mushonga, 2022; Stats SA, 2023), while severely eroding public trust (Taylor, Draai & Jakoet-Salie, 2020; Pillay, 2017).

A critical research gap persists, existing studies catalogue governance failures but lack rigorous investigation into the specific, interconnected causal pathways through which corporate governance practices generate poor financial performance. This leaves policymakers with a diagnosis without understanding the disease's mechanism. This study was designed to move beyond cataloguing symptoms to investigate the causal anatomy of

governance failure within the FSPG, explicitly linking internal corporate governance pathologies to financial performance outcomes.

2. RESEARCH OBJECTIVES

2.1 Aim of the Study

The study aimed to examine the influence of corporate governance practices on the financial performance of the Free State Provincial Government. The objective was to understand how effective governance frameworks could enhance financial outcomes, accountability, and transparency in public sector organisations.

2.2 Specific Research Objectives

- To evaluate the existing corporate governance practices implemented in the Free State provincial government.
- To examine the influence of corporate governance on financial performance in the Free State provincial government.
- To identify challenges faced in implementing effective corporate governance practices by the Free State provincial government.
- To propose corporate governance practice recommendations to enhance financial performance in the Free State provincial government.

3. LITERATURE REVIEW

3.1 Theoretical Framework

Agency Theory - Agency Theory posits that corporate governance aligns managerial actions with shareholder interests through independent boards and performance-based compensation (Al-Faryan, 2024; Owusu, Raphael & Joel, 2021). Critics note its emphasis on short-term profit maximisation can undermine long-term sustainability (Ongore & K'Obonyo, 2011; Stout, 2012). In the public sector, the principal-agent problem is fractured, involving citizens, political actors, and administrative agents, where the core challenge is preventing expropriation of public value by political and bureaucratic elites.

Stakeholder Theory - The Stakeholder Theory by Freeman (1984) expands governance to include employees, customers, suppliers, and communities, emphasising ethical decision-making and social responsibility over exclusive shareholder focus (Mahrani & Soewarno, 2018). In light of this, Jansen and Kalas (2020) advocate for a ‘multi-stakeholder governance’ model that balances competing claims in the public sector. Companies embracing stakeholder governance demonstrate greater crisis resilience and enhanced reputational capital. This perspective is particularly relevant to the FSPG, where governance failures have disproportionately harmed vulnerable communities, highlighting the imperative of inclusive governance frameworks.

Institutional Theory - Institutional theory asserts that organisations adopt policies not solely for efficiency but to attain legitimacy within their environments (DiMaggio & Powell, 1983). Three isomorphism mechanisms, coercive, mimetic, and normative, drive organisational conformity. In the FSPG, coercive pressures from legislation and normative pressures from professional bodies drive legitimacy-seeking over genuine efficiency. This often results in ‘decoupling’, policy adoption for symbolic legitimacy without genuine implementation (Greenwood et al., 2017). This lens explains why governance reforms in the FSPG have failed to translate into improved performance despite sound policies.

3.2 Corporate Governance and Financial Performance

Liang (2025) established a substantial correlation between robust corporate governance and enhanced financial performance across over 3,000 firms. Companies with high-quality governance frameworks, characterised by clear strategic oversight, effective accountability, and transparency, consistently outperform weaker counterparts (Garcia-Sanchez & Noguera-Gamez, 2021; Abikoye et al., 2024). In the public sector, the relationship is equally significant. The Auditor-General of South Africa (2022) reported that only 22% of Free State entities achieved clean audits for 2023/24, with 63% of departments exhibiting high irregular expenditure. These statistics underscore the direct correlation between governance deficits and poor financial outcomes.

3.3 Challenges in Corporate Governance Implementation

Political Interference - Political interference emerges as a primary driver eroding the constitutional principle of separation of powers, disrupting governance structures, and weakening accountability mechanisms (Free State Provincial Government, 2013; Matakalatse & Motsepe, 2025). The literature emphasises that political dominance over administrative

processes leads to diminished oversight capacity, reduced transparency, and heightened risks of maladministration (Mathiba, 2020).

Leadership Instability - High executive turnover disrupts institutional memory, weakens leadership continuity, and hampers strategic execution, ultimately leading to governance instability (Thusi & Matyana, 2024). Without stable leadership, departments struggle to maintain focus on long-term objectives or foster organisational learning, resulting in reactive, short-term management (Mathiba, 2020).

Capacity and Competence Deficits - Human capital capacity, particularly technical proficiency in financial and administrative management, is indispensable for sound fiscal governance and institutional accountability (Thusi & Matyana, 2024). Capacity deficits in critical units precipitate systemic governance failures, operational inertia, and impair departments' abilities to translate strategy into effective action (Mathiba, 2020; Free State Treasury, 2023a).

Cultural Resistance - Cultural resistance and complacency are significant barriers to governance reform and accountability (Alqooti, 2020; Transparency International, 2023). The failure of organisational leadership to foster fiscal responsibility and embed governance awareness at all levels exacerbates operational dysfunction and financial mismanagement (Mathiba, 2020).

4. METHODOLOGY

Research Approach and Philosophy - This research adopted a qualitative research approach, aligned with the interpretivist paradigm. Interpretivism emerged as the most fitting paradigm because corporate governance is not a mechanical system operating in a vacuum; it is deeply embedded in human actions, interpretations, and power dynamics. Financial performance in the public sector, especially in a context like the Free State, which has faced repeated audit failures and allegations of maladministration, cannot be reduced to numerical metrics alone. The study employed an inductive approach, enabling the researcher to adjust and refine research topics and methodologies as new insights emerged during the study (Braun & Clarke, 2021).

Research Design - The study adopted an exploratory case study design, focusing on the Free State Provincial Government as a bounded system. This design was chosen because the

impact of governance practices on financial performance within South African provincial governments remains under-researched, highlighting a significant gap in the existing literature. The exploratory nature of this research was particularly well-suited to the context of governance in South Africa, especially given the complex interplay of political, economic, and social factors that influence effective governance.

Population and Sampling - The target population comprised of 120 key individuals involved in corporate governance and financial management within the FSPG, including senior managers, CFOs, governance officers, internal auditors, and board members. Purposive sampling was employed, enabling intentional selection of participants based on their unique knowledge and experiences related to the research topic (Lune & Berg, 2021; Belotto, 2018). The sample consisted of 12 participants from the Provincial Infrastructure Department and the Provincial Development Corporation, representing a spectrum of organisational hierarchies from junior to senior management. All 12 invited participants agreed to participate, resulting in a 100% participation rate, which significantly enhanced the credibility and transferability of the findings.

Data Collection and Analysis - Semi-structured interviews served as the primary data collection instrument, selected for their capacity to balance structure with flexibility. An interview guide, developed from the theoretical framework and literature review, comprised 12 core open-ended questions organised to facilitate a logical narrative flow from broader structural perceptions to specific procedural challenges. The semi-structured format permitted adaptive probing, allowing the researcher to pursue emergent lines of inquiry and delve deeper into participants' distinct accounts of governance failures. A pilot study with five individuals refined the research procedures, with feedback gathered to identify ambiguities and improve question quality, making them more effective in eliciting the insights sought. Thematic analysis was employed as the principal method for examining qualitative data, following the six-phase framework adapted from Braun and Clarke (2021, 2022):

5. RESULTS

The thematic analysis revealed four major themes, each intricately developed through discrete sub-themes, providing a granular understanding of the complex governance dynamics at play.

5.1 Theme 1: The Politico-Administrative Dichotomy as a Foundational Governance Challenge

The empirical data revealed profound systemic tension between the political executive and the administrative arm. Participants consistently reported that political priorities regularly superseded administrative professionalism and procedural integrity, overriding formal decision-making requirements and blurring the boundaries that should separate political direction from administrative implementation.

Subtheme 5.1.1: Pervasive Political Interference as an Operational Constraint

Persistent political interference was identified as the most significant challenge hindering effective governance and strategic execution. Participants described a marked disjunction between formal governance frameworks, which were generally regarded as structurally sound, and their actual implementation, which was widely seen as severely compromised by political interference. Frequent changes in Heads of Department and Members of the Executive Council were also flagged as a critical disruption to institutional stability, undermining continuity in leadership and strategic direction.

Subtheme 5.1.2: The Erosion of Administrative Authority and Role Ambiguity

Participants revealed a systemic blurring of the lines demarcating political and administrative domains, describing how political leadership routinely overrode or unduly influenced departmental strategy and priorities. A recurring example was the dynamic whereby client departments retain control over project budgets, yet implementing departments absorb the public blame when maintenance or payment issues arise, despite lacking direct financial control. This misalignment illustrates how eroded administrative authority produces unjust accountability and operational paralysis.

Subtheme 5.1.3: The Strategic Function within a Politicised Operational Environment

Managers responsible for aligning departmental plans with the core mandate acknowledged that their effectiveness was consistently constrained by the politicised operating environment. Strategic roles were reported to be hampered by pervasive capacity and fiscal constraints, including government moratoriums on hiring, which shifted resource prioritisation away from vital administrative support. Participants also expressed concern over an absence of focus on strategic and operational objectives across management, describing this disconnect as both a cause and a consequence of the politicised context.

5.2 Theme 2: Leadership Instability and Managerial Ineptitude as a Primary Governance Failure

The findings demonstrated that the effectiveness of corporate governance frameworks is fundamentally contingent upon the presence of stable and competent leadership. A recurring finding across the dataset was that chronic instability within the executive echelons, coupled with a palpable deficit in managerial acumen, creates a volatile organisational environment that actively dismantles strategic continuity and cripple's implementation capacity.

Subtheme 5.2.1: High Executive Turnover and the Systemic Erosion of Strategic Continuity

High turnover among CEOs and other senior leaders was consistently linked to a lack of continuity in strategic implementation and to a climate of fear among staff. Participants pointed to frequent changes among Heads of Department and Members of the Executive Council within a single financial year as clear evidence of this instability, compounded by the absence of any formal framework to revisit or debrief on performance. The cumulative effect was described as a pervasive state of compromised governance.

Subtheme 5.2.2: A Deficit in Leadership Competence, Decisiveness, and Managerial Acumen

Participants emphasised the urgent need for strong, decisive leadership capable of ensuring the implementation of existing policies, highlighting a critical failure of leadership resolve. Chronic indecision was widely reported, with management either avoiding necessary decisions or making choices without adequate motivation, justification, or consultation with affected staff, thereby undermining procedural fairness. A deeper conceptual gap in managerial competency was also identified, with managers frequently unable to differentiate and link the principles of planning, budgeting, implementation, monitoring, and evaluation, resulting in a disjointed and incoherent approach to governance.

Subtheme 5.2.3: The Collapse of Effective Oversight and Procedural Integrity

Management oversight and monitoring were widely described as below average. Minutes of previous meetings were often missing, and action plans were not properly developed or monitored, leading to resolutions being forgotten. This operational neglect was seen to undermine accountability, allowing inefficiencies and non-compliance to persist unaddressed.

5.3 Theme 3: Systemic Capacity and Competence Deficits as an Impediment to Corporate Governance

The dataset highlighted a systemic human capital crisis within the FSPG, characterised by profound deficiencies in skills, managerial capacity, and organisational culture. Participants consistently expressed concerns about critical technical failures in core administrative functions, undermining operational efficiency and effective public service delivery.

Subtheme 5.3.1: Critical Technical Shortages and Functional Incapacity in Core Administrative Areas

The most severe skills deficiencies were consistently located within Supply Chain Management and Finance units, with a lack of staff possessing the requisite financial skills identified as a root cause of performance failure. This capacity gap was directly linked to procedural irregularities and compromised audit outcomes. At a systemic level, participants noted that capacity constraints undermine implementation more broadly, meaning that even well-conceived strategic resolutions falter at the point of execution.

Subtheme 5.3.2: The Exacerbated Operational Consequences of Internal Capacity Gaps

Outsourcing of functions such as vehicle procurement, driven by incapacity within Supply Chain Management, was reported to introduce service delivery risks, escalate costs, and inhibit the development of institutional knowledge. Fiscal constraints and hiring moratoriums were seen to compel the prioritisation of technical over administrative support roles, creating an environment in which administrative collapse undermines technical outputs. Systemic breakdowns were also evident in poor record-keeping, with minutes of previous meetings often missing and action plans not properly developed or monitored.

Subtheme 5.3.3: Cultural Resistance, Complacency, and the Erosion of Accountability

Officials were widely described as deeply resistant to change, with ingrained opposition fundamentally limiting the success of reform efforts. A prevailing mind-set of impunity, that there would be no consequences for non-compliance, was seen to foster repeated disregard for governance requirements. Participants also identified a critical gap in governance awareness, noting that officials often lack a fundamental understanding of the financial impact of their actions, signalling deficiencies in financial governance training and leadership development.

5.4 Theme 4: The Disconnect Between Policy Intent and Implementation Reality

The analysis revealed that the path to improved financial performance lies not in creating new policies, but in rigorously enforcing existing ones and fundamentally altering institutional behaviours.

Subtheme 5.4.1: The Formalisation and Mandatory Enforcement of Standard Operating Procedures

Participants called for the urgent development and enforcement of Standard Operating Procedures for critical financial processes, including supply chain management, project budgeting, and vendor payments, alongside clearer policy guidance through a review of existing Supply Chain Management policies. The overarching goal identified was to codify policies into precise, mandatory procedures, reducing the scope for interpretation that can lead to maladministration, favouritism, and financial leakage.

Subtheme 5.4.2: The Institutionalisation of a Closed-Loop Accountability System for Audit Findings

The data revealed a systemic disregard for audit findings, with management widely reported to fail to implement the recommendations of Internal Audit and the Auditor-General. A “Closed-Loop” system is proposed to track findings, assign responsibility, set deadlines, and require verified resolution, with non-compliance constituting performance failure. Governance dialogues around these findings were characterised as a “talk show”, with participants recommending that Audit Committees be empowered to escalate persistent non-implementation to executive authority.

Subtheme 5.4.3: Fostering Integrated Performance Management through Mandatory Inter-departmental Frameworks

Management units were reported to work in isolation, with essential information poorly integrated across departments, illustrating significant internal coordination weaknesses. A primary recommendation emerging from the data was to mandate structured cooperation between client and implementing departments through formalised Service Level Agreements that clearly define financial responsibilities, performance metrics, and shared accountability for project outcomes.

6. DISCUSSION

6.1 The Politico-Administrative Dichotomy and Governance Failure

The findings support the theoretical proposition that erosion of the politico-administrative dichotomy is foundational to governance failure. Pervasive political interference aligns with Rogger's (2018) critique that political influence diminishes oversight and heightens maladministration risks. The "blurring of roles" reflects Mathiba's (2020) identification of diluted functional boundaries, fostering systemic failures that compromise transparency and accountability. This study extends the literature by demonstrating that political interference is not merely contextual but the primary driver of cascading failures. It directly fuels chronic leadership instability, where high turnover of HODs and MECs dismantles strategic continuity (Thusi & Matyana, 2024). The misalignment where implementing departments receive "public blame" for failures beyond their control exemplifies how eroded administrative authority leads to unjust accountability and operational paralysis.

6.2 Leadership Instability and Managerial Incompetence

The findings on leadership instability corroborate Mathiba (2020) and Thusi and Matyana (2024) that high executive turnover disrupts institutional memory and hampers strategic execution. However, this study provides a more distinct understanding by identifying specific manifestations of managerial incompetence, including chronic indecision, lack of conceptual understanding of governance cycles, and failure to link planning, budgeting, implementation, monitoring, and evaluation. This conceptual confusion results in a disjointed management approach. The collapse of oversight mechanisms, evidenced by missing minutes and poorly monitored action plans, aligns with Supriadi et al. (2025) and Zindi and Sibanda (2022), who highlighted how systemic administrative weaknesses compromise oversight. The study contributes to theory by demonstrating that oversight failure is not merely a technical problem but a symptom of deeper leadership and cultural pathologies.

6.3 Systemic Capacity and Competence Deficits

There is critical shortages of technically proficient personnel in SCM and Finance corroborate. This aligns with Thusi and Matyana (2024) and Mathiba (2020) that stated that human capital is indispensable for sound fiscal governance. However, this study provides granular evidence of how these deficits force unsustainable operational models, including costly outsourcing that inhibits institutional knowledge development and creates dependency cycles. The finding on cultural resistance and the "nothing is going to happen to me" mindset

aligns with Transparency International's (2023) emphasis on how a culture of impunity perpetuates non-compliance. This study contributes by demonstrating that cultural resistance actively undermines governance awareness, with officials lacking fundamental understanding of the financial impact of their actions.

6.4 Policy Intent and Implementation Reality

The findings demonstrate that the crisis facing the FSPG is not one of policy design but of implementation. Participants confirmed the legislative framework, including the PFMA (1999), is robust and considered "proper." However, this framework collides with an institutional reality defined by a lack of SOPs, disregard for audit recommendations, and a "cycle of unlearned lessons." This aligns with Ndevu and Muller (2018), who argued the challenge, is policy execution, not deficit. The oversight machinery is rendered a "talk show," a performative exercise devoid of consequential outcomes because institutional will and capacity to act are absent.

7. CONCLUSION AND RECOMMENDATIONS

7.1 Conclusion

This study aimed to assess the impact of corporate governance on financial performance within the FSPG, investigating why a robust legislative framework fails to translate into effective financial management. The conclusion is inescapable in the sense that the crisis is not one of policy design but of implementation, stemming from systemic collapse at the heart of governance architecture.

The findings revealed the FSPG is beset by a deeply interconnected syndemic of governance failures. The foundational pathology was the erosion of the politico-administrative dichotomy, where pervasive political interference subverted formal rules. This directly fuelled chronic leadership instability, dismantling strategic continuity and fostering short-term survival over long-term planning. These political and leadership crises exacerbated a profound human capital crisis, with critical skill shortages and cultural resistance to accountability.

The inevitable outcome of this triad, political interference, leadership failure, and capacity deficits, is the systemic disconnection between policy intent and implementation. The legislative framework is robust, but collides with an institutional reality lacking SOPs, disregarding audit recommendations, and perpetuating "unlearned lessons."

Financial performance cannot be remedied through technical tweaks. Recovery demands disentangling political and administrative spheres, investing in stable and competent leadership, and addressing capacity and cultural deficits. Corporate governance, when undermined from within, becomes the architecture of failure. Reclaiming its potential is the non-negotiable first step towards fiscal health, public trust, and effective service delivery.

7.2 Recommendations

7.2.1 Institutionalise a Clear Politico-Administrative Interface

The foundational recommendation is to formally codify roles and boundaries separating the political executive from the administrative arm through a binding governance charter, delineating powers in procurement, budgeting, and human resources. Concurrently, compulsory Service Level Agreements between client and implementing departments should clarify financial responsibilities and joint accountability. The expected benefit is restoration of a stable, rules-based environment, shielding administration from political interference.

7.2.2 Stabilise Leadership and Enhance Managerial Competence

To address instability and competence gaps in senior management, the study recommends instituting a minimum tenure for Heads of Department and basing appointments on technical competence and leadership acumen, rather than political considerations. This should be complemented by a mandatory public sector leadership academy focused on decisiveness, strategic thinking, and mastery of the public financial governance lifecycle. The anticipated benefit is a stable, skilled senior management cohort capable of providing strategic continuity and driving effective implementation.

7.2.3 Address Systemic Capacity and Cultivate a Performance Culture

Confronting the human capital crisis necessitates an urgent, comprehensive skills audit across departments, followed by a targeted strategy of recruitment, training, and redeployment, with priority given to critical deficits in Supply Chain Management and Finance. This must be paired with the immediate development and enforcement of detailed, mandatory Standard Operating Procedures for all key financial and administrative processes. To dismantle the entrenched culture of impunity, compliance with these SOPs and the implementation of audit findings must be irrevocably linked to individual performance management systems, with non-compliance triggering definitive consequences.

7.2.4 Strengthen Oversight through a Closed-Loop Accountability System

To transform oversight from a performative exercise into a consequential mechanism, the study recommends implementing a centralised digital system to track every audit finding from assignment to verified resolution. This system must mandate responsible managers, strict deadlines, and evidence-based closure. Furthermore, the mandate of Audit Committees must be legally strengthened to empower them to formally escalate cases of persistent non-compliance to the Executive Authority and the Provincial Legislature. The expected benefit is the definitive break in the "cycle of unlearned lessons."

7.2.5 Recommendations for Future Research

To build upon the qualitative findings of this study, several avenues for future scholarship are proposed. A quantitative analysis examining the statistical relationship between leadership tenure and financial performance indicators across multiple provinces and years would provide robust empirical support for stability reforms. Research exploring context-sensitive hybrid governance models, potentially through a case study of a municipality integrating traditional leadership structures with modern accountability frameworks, could yield practical insights for locally tailored reforms. A deeper, ethnographic or political economy investigation into the drivers, mechanisms, and beneficiaries of political interference is essential to understand the underlying incentives that sustain this core challenge. Finally, a comparative inter-provincial study of governance practices would help contextualise the FSPG's experience within the national landscape and identify transferable best practices.

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