

Hospital Governance Mechanisms and Hospital Governance Effectiveness

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Purpose

Ever since Taiwan implemented its National Health Insurance, hospital organizations have been operating in a difficult and tumultuous environment, characterized by extreme competition, growing costs, and demographic and institutional pressures. As the nature of competition and institutions change, new opportunities and challenges arise. In response, the management has been emphasizing better resource utilization and has started to adopt innovative ways of performance evaluation, so as to improve efficiency and leverage health information technologies and other innovative medical devices. Hospital governance means the process of steering the overall functioning and effective performance of a hospital, by defining the hospital's mission, setting its objectives, and supporting and monitoring the realization of the objectives at the operational level. This subject is still an emerging research domain. However, the term "governance" often refers to corporate governance. As the issue of hospital governance becomes increasingly important in the field of health care management, existing literature touches little upon governance mechanisms in the context of hospitals. Studies of the relationship between hospital governance mechanism and its effectiveness are few. Therefore, this study wants to develop and examine the theoretical model of hospital governance.

Methodology

This study integrates the literature of organizational governance and agency theory to empirically test the relationship between hospital governance mechanisms (structure of the board of directors, information disclosure, and decision making) and hospital governance effectiveness (in terms of financial, customer, internal process, learning and growth, and social responsibility). Three main hypotheses are developed from the literature and empirically tested in this study. This study empirically tests indices of hospital governance from 102 hospitals by using secondary data and pooled cross-sectional analysis. These 102 hospitals took part in the new hospital evaluation and the new teaching hospital evaluation schemes between 2007 and 2010. Data are collected from three main archives: Taiwan Joint Commission on Hospital Accreditation and Quality Improvement database, National Health Insurance Information Database, and the reports from Hospital Juridical Person Investigation Project. Based on research drawn from literature review, this study induced three hospital governance mechanisms (structure of board of directors, information disclosure, and decision making) and five governance effectiveness (financial, customer, internal process, learning and growth, and social responsibility) from the above-mentioned three databases. We further regressed the variables of three hospital governance mechanisms and five governance effectiveness by using Partial Least Squares in Structural Equation Modeling.

Findings

The results of reliability in the measurement model show that Composite Reliability is higher than 0.7. The results of validity in Average Variance Extracted show that the frequency of decision meeting participation in board of directors and the ratio of family members in board of directors do not pass the validation. We delete these two variables. Other variables all pass the construct validation. The results of structure modeling show that hypothesis 1, hypothesis 1a hypothesis 1b, hypothesis 1c, hypothesis 1d, hypothesis 1e, hypothesis 2c & hypothesis 3c are not supported. Hypothesis 2a, hypothesis 2b, hypothesis 3a, & hypothesis 3c are supported. In summary, the results show that (1) information disclosure and decision making of hospital governance mechanisms are positively related to its governance effectiveness, and (2) the relationship between the structures of board of directors and its governance effectiveness is not significant.

Research Limitations/Implications

There are several limitations in this study. First, the variables provided in this study are governance mechanisms (structure of board of directors, information disclosure, and decision making) and hospital governance effectiveness (financial, customer, internal process, learning and growth, and social responsibility). These variables lack robust measurement scales. In order to measure such constructs more concisely, it is necessary to further refine these variables. Future hospital governance studies may apply this refined theoretical framework to discuss the matching relationships between three governance mechanisms and five governance effectiveness.

There are several research implications in this study. First, we have provided a theoretical framework for the study of hospital governance to clarify the relationship between hospital governance mechanisms and governance effectiveness. Recently, scholars in organizational governance have contributed to the relationship between corporate governance and performance. These empirical findings provide evidence about the influence of corporate governance on performance. However, there are not enough empirical findings about hospital governance mechanism. This may be due to the nature of hospital organization, which is quite different to for-profit firms. Therefore, this study develops a conceptual framework of hospital governance, according to the agency theory and organizational governance. In addition to clarifying the difference between hospital governance and corporate governance, this study also extends the concept of balanced score cards and apply such concept into the measurement hospital governance effectiveness. We also add social responsibility into the concept of balanced score cards to measuring governance effectiveness. By doing so, we have contributed new ideas to applying the concept of balanced score cards and have clarified the nature of hospital governance effectiveness. In other words, this study has empirically developed the measurement scales for both hospital governance mechanisms and governance effectiveness. Finally, the literature of hospital governance in Taiwan is particularly lacking, compared with corporate governance studies. This empirical study has filled this research gap by providing measurement tools for governance mechanisms in hospitals.

Contribution

The main contribution of this study is the establishment of a theoretical model that demonstrates the relationship between hospital governance mechanisms and hospital governance effectiveness. This theoretical model explains the influence of hospital governance mechanisms on its governance effectiveness, enriching the hospital governance literature. According to our results, there are four managerial implications in this study. First, we suggest that the board of directors take the responsibility of establishing hospital governance mechanisms so as to increase hospital governance effectiveness. Second, the board of directors should try to improve the transparency of hospitals' operational information. Third, the board of directors should supervise and maintain decision making quality. Fourth, the board of directors should monitor hospital governance effectiveness indices frequently to keep the competitiveness of their hospitals.