

**CORPORATE GOVERNANCE IN HOSPITAL  
-- CASE OF PUBLIC HOSPITAL CORPORATE  
GOVERNANCE STRUCTURE REFORM IN CHINA**

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## **Abstract**

This dissertation analyzes the corporate governance of Chinese public hospitals under the reform of the current health care system. Public hospital reform is the main part of the comprehensively deepening health care reform in People's Republic of China.

In the literature review we carry out the study articles written by Chinese scholars on public hospital corporate governance and analyze the relationship between public hospital, government, and other “stakeholders” by using the principal-agent theory, the theory of “separation of ownership”, the theory of “stakeholder”, and the theory of “New Public Management”.

We also present the governance structures of hospitals in the United States, the United Kingdom, and Singapore. This presentation allows us to make comparisons with those in China.

The main part of this dissertation is to examine the organizational reform of the governance of Chinese public hospitals, giving the example of Dongyang people's hospital in Zhejiang province. In the final part, the author of this dissertation makes some recommendations in order to contribute to improving the governance of public hospitals in China,

**Key Words :** public hospital; corporate governance structure; China

**Classification JEL:** M14

## **Abstrato**

Esta dissertação analisa a governabilidade dos hospitais públicos Chineses no âmbito da reforma do sistema de saúde em curso. Os hospitais públicos constituem a parte principal do sistema de médico da República Popular da China.

Na revisão de literatura efetuamos o estudo de artigos escritos por autores chineses sobre governabilidade organizacional dos hospitais chineses e analisamos a relação entre os hospitais públicos, o governo e outros “stakeholders” utilizando a teoria do principal-agente, a teoria dos “stakeholders” e a teoria da “Nova Gestão Pública”.

Apresentamos também os modelos de governação dos hospitais nos Estados Unidos da América, no Reino Unido e em Singapura. Esta apresentação permite-nos fazer comparações com a República Popular da China.

A parte principal desta dissertação consiste em analisar a reforma da governabilidade organizacional dos hospitais chineses, dando o exemplo do Hospital de Dongyang da província de Zhejiang. Na parte final o autor desta dissertação faz algumas recomendações, no sentido de contribuir para a melhoria da governabilidade dos hospitais públicos chineses.

Palavras chave: Hospitais públicos; governabilidade organizacional; China

Classificação JEL: M14

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# 1. Introduction

## 1.1 Background

Year 2015 marks the conclusion of China's 12<sup>th</sup> Five-Year Plan (2011-2015) on health care reform. It is also an important year for comprehensively deepening reform. The State Council's health care reform leadership team pointed out that deepening public hospital reform is the center and key to the health care reform's success. President Xi Jinping hosted the 11<sup>th</sup> plenary session of the Central Government's comprehensive in-depth reform leadership team on April 1, 2015. The session pointed the public hospital is the main part of China's medical service system, and deepening the reform is an important measure to safeguard and improve people's livelihood and public problems in seeking medical service should be tackled. The meeting placed the reform focus on management and operations mechanism, service price adjustment, medical insurance payment, personnel management and income distribution.

The goal of the reform includes maintaining public welfare, ensuring government officials living up to their responsibilities, making full use of the market mechanism and establishing a new public hospital operation mechanism that maintains public welfare, gives incentives to medical personnel. This year, the public hospital reform will be fully implemented with a focus on management and operation mechanism, and a modern hospital management system will be established in 2017.

According to reform instructions, a unified and effective government-run medical system that integrates authority and responsibilities should be created, independent legal status and management autonomy at public hospitals should be implemented, a scientific performance appraisal system should be set up and internal management



system be improved. Of all the attempts in public hospitals, public hospital corporate governance structure reform is being hot. Some of the public hospitals which are carrying out corporate governance structure have achieved a staged success. Based on an initial curiosity to this public hospital corporate governance, as a graduates who will take a job in public hospital management team, the author have a strong willing to explore what a public hospital corporate governance structure is, what it can do for the public hospital reform, and what it needs to make public hospital better.

## **1.2 Methodology**

By the questions coming out, the author have a plan for this dissertation. The main method is qualitative methodology, including literature analysis and case study.

Firstly, the author got an internship position in a Grade 3<sup>1</sup> public hospital's functional departments, in Zhejiang Province. This hospital is not carrying out corporate governance, but its operation mechanism refers those in corporate governance. The internship is not for collecting data but for the author to step into a public hospital management team, so that it is possible to learn how a normal public hospital works, and the strengths and weaknesses in a public hospital nowadays.

Secondly, the author searched keywords “public hospital”, “corporate governance”, “corporate governance in hospital”, “public hospital reform” in Chinese in WANFANG DATA, which is the biggest Chinese database consists of China Science Periodical Database, China Special Books Database, China Dissertation Database, China Local Gazetteers Database, China Laws & Regulations Database and so on. Then the author picked up about eighty articles and papers, and spent more than six months reading them.

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<sup>1</sup> Grade 3 is the highest grade in Chinese hospital classification, see [3.1] for details.page 22

Thirdly, according to the literature, the author analyzed what the main aspects that Chinese scholars studied most, what is useful and what is needed if to summarize the corporate governance in hospital including theory and models, what is necessary if to do the introduction of Chinese public hospital corporate governance reform situation to a foreigner, what is helpful if to make the reader understand what the public hospital corporate governance is and should be, and what the case of successful public hospital corporate governance is. Then, the author explored the structure of this dissertation, and after modifying several times the final structure was settled as it is now.

Finally, the author started to write this dissertation. During the writing, the author read more news and articles on website which help a lot to open mind and enable better understanding.

## 2. Literature Review

### 2.1 The concept of corporate governance

*Corporate governance broadly refers to the mechanisms, processes, and relations by which corporations are controlled and directed (Shailer, Greg).<sup>2</sup> In a narrow sense, it is a study on how to empower the professional managers and how to make the supervision of professional managers' behaviors those at the level of ownership of a corporation. From an economic point of view, a corporation has two rights: Proprietary right and Managerial right, which are separate. Corporate management is based on managerial right, and focus on the empowerment from owner to manager and the actions those taken by the managers to achieve the business goals. By contrast, corporate governance is based on proprietary right and focus on authorization and supervision of the professional managers.*

*Corporate governance has also been more narrowly defined as “a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers(Sifuna, Anazett Pacy,2012)<sup>3</sup>”. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders), and include the rules and procedures for making decisions in corporate affairs(2011)<sup>4</sup>. Corporate governance*

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<sup>2</sup> Shailer, Greg. An Introduction to Corporate Governance in Australia, Pearson Education Australia, Sydney, 2004

<sup>3</sup> Sifuna, Anazett Pacy (2012). "Disclose or Abstain: The Prohibition of Insider Trading on Trial". *Journal of International Banking Law and Regulation* 27 (9)

<sup>4</sup> The Corporate Governance of Iconic Executives, 87 *Notre Dame Law Review* 351 (2011), available at:<http://ssrn.com/abstract=2040922>

includes *the processes through which corporations' objectives are set and pursued in the context of the social, regulatory, and market environment. And also include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders*(Tricker, Adrian, 2009)<sup>5</sup>.

## **2.2 Research Review of public hospital corporate governance in China**

Chinese scholars started researching on corporate governance and corporate governance structure relatively late. The research is mainly in three aspects.

### **① Discussion on the concept of public hospital corporate governance**

In the articles about the reform of China state-owned enterprises which published in 1994, Chinese economist Wu Jinglian and Zhou Xiaochuan(1994) took the lead in using the concept of corporate governance and corporate governance structure. Wu pointed out that corporate governance is a relationship among stockholders, board of directors, and senior executives, which is based on power balance. Zhou Shaohai and Li Weiping(2005) thought that public hospital corporate governance is a framework for the responsibilities, powers, and obligations of government, hospitals, and hospital managers, which not only defines the relationship between government and hospital but also provides a balance mechanism that how to improve the enthusiasm of medical staffs, how to restrict the behavior of the main stakeholders in the hospital, and how to guarantee the interests of them. Cai Zhiming(2004) studied hospital corporate governance and thought it is a contractual relationship to regulate the relationship between the stakeholders of a hospital and to configure responsibility, right, and benefit. Wang Xia(2007) deemed public hospital corporate governance is a series of arrangements to realize the aim of public hospital investors and balance the owners, operators, and stakeholders. And corporate governance structure is the core of the series

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<sup>5</sup> Tricker, Adrian, *Essentials for Board Directors: An A-Z Guide*, Bloomberg Press, New York, 2009

of arrangements to dispose the responsibilities, rights, and duties of government and public hospitals. Li Wenmin(2007) explored public hospital corporate internal and external governance structure. He thought public hospital need diversified investments and should build an internal governance structure with board of directors, board of supervisors, and managers by cross-shareholdings. Also build an external governance structure by setting up a system for investors of public hospital, and a system for social supervision and market competitive mechanism. Fang Pengqian's(2008) studies showed that public hospital corporate governance structure is an institutional arrangement about government, public hospital, and hospital managers' responsibilities and rights. He also suggested that public hospital build an internal structure with board of directors and board of supervisors, and let hospital president represent the management team.

## ② Discussion on public hospital corporate governance model and theory

Chinese scholars did some discussions and summaries on public hospital corporate governance models and related theories. Liang Minghui(2007)<sup>6</sup> deemed that there are three kinds of public hospital corporate governance structure models: autonomic operation and responsibilities mechanism model (do not change the structure of the organization, but the government signs a contract with the president to clarify their respective functions and powers ), hospital trusteeship model (the government gives the hospital to the professional hospital management company for management, the government signs a contract with the company, and the company hires a president ), and directorate model (same as board of directors model). Liang' team mentioned that with the complex environment and imbalanced development among regions and hospitals, the public hospital corporate governance reform in China is considered not to be unified,

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<sup>6</sup> Liang, M. 2007. Analysis on three models of public hospital corporate governance structure reform. *Chinese Hospitals*, 11(5):15-18.

and the certain model is considered to fit certain environment. Li Wenmin(2009)<sup>7</sup> divided the existing public governance models into four types based on the literature review and field data analysis. They are the internal management mechanism reform model ( including only internal reforms of such as personnel system and distribution system in the hospital), the separation of supervision and operation model (the government gives some operation rights to hospitals and holds the supervision rights), the separation of administrative units and institutions model ( the government sets up a new administrative department in charge of hospital management), and the type of hospital ownership change model (the government gives up the ownership to the hospital, the public hospital is dependent from government from a ownership level). And by the use of Frozen River Model<sup>8</sup>, the study evaluated the strengths and weaknesses, and conditions of the four models respectively. Wei Guangbo(2010)<sup>9</sup> compared the experiences of different corporate governance structure modes such as board of directors, trusteeship, public interest corporate governance, and privatization mode, and made recommendations on how to select appropriate modes in order to provide some references and bases for decision making for ongoing reform of public hospital in China. Zhu Naigeng(2012)<sup>10</sup> analyzed how the stakeholder theory works in the driver and the resistance of the implementation of public hospital corporate governance structure in China, and put forward policy suggestions to eliminate the stakeholder resistance and to accelerate the process of public hospital reform. Tan Yin(2005)<sup>11</sup> thought public hospital reform should use for reference to the experience in state enterprises reform, and constitute the perfect governance structure, because of

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7 Li, W. 2009. The evaluation and analysis of four kinds of corporate governance model of public hospital. *Chinese Hospital Management*, 29(12):23-26.

<sup>8</sup> Zhao, D. 2010. Frozen River Model and comparison on governance of healthcare market in China and United States. *Chinese Hospital*, 14(6): 22-24

<sup>9</sup> Wei, G. 2010. Review on corporate governance structure mode and its consummation of public hospital. *Chinese Hospitals*, 14(9):20-22.

<sup>10</sup> Zhu, N. 2012. Analysis of the implementation of public hospital corporate governance structure in China based on the stakeholder theory. *The Chinese Health Service Management*, 5:339-352.

<sup>11</sup> Tan, Y. 2005. Theoretic analysis on corporate governance of public hospitals. *Chinese Journal of Current Hospital Administration*, 3:125-127.

the separation of ownership, management and profitability. The main model of public hospital governance is principal-agent system, and co-governance of stakeholders is the main difficulty in this process, and the end-result is the realization of impartiality and efficiency.

③ Discussion on public hospital corporate governance practical experiences

Regarding case study about public hospital corporate governance, Chinese scholars paid more attention to those abroad in the past. Wang Xiaoming and Yao Yongfu(2005) introduced public hospital reform in U.K. including hospital autonomy and competition promotion, health administrative function transformation, and hospital Trust building. Zheng Xueqian and Wang Xia(2007) introduced public hospital corporate governance structure and its reform in U.S.A., which is constituted by the board of directors, chief executive officer or president, and medical staff. Wang Faxing and Wang Jianjun(2009) indicated German public hospital governance structure is a “state government - board of directors - management team” model. Zuo Xiyang and Zhang Liang(2008) introduced Singapore public hospital system. Singapore government started public hospital reorganization since 1985 and carried out group management. In recent years, with the deep-going public hospital reform, Chinese public hospitals started trying changing governance structure under the guidance of various theories, at the same time, Chinese scholars began to take domestic hospital as a case to study. Deng Guosheng and Ji Ying(2007) took public hospitals in Wu Xi City and analyzed that hospitals have more autonomy after trusteeship system reform. Li Jingwei and Wang Xia(2007) studied Dongyang People’s Hospital and Rui Jin Hospital as examples to analyze strengths and weaknesses of public hospital governance reform in China. Through regarding Second Hospital Affiliated to Henan University of Science and Technology, Mentougou District Hospital in Beijing, Qiqihaer Hospital of Traditional Chinese Medicine, and Shanwei

Yihui Foundation Hospital as the objectives, Yang Jianzhuang(2014), Ma Xiaojing(2013), Chen Hong(2011), and Yu Jianer(2011) summarized and analyzed current situation of hospital governance structure respectively, by questionnaire survey and in-depth interview.

Along with the study of corporate governance, and in the face of the severe situation of China's medical and health system reform at the same time, the practical significance of corporate governance to Chinese public hospital is becoming visible, and plenty of related papers and literature have laid a theoretical foundation for the reform of public hospital in China.

## **2.3 Theory**

### **2.3.1 Principal-agent Theory**

The principal-agent relationship is common in the modern corporations, which was given different definitions by scholars. Jensen and Meckling(1976) defined an agency relationship as *a contract under which one or more persons (the principal(s))engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent*<sup>12</sup>. J.E. Stiglitz(1974) thought *principal-agent relationship is how to design a compensation system to drive another person to act for the benefit of the client*<sup>13</sup>. J.W. Pratt and Richard Zeckhauser(1985)<sup>14</sup> deemed that as long as a person is dependent on the behavior of the other person, the agent acts as the agent, the person who takes action is the agent, the person who is affected is the principal. K.J. Arrow(1985)<sup>14</sup> agreed that an agency relationship has

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<sup>12</sup> Jensen,M.C. & Meckling,W.H. 1976.Theory of the firm: managerial behavior, agency costs and capital structure. *Journal of Financial Economics*,3:305-360.

<sup>13</sup> Stiglitz, J.E. 1974. Incentives and risk sharing in sharecropping. *The Review of Economic Studies*, 41(2): 219-255.

<sup>14</sup> Pratt,J. & Zeckhauser,R. 1985. Principals and agents: an overview in *Principals and Agents: the structure of business*.



arisen between two or more parties when one, designated as the agent, acts for, on behalf of, or as representative for the other, designated the principal, in a particular domain of decision problems.

It can be seen from above that a principal-agent relationship is a contractual relationship under which the authorized agent can be engaged in certain activities to realize the benefits of the principal. The primary cause of the principal-agent relationship is the separation of ownership and control of capital.

In terms of public hospital, there are three interest groups with different benefit targets in internal structure: the government, as an investor, is pursuing the value of capital preservation and appreciation, and hopes to solve more medical problems by less investment; the hospital management eager for profit maximization; and the employees desire to maximize their personal incomes. Information asymmetric between government, hospitals and medical staffs requires the principal to supervise the agent and ask for information disclosure. In other words, because of the difference of benefit targets and the asymmetry of information, the lack of supervision on the agent may lead to the agent's opportunistic behaviors and personal profit maximization, which damaging the principal's interests.

In order to prevent the agent from engaging in the activities doing harm to the client's interests under the authority of the client, it is necessary to design a mechanism or a contract to motivate the agent to work hard for the clients' goals. But the cost of supervision on the agent is high and it is easy to get wrong information feedback of how hard the agent works, so there is a moral hazard problem in the principal-agent relationship. For example, in the relationship of government and public hospital, public

hospital is likely to take actions which are not conducive to the interests of the state or the society at the same time as the maximum increase in their own effectiveness. This loss is considered as the “agency cost” of the separation of ownership and control. In order to decrease the agency cost, government, as the principal, needs a contract and close supervision on the agent to prevent its behaviors violating the interests of the principal. But because of the uncertainty and asymmetry of information, the cost of getting correct and effective information is also high, adding the cost of contract negotiation and supervision on the execution of the contract, makes up the “committed cost”. However, there is a correlation between the size of “agency cost”, the difficulty of supervision, and the interest homogeneity between the principal and the agent. The easier the supervision, and the more similar the interest is, the lower the “agency cost” is. Thus, how many public hospitals should be set in the country, and how much capital investment be put in public hospitals, is not only related with the state’s financial capacity and the government’s social objectives, but also with the supervision capability of the state.

### **2.3.2 Separation of Ownership and Control Theory**

Separation of ownership and control theory refers to the separation of corporation ownership of property, and management and administrative rights, which means the owner does not manage and operate his property but authorize others to do the management and operation tasks. This theory came with the joint-stock company. According to *The Modern Corporation and Private Property* by Adolf Berle and Gardiner Means published in 1932, after analysis of hundreds of large companies in the United States, Berle and Means argued that the structure of corporate law in the United States in the 1930s enforced the separation of ownership and control, because the corporate person formally owns a corporate entity, even while shareholders own shares

in the corporate entity and elect corporate directors who control the company's activities. Compared to the notion of personal private property, say as one's house or car, the functioning of modern company law has destroyed the unity that we commonly call property. This occurred for a number of reasons, foremost being the dispersal of shareholding in big corporations: the typical shareholder is uninterested in the day-to-day affairs of the company, yet thousands of people make up the majority of owners throughout the economy. The result is that those who are directly interested in day-to-day affairs, the management and the directors, have the ability to manage the resources of companies to their own advantages without effective shareholder scrutiny. And this certainly leads to the separation of ownership and control, which is the product of economic development, as well as the necessity of social progress.

This theory played an important guiding role in the process of promoting the reform of Chinese state-owned enterprises, and it laid a theoretical foundation for the separation of the government and enterprises by redefining the internal structure of the state-owned enterprises system. This theory holds that concentrating the ownership and management in the hands of the state in the traditional planned economic system does not meet the requirements of the development of market economy. It is necessary to adjust the internal relationship of state-owned enterprises and give the managers and operators more independent authorities on basis of state ownership, so that it improves autonomy of production and management activities, which helps in the development of the socialist market economy at the same time insists on public ownership.

Chinese public hospitals are owned by state, government as well, also have problems about the separation of ownership and management. Before the old health care reform in China, all the public hospitals are owned and controlled by government. After the

reform began, government started to delegate power to public hospitals, such as a certain degree of rights on salary distribution, rights of medical facilities and equipment investment, and this delegation led to the separation between government and public hospitals, owner and operator as well. What's more, although there is a problem on separation of ownership and control in a corporation, its original investor is also the final beneficiary, at least the right of ownership and the right of benefit is unified. But for public hospital, the original investor is the government and the final beneficiaries are the citizens in the region, which leads to a separation of ownership and beneficial right. As you can see, public hospital corporate governance can be more difficult than normal corporations since this separation of ownership, control, and beneficial right.

### **2.3.3 Stakeholder Theory**

The stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It was originally detailed by R. Edward Freeman(1984) in the book *Strategic Management: A Stakeholder Approach* that identifies and models the groups which are stakeholders of a corporation, and describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the “principle of who or what really counts”. In the traditional view of a company, the shareholder view, only the owners or shareholders, also called stockholders, of the company are important, and the company has a binding fiduciary duty to put their needs first, to increase value for them. Stakeholder theory instead argues that there are other parties involved, including employees, customers, suppliers, which are trading partners, and financiers, communities, governmental bodies, political groups, trade associations, trade unions, these pressure groups, even including natural environment, human offspring, these objects being influenced by business operations directly or indirectly. The core

content of stakeholder theory is the target of corporate governance, which meets the different requirements of various stakeholders, and pays attention to social and economic and political influence caused by business activities. Thus, stakeholder theory suggests that stakeholders should take part in corporate governance and make decisions together with shareholders.

The study of stakeholder theory has promoted the change of corporate governance, people regard that the problem of corporate governance is no longer limited to the principal-agent relationship between the owner and the manager, but to further realize that corporate governance is a system composed of all stakeholders. In the stakeholder theory view, public hospital is a quite complicated form of organization which involves politics, health, medicine, patients, insurance and other different interest groups, so that its reform has always been a worldwide challenge. The procedure of public hospital corporate governance reform is a process of redistribution and balance of rights and interests, and also an arrangement of the interests and responsibilities. What's the key to measure the success of the reform is whether the problem of stakeholders is handled. By defining stakeholders as any group or individual who is affected by or can affect the achievement of an organization's objectives, though stakeholder groups in public hospitals are hard to be defined, we can at least pick out government department, hospital managers, hospital staffs, patients, medicine and medical equipment suppliers, community, professional associations and unions, social media, and so on, as the stakeholders of public hospitals. For a company's corporate governance, because of the existence of shareholder sovereignty, the stakeholders are in a position to take a supplementary consideration. However, due to the lack of a clear role of the owner of public hospitals, it is in a particular need that the stakeholders participate in

co-governance through various means, so the stakeholder theory is in an important position in public hospital corporate governance.

### **2.3.4 New Public Management Theory**

New public management (NPM) theory is *a discussion and investigation of economic and political systems in various countries and their policies that aimed to modernize and render the public sector more efficient (Barzelay, 2001)<sup>15</sup>*. New public management is viewed as a more efficient means of attaining the same product or service; however, citizens are viewed as customers and public administrators hold the title of public manager. Under new public management, public managers have incentive-based motivation and have greater discretion. *New public management relies heavily on customer satisfaction, entrepreneurial spirit, and the “Rules of the Game”<sup>15</sup>*. New public management theory draws practices from the private sector and uses them in the public sector of management. *Its reforms use market forces to hold the public sector accountable and the satisfaction of preferences as the measures of accountability. In order for this system to proceed, certain conditions, such as the existence of competition, must exist and information about choices must be available (Kaboolian, L. 1998)<sup>16</sup>*.

Public managers under the NPM reforms should be the one who set policy rather than carry out policy, and they can delegate the authority or separate powers to the basic unit of the society.

In the medical service market, the government should play a role in the development of public health policy and supervision of the operation of public hospitals. After the basic system settled, the main service that government should provide is to provide good

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<sup>15</sup> Barzelay, 2001. *The New Public Management: Improving Research and Policy Dialogue*. Russell Sage Foundation.

<sup>16</sup> Kaboolian, L. 1998. *The New Public Management: Challenging the Boundaries of the Management vs. Administration Debate*. *Public Administration Review*.

service of public policy. Public hospital is the executor of the government health policy, and the government does not need too much to intervene in the operation of the hospital. During public hospital reform, regarding the property rights in public hospitals, the relevant laws and regulations of the management of non-profit medical institutions, the issues of public hospitals as a public service industry whether should be introduced into the mechanism of market competition, and government functions and role orientation, and many other similar issues are related to public management theory. Therefore, we should absorb and draw on the relevant theories, principles, and methods of the new public management theory during the Chinese public hospital reform, of course according to China's specific national conditions.

## **2.4 Public hospital models in foreign countries**

### **2.4.1 the United States**

The governance structure of the non-profit public hospitals in the United States is mainly composed of three parts, the board of directors, chief executive officer/president, and medical personnel. Hospital operation mechanism is mostly the president's responsibility system under the leadership of the board of directors.

The board of directors is the decision-making body of the hospital, and it is made up of people from various social classes, occupations and backgrounds, such as business people, college professors, and retired government officials. The responsibilities of the board of directors including: make and monitor the strategic plan of the hospital; appoint and evaluate chief executive officer/president; examine and approve major personnel and remuneration policies; examine and approve financial policy and financial budget; supervise the hospital resource usage; and take ultimate responsible for the quality of medical services. Chairman and most of the board members of public

hospitals are appointed by the government, some are elected by the local community. Board members are elected for a term of three to four years and can be re-elected.

Chief executive officer (CEO), as well as hospital president, is responsible for the implementation of the board resolutions. CEO is appointed by the board and takes charge of the management of the hospital, and accepts the supervision of the board of directors. CEO may appoint some deputies in charge of different affairs. Although the CEO attends the meeting of the board of directors, they had no voting rights until late 80s' reform tide.

Medical personnel exist in medical institutions as an independent autonomous force. They are responsible to the board of directors in medical quality. Administrative orders from CEO working in managers and nurses do not have binding effects on medical personnel. Doctors obey the rules and regulations of the medical staff or the doctors' association, but not the administrative management of the hospital, and most of the medical personnel are not employees of the hospital. Doctors have their own groups in the hospital, and these groups are established with rules and regulations under the approval of the board of directors. Medical personnel have their own committees and organizations, through which doctors make contact with the hospital. Medical personnel didn't take part in board of directors until late 70s, and before that no doctor was in board in the United States. But the number of hospitals with medical personnel in board of directors has accounted for 78% of the national total till 1977, and the proportions of internal and external directors in the board of directors are becoming more and more balanced. Medical personnel began to participate in the management of hospitals and the decision-making procedure on the board of directors.



### **2.4.2 the United Kingdom**

The National Health Service(NHS) Act 1946 came into effect on 5 July 1948. The NHS provides the majority of free health care at the point of use in the United Kingdom, including primary care, in-patient care, long-term healthcare, ophthalmology, and dentistry. The NHS is largely funded from general taxation with a small amount being contributed by National Insurance payments. The UK government department responsible for the NHS is the Department of Health, headed by the Secretary of State for Health.

But by the late 1980s, the NHS exposed a series of problems, such as low efficiency of public hospitals, patients waiting for a long time, service costs continuing to rise, more and more government financial pressures, and lack of cost control consciousness. As a result, the public satisfaction to NHS increasingly declined, and medical personnel also generally felt their value was not reflected. The government was trying to reform the health care system. NHS Trusts were established by the National Health Service and Community Care Act 1990 as the first step in setting up an internal market. According to The Health and Social Care Act 2012 came into effect in April 2013, many NHS Trusts have become NHS foundation trusts, giving them an independent legal status and greater financial freedoms. They are authorized and regulated by Monitor, the independent regulator of NHS foundation trusts. They include acute trusts, mental health trusts, community trusts, and ambulance trusts.

In the Trust, the top management is the board of directors and its main duties include: formulating overall business strategy of hospital, supervising the execution of all policies, and ensuring the hospital financial security. Chairman is appointed by the Secretary of State for Health, and the board has at least two non executive directors

appointed by the district health bureau, which ensures that the hospital trust decision-making can reflect the government's guidance, which reflects the interests of the public, from the organization level. Other non executive directors of the board are appointed after consultation of the health secretary and chairman, their role is to put forward suggestions to improve the hospital work efficiency. Executive directors include CEO, medical directors, financial supervisors and nursing supervisors, etc. The Trust has a greater personal autonomy, except for the board chairman and non executive directors of remuneration from the state, other personnel wages are not subject to national wage standards and personnel management system, and the wages can be changeable according to the size and complexity of the organization.

Actually, British public hospitals are implemented by the decision-making and command system leading by the board of directors combined with the CEO and the functional organization. Doctors in the hospital are directly managed by the board of directors, and the hospital manager is only a leader of the other parts in the hospital organization. The management and operation of the hospital are usually solved by the representatives of the doctors and the managers. If a doctor wants to be a manager, he must accept standardized hospital management training for half to three years according to the requirements of the object before he engages in management work. And most of the CEOs are graduated from economic, management, legal and other profession.

### **2.4.3 Singapore**

In the 19<sup>th</sup> century, Singapore was a British colony. Under the impact of the United Kingdom, Singapore's health services were provided by public hospitals, and the state provided free health care to the citizens in the 1960s. But the government's attitude

began to change since 1980s, due to the rapid growth of health care costs and the aging population.

In May 1984, the Ministry of Health announced plans to reform the governance structure of public hospitals. Because Singapore's land area is very small, the public hospitals are divided into two groups as the East and West Cluster at that time. After several years of development and restructure, Singapore's medical market is composed of several healthcare institutions. For example, SingHealth is Singapore's largest group of healthcare institutions. The group was formed in 2000 and consists of three public hospitals across the island, five specialist centres and a network of nine polyclinics. National Healthcare Groups was formed in 2000 and has one public hospital, three specialist centres and runs eight polyclinics as well.

These healthcare groups are formed in accordance with the idea of "introduction of competition mechanism to prevent the exclusive monopoly". The group has a board of directors, which is composed of celebrities, government officials, and professionals. Board of directors appoints executive officers, including chief executive officer, deputy group chief executive officers, chief financial officer, chief human resource officer, chief quality officer, chief medical information officer and so on. Singapore's public hospitals are owned by the Singapore government, and they introduce private enterprises operation mechanism in the context of recognition of the non-profit nature of public hospitals. Group board is responsible to the Ministry of Health, and the management is responsible to the board of directors. The board of directors' duties include making decision of major issues, future development direction, and the hospital construction and funds, etc. Government, as the only shareholder, is still in control of the public hospitals by passing on policy guidance through board members who are

appointed by the Ministry of Health. The group enjoys a wide range of autonomy, such as the right of personnel, remuneration right, resource allocation right, residual claim right, and developing service prices under the government cap line. Board of directors will evaluate the effect and service quality of the hospital according to the opinions of the patients and the society, thereby assess the ability of management team and also have right to fire management personnel. Public hospitals in the healthcare groups after the reform must face the pressure from the market, and compete with other hospitals and private hospitals.

### **3. Public Hospital Corporate Governance Reform in China**

#### **3.1 Status of Chinese public hospital reform**

In People's Republic of China, a public hospital is a hospital which is owned by government and receives government funding, also called state hospital or government hospital, and it is not for profit. According to *The measures for the administration of the hospital grade* by MOH<sup>17</sup> in 1989, public hospitals in China are classified into three grades: Grade 1 is at a community level, Grade 2 is at a county level, and Grade 3 is at a urban level. Hospitals belonging to Grade 3 must have more than 501 beds and provide high level of specialist health services, and also have the ability to carry on higher education and scientific research tasks.

Chinese citizens need to pay for the medical service and drugs, but the payment in public hospitals can be covered by reimbursement at a high proportion. And the prices of medical services are set by government, which is much lower than those in private hospitals. What's more, due to the staffing policy of government affiliated institutions, and welfare policy, most of the best doctors in China work in public hospitals, especially those belonging to Grade 3. Thus, in Chinese civilians' point of views, when they treat themselves as ill, whether or not in a serious condition, they are used to going to public hospital of Grade 3 as long as it is possible.

Therefore, public hospital is the main body of Chinese medical and health services provider without a doubt. The NHFPC<sup>18</sup>'s statistics showed that the total number of the national medical and health institutions was 987000 by the end of May 2015, including about 26000 hospitals (13326 public hospitals and 13152 private hospitals), 92200 basic

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<sup>17</sup> MOH: Ministry of Health, the former NHFPC.

<sup>18</sup> NHFPC: National Health and Family Planning Commission of the People's Republic of China.

public health institutions, 35000 special public health institutions, and 3000 other institutions. During the first five months of 2015, the number of diagnosis and treatment people is 31.1 hundred million in total (10.8 to public hospitals, 1.3 to private hospitals); the number of discharged patients is 83.6 million (55.8 to public hospitals, 8.1 to private hospitals). In Grade 3 hospitals, the rate of bed occupancy is 99.6%, and the average length of stay is 10.3 days. Therefore, it can be clearly seen from the data that public hospital is in a leading position of Chinese health care market, so the government must give priority to public hospitals during the China's health care reform.

On February 23<sup>rd</sup> 2010, NDRC<sup>19</sup>, MOH and other five ministries announced the guidance on the public hospital reform, before that, the reform of public hospitals in China can be divided into four stages.

- ① Early in new China, since most hospitals had no CPC<sup>20</sup> organization and the medical system was simple, public hospitals were under the leader of hospital president by learning from the Soviet Union.
- ② 1957-1982, with the development of the state-owned medical institutions and grassroots Party organizations, public hospital implemented "Division of responsibility under the leadership of the Party committee". Each president was responsible for his part of work under the leading of Party committee. Secretary of the party committee and presidents are responsible to the Party committee.
- ③ 1983-2009, public hospitals insisted on president responsible system. Hospital president was in the center of hospital leadership.
- ④ Since the full scale health care reform began in 2009, some of the public hospitals showed a trend of corporate governance reform by trying joint-stock mode, group mode,

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<sup>19</sup> NDRC: National Development and Reform Commission of People's Republic of China.

<sup>20</sup> CPC: Communist Party of China, the only ruling party in China.

trusteeship and other kinds of modes. But most of them are still in president responsibility system.

### **3.2 Overview of Chinese public hospital corporate governance reform**

The health care reform is a global headache, with public hospital reform being the most difficult. Guidance on the pilot reform of public hospitals published in 2010 can be regarded as a milestone of Chinese public hospital reform. The guidance pointed out that public hospitals should be operated for the public good, instead of seeking lucrative gains, and the service should be accessible, equal and efficient for people. And public hospitals should try to establish a modern hospital management system, focusing on management and operation mechanism, service price adjustment, personnel management, and income distribution. The goal includes ensuring government officials living up to their responsibilities, making full use of the market mechanism, and establishing a new public hospital operation mechanism that maintains public welfare, gives incentives to medical personnel.

Since public hospital reform kicked off in 2010, the number of pilot cities up for public hospital reform increased to 100 till now, and all pilot cities have followed deployments by the Party Central Committee and the State Council, and produced positive results through innovation and bold experiments, paving the way for deepening reform. In all kinds of reform, corporate governance has been put forward. For example, in Zhejiang province, Dongyang people's hospital has implemented the president responsibility system under the leadership of board for 22 years. Its great reform about public hospital internal and external governance has made considerable progress in hospital management and organization construction. As a very successful case in public hospital

reform, it will be the chosen one for the author to do the comprehensive introduction in the next part.

### **3.3 Case study - Dongyang People's Hospital**

#### **3.3.1 Introduction of Dongyang People's Hospital**

Dongyang people's hospital is located in Dongyang city (county-level), Jinhua city (prefecture-level), Zhejiang Province. It was founded in 1939, and now it is classified as Grade 3 public general hospital. It is one of the affiliated hospitals of Wenzhou Medical University, one of the net work hospitals of International Emergency Assistance, cooperates with The First Hospital of Zhejiang Province, The Second Hospital of Zhejiang Province, Sir Run Run Shaw Hospital, Zhejiang Cancer Hospital, Shanghai Cancer Hospital, Taichung Veterans General Hospital and many other teaching hospitals.

Dongyang people's hospital have a headquarters and a northeast district called Weishan. The headquarters covers 104000 m<sup>2</sup> with 190000 m<sup>2</sup> overall floor area, and has totally assets of 970 million yuan and net assets of 739 million yuan. It has more than 2100 existing staffs, 31 clinical units, more than 70 clinical departments, and 1550 open beds. The number of out-patient in 2014 is 1.48 million in total, and the number of discharged in-patients is 61 thousand. Weishan district was founded in 1951 as Dongyang Weishan Hospital, and was reorganized with Dongyang people's hospital in 2004. Weishan district covers 60000 m<sup>2</sup> with 34000 m<sup>2</sup> overall floor area. It has more than 400 existing staffs, 8 clinical units, and 240 open beds. The number of out-patient in 2014 is 310 thousand in total, and the number of discharged in-patients is 8265.

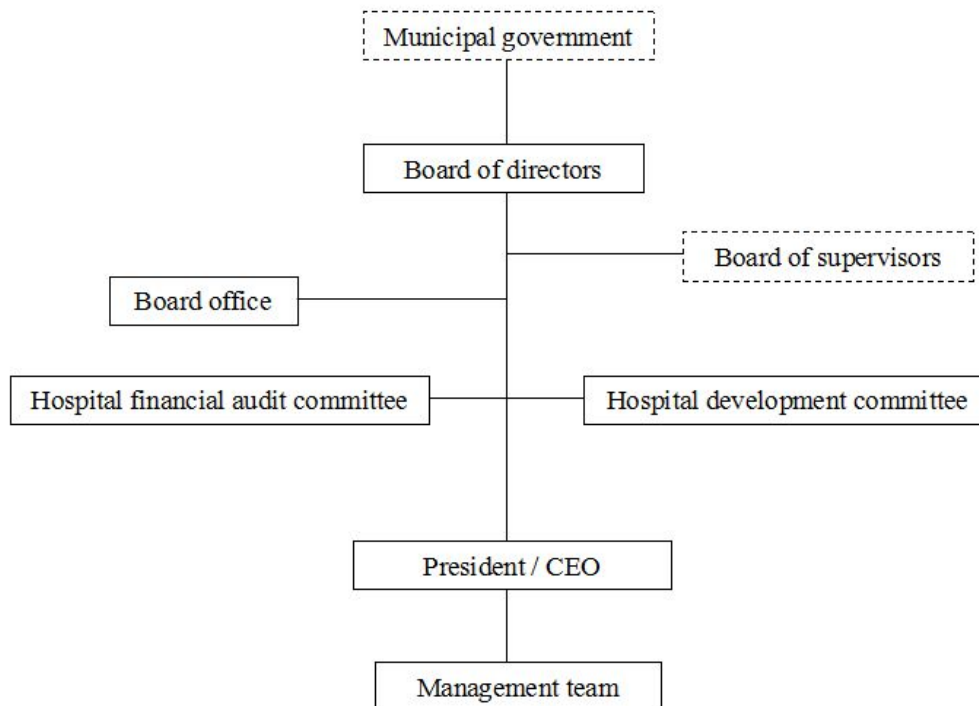


The establishment of Dongyang people's hospital corporate governance structure thanks to a famous Taiwan compatriot born in Dongyang. He is Wang Tiwu (1913-1996), the founder of the United Daily News. Dongyang people's hospital is a public hospital owned by government and the asset 100 percent belongs to the state. In 1990, Mr. Wang donated 10 million dollars to Dongyang people's hospital. Thanks to the donation, Weishan Hospital and a new first aid center building of Dongyang people's hospital were built in 1993. At the same time, Mr. Wang proposed to change management methods, referring to the organization model of foreign non-profit hospitals, to establish corporate governance structure. However, at that time, there was no precedent of this kind of public hospital governance system which need government to fully authorize and to clarify the relationship between the government and hospital as a legal person. Whereas, it was operating these two hospitals as well as possible to give full play to their functions and benefit the Dongyang citizens, as Mr. Wang hoped for, that the government really concerned. The provincial Party committee and provincial government pointed out that these two hospitals have a certain political influence because of Wang's donation, so it is our duty to make them better, and the governance system should break through the routine. Hence, Dongyang government published *Guidance on the reform of Dongyang people's hospital and Weishan Hospital*, according to Zhejiang provincial party committee and government's instructions. The core of the reform is to separate ownership and management, establish a nonprofit board, and implement the president responsibility system under the leadership of board. Due to the demand for the development of regional medical institutions, Dongyang people's hospital was reorganized with Weishan Hospital in 2004. The board of directors modified the articles of the board of directors of Dongyang people's hospital, and its corporate governance was further improved.

### 3.3.2 Organization structure of corporate governance

The corporate governance structure in Dongyang people’s hospital is composed of board of directors and CEO/president. It works as president responsibility system under the leadership of board. Board of directors has a office, and consists of hospital development committee and financial audit committee. Chairman is the top leader of the hospital, and president is the leader of management team. According to the articles of board of directors, the organization structure of corporate governance is as followings.

**Diagram 1:** Dongyang people’s hospital corporate governance structure



Source: Ying, Z. 2011. Hospital corporate governance structure and president responsibility system under the leadership of board -- 17 years reform of Dongyang people’s hospital in Zhejiang province. Hospital Directors’ Forum, 1: 30-35. ( Translated by the author.)

① In board of directors level, there are one chairman, one vice chairman, seven to eleven board members who are representatives come from donated party, municipal

public health administrative department, municipal state-owned assets management bureau, hospital management, staff representatives, external medical experts, and managers experts. Vice chairman is a representative of hospital managers. President, vice-president, and assistants to the president are not in board of directors during their term. The first term of board of directors was determined by the consultation between municipal party committee, municipal government, and donated party. The next terms come from consultation between the former one and municipal party committee with related government departments, and the member list is published by municipal government. Board members are elected for a term of four years and can be re-elected. In the beginning, there was a board of supervisors with one chief supervisors and two supervisors. According to the articles of board of directors revised in July 2008, there was no board of supervisors, but its functions were integrated into financial audit committee of the board.

② In hospital administrative leadership level, there are one president and four vice-presidents, nominated by chairman and president respectively, and approved by board and municipal government, and then appointed by board. If a president violates the regulations, or breaches the duty causing a big loss of hospital, he will be dismissed by the board under the agreement of municipal government. The assistants to the president are nominated by president and appointed by the board.

③ In management team level, there are several functional departments, such as hospital office, Party committee office, finance department, human resource department, development department, quality department, facility department, science and education department, hospital infection-control department, medical department, nursing department, pharmacy department, etc. The director and deputy director of each

functional department are appointed by president under board's permission. The director, deputy director and head-nurse of each clinical department are appointed and dismissed by president.

### **3.3.3 Function and power distribution of corporate governance structure**

According to the articles of board of directors, the function and power distribution of corporate governance structure is as followings.

① Board of directors is the top management institution, which is responsible to municipal party committee and municipal government. It is the main body of the hospital corporate governance structure. It exercises the following powers and functions: Consider and appoint the president, vice-president, assistants to the president and chief accountant; Consider the board of directors consultant candidates, functional committee candidates, office members, and directors and deputy directors of functional departments; Make development strategy and development plan according to national health care policy and laws and regulations; Make decisions of vital issues in hospital; Develop and approve the basic management system for hospital; Determine the hospital management organization setting and their positions; Examine president's report and hospital financial budget; Exercise the supervision of hospital administrative leadership work, and perform evaluation and salary reward.

② Hospital development committee is to provide decision basis to the board to make hospital long-term development goals and recent development plans, and analysis the investment of major construction projects and valuable medical equipment, so that integrate the resources and improve efficiency. Financial audit committee is to supervise and audit the implementation of hospital financial affairs, financial system and major

investment projects, and report to the board with feedback, comments and suggestions. The board members who are represent the municipal government have a duty to supervise on the entire activities in the hospital, especially the board members and president.

③ Chairman's duty: Put forward the hospital development strategy and development plan by following Party and government policy; Nominate hospital president; Appoint assistants to the president and chief accountant; Sign the vital issues; Make a supervision on the implementation of board's decisions.

Vice chairman's duty: Assist the chairman's work, specifically in charge of the daily work of board office; Check the hospital medical service quality and management situation; Organize the financial audit committee to do the audit of financial and investment project twice a year for the hospital; Report to the municipal public health administrative department of the hospital business work; Finish any other work delivered by chairman, or fulfill the chairman's authority.

President's duty: Be the corporate representative of the hospital and take in charge of daily management; Be responsible to the board and organize the implementation of the board's instructions; Formulate the hospital internal management organization, the basic management system and specific regulations; Nominate vice-president, assistants to the president and chief accountant candidates; Appoint director, deputy director, and head-nurse of departments; Recruit, hire, dismiss, reward, and punish employees in line with the policies and regulations.

④ Hospital has a staff and workers' congress, and its duties belong to labor union, which is a basic form of democratic management. Its duties include: bring forward comments and suggestions for the hospital basic construction plan, annual work plan, and other major problems; safeguard the democratic rights and material interests of workers accordance with the law; assist the hospital arrangement of welfare and reward fund; carry out the construction of hospital culture and organize sports activities; support the president and supervise administrative leadership.

### **3.3.4 Operation system of corporate governance**

#### **3.3.4.1 Financial system**

According to hospital accounting system published by Ministry of Finance PRC, Dongyang people's hospital drew up its own financial and accounting regulation in accordance with the requirements for enterprise management, and submitted it to the municipal public health administrative department for the record. Chief accountant helps president to manage financial works. Monthly and annual financial and accounting reports should be delivered to municipal public health administrative department. Hospital practices a system of internal audit, and the financial audit committee of the board will do the internal audit supervision on financial revenues and expenditures of economic activities. At the same time, Dongyang audit office will do an external audit on the hospital every year. See the table below as hospital financial decentralized management situation :

**Diagram 2:** Dongyang people's hospital financial decentralized management system

Financial expenditure category	Amount limit (Yuan RMB)	Approval authority
Daily operating expenses	All	President
Asset investment	< 100 thousand	President
	100-500 thousand	Vice-chairman
	> 500 thousand	Board of directors
Official expenses	< 5 thousand	President
	5-50 thousand	Administrative leadership team
	> 50 thousand	Board of directors
President's Official expenses	All	Vice-chairman
Vice-chairman's Official expenses	All	Chairman

Source: Ying, Z. 2011. Hospital corporate governance structure and president responsibility system under the leadership of board -- 17 years reform of Dongyang people's hospital in Zhejiang province. Hospital Directors' Forum, 1: 30-35. (Translated by the author.)

### 3.3.4.2 Personnel system

Dongyang people's hospital practices a system of all-personnel labor contract. Hospital and staffs enjoy the rights and obligations under the contract. In line with the principles of personnel allocation, determined positions and fixed responsibility, president decides the size of personnel force and have right to recruit, hire, dismiss, reward, and punish employees. This system makes a change from the original identity management to position management. For recruiting new employees, it implements open recruitment, open competition, public assessment, and pick the best. Newly hired employees sign a three-year labor contract, and will be dismissed if the job evaluation is not qualified during the contract period, or renew the contract if qualified. The president has the right to terminate the labor contract if an employee is in violation of relevant state laws, regulations, labor contracts, or hospital regulations. Salary welfare treatment to the retired personnel is in accordance with the relevant regulations of the state. Human resource department is responsible for the specific affairs.

### **3.3.4.3 Distribution system**

Dongyang people's hospital practices an internal wage distribution system. In the strict implementation of national standards for medical fees, and ensuring that the value of state-owned assets, the distribution is based on work, and favor to key positions and outstanding talents. Internal distribution system of hospital has reformed in 2002 with the establishment of performance-related pay. Total wages is decided by the board of directors according to social efficiency index, hospital medical quality index, the total amount of the added value of health. The internal distribution is determined by hospital administrative leadership team under the premise of not beyond total wages. Employee salary is determined dynamically on the basis of the assessment results. A salary consists of three parts: position wage, wage for working age, and wage for efficiency. Position wage and wage for working age are fixed by position, professional title, and working age, which make up about a quarter of the final salary. The wage for efficiency is calculated by performance assessment. All staffs are classified into five series: doctors, nurses, medicine technicians, general affairs personnel, and administrator. Different series have different coefficients, and different position in same series have different coefficients. A principal called "Three link " is in the overall distribution, that is, total wages links to hospital operating performance, first-level distribution between hospital and department links to department work and cost control, second-level distribution between department and employees links to performance assessment. The use of this principal improves the staffs' work enthusiasm, to strengthen the staffs' global concept of the hospital.



#### **3.3.4.4 Economic system**

Dongyang people's hospital practices a economic operational mechanism with a core called Medical Added Value<sup>21</sup>. Hospital operation evaluation indexes consist of Medical Added Value, percentage of Medical Added Value, drug proportion of income, cost proportion, average outpatient expense, discharged patients average expense, outpatient drug expense, and every bed day drug expense. The former four indexes are internal management indicators, reflecting hospital operation condition, and the latter four indexes are social indicators, reflecting the contribution degree of fair treatment from the hospital. Dongyang people's hospital uses this method to prompt itself to increase operation efficiency and benefit, and also prevent hospital public welfare tend fading, so that enhance the social responsibility of the hospital. It puts forward four basic goals of modern hospital economic operation. i) Short-term goals: To maintain the daily operation of the hospital, realize the balance, and have independent control of the funds, pay staff salaries and daily expenses. ii) Social goals: To reduce the average cost of patients, so as to adapt to the economic and social development, the society is generally accepted, the patient is willing to bear, the government supports. iii) Employee goals: To make salary match its labor cost and market labor price. iv) Long-term goals: To have the ability to continue developing, improve medical technology investment and medical facilities, provide training funds for employees, expand the scale of operation and so on.

#### **3.3.4.5 Meeting system**

① President office meeting is hosted by president. Meeting participants are hospital administrative leadership members, vice-chairman, and board of directors consultants. It is a half-day meeting held once every two weeks. Main contents of the meeting are to

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<sup>21</sup> Medical Added Value = hospital business income - variable cost

convey the spirit of higher leadership meeting or files, discuss important issues, listen to reports of previous work, and arrange the work of next phase.

② Hospital affairs meeting is hosted by president. Meeting participants are hospital administrative leadership members and heads of the functional departments. It is a half-day meeting held once every two weeks, always the next day of president office meeting. Main contents include listening to reports of previous work in each department, hearing from the problems to solve, and arranging work.

③ Hospital weekly meeting is a half-day meeting held once every two weeks and hosted by president or vice-president. Meeting participants are hospital administrative leadership members, heads of the functional departments, directors and head-nurses of clinical departments, and other related staffs. President or vice-president will convey the spirit of important meetings and files, make a report of running status of hospital, announce some decisions, and arrange the work in the coming weeks.

④ General staff meeting is hosted by hospital administrator, and held once a year, always around the Spring Festival. Everyone of Dongyang people's hospital should participate in. Sometimes the meeting invites relevant leaders of the municipal party committee. President makes an annual report of the past year and puts forward some ideas of the work of the new year. Another important agenda is to reward the advanced individuals, departments, as well as excellent papers, award-winning scientific research projects.

#### **3.3.4.6 Supervision system**

① The government supervise the board.

The government, as the owner and investor of this public hospital, has right to formulate and modify the details of management rules, make the final approval of appointing board members and hospital leadership team, and issue mandatory plan of public health events. The government will check and supervise the legitimacy of the hospital, and have right to audit the board members and president in term and off term.

② The board supervise the hospital leadership team.

The hospital leadership team members' annual salary depends on the assessment of goals completion degree, hospital operating results, own morality and ability, and performance, assessed by board.

③ Hospital internal supervision

The internal supervision consists of that independent director supervision on board and leadership team; financial audit committee's internal audit of hospital financial revenues, expenditures and economic activities; staff and workers' congress' supervision on administrative leaders at all levels.

④ Staff rule & Leader regulation

All of the hospital staffs must obey staff rules, and all of the administrative leaders, including hospital leadership team, directors of departments, head-nurses of clinical departments are responsible for monitoring employees' behavior, and they must follow leader regulations and accept the supervision from superior leaders.

⑤ Style construction supervision system

Hospital set up a leading supervision group to supervise every employee by the details in style construction supervision regulations. This group's leader is secretary of the

Party committee, and the members come from Party committee office, human resource department, medical department, nursing department and so on.

⑥ Social supervision system

To enhance communication with the community, and to hear opinions and suggestions on hospital construction and medical services from citizens, the board of directors engaged ten more social supervisors. They are from government agencies and organizations, factories and enterprises, communities and so on. They are in a term of four years and can be re-engaged. Vice-chairman will hold meetings with hospital leadership team twice a year to listen to their reports and opinions.

## **4. Conclusion and Recommendation**

### **4.1 Summary**

#### **4.1.1 Summary of Public hospital models in foreign countries**

In Part 2.4, the author introduced public hospital models in the United States, the United Kingdom, and Singapore. Although they took various measures in the reform of local public hospitals due to different historical backgrounds and national conditions, the models still have much in common.

① The governments of these three countries as the investors of public hospitals no longer take responsible for the management of hospitals. The management duty of public hospital is separated from the government, and is undertaken by board of directors of the healthcare group or hospital. The establishment of the board of directors makes the management of public hospitals independent from the investor, government as well, and the existence of corporate governance structure improves managerial efficiency. Public hospitals no longer operate negatively because of government's backing, but step into the market facing the challenges and the public who need health care service, maximizing the resource utilization.

② The board of directors enjoys a wide range of clear autonomy, such as make the strategic plan of the hospital, have the right of personnel, remuneration, resource allocation, residual claim, and even have right to carry out investment, financing, mergers and acquisitions. The government does not intervene in the internal affairs of public hospitals, but only monitor at the level of public welfare and national policy.

③ In the management level of public hospital corporate governance structure, most of the managers are professional managers who have professional management knowledge and social science, humanities background. They come from different sectors of society, rich in social practices and management experiences, so they are able to relate to the demand for medical service, which makes the management of public hospitals is more in line with the needs of the public. The CEOs, or hospital presidents, are mostly experts in economics and business administration, so that they have the abilities to better grasp the overall situation from a perspective of management.

#### **4.1.2 Summary of Dongyang People's Hospital corporate governance**

In Part 3.3, the author made a comprehensive introduction of Dongyang people's hospital as a typical successful case of public hospital corporate governance reform in China. A number of factors contributed to its success. The author would like to try to summarize some of the factors.

① The 10 million dollars donation from Mr. Wang Tiwu is the key to this reform. This nonprofit donation made it possible and necessary to carry out corporate governance reform in Dongyang people's hospital, and also provided an opportunity for social activists to participate in public hospital governance.

② It is important that the government at that time dare to break through the routine and do the innovation under the premise of respecting the donors. Public hospitals are owned by government, so any small changes need the permission and support from the government. It is quite open-minded for the Dongyang government to propose to the provincial Party committee and provincial government, and enlightened as well the

provincial government gave the permission. The published formal document from government is the foot stone of this corporate governance reform.

③ However, every new term of municipal Party committee and municipal government came up with this president responsibility system under the leadership of board as a doubtful issue, thanks to the persistence from board of Dongyang people's hospital, they kept communicating with the government and persuaded them by the actions and achievements of this corporate governance structure reform. Therefore, make it possible to keep this corporate governance these twenty years and gradually win the understanding and support from the government.

④ In addition to the external guarantee from the government, the internal management team's comprehension and detailed operations to the public hospital corporate governance is the most important factor of this success. All the systems designed and implemented by the management team are strong guarantees for the sustainable development of Dongyang people's hospital.

#### **4.2 Problem and Recommendation**

However, over the twenty years, Dongyang people's hospital is still the only one successful case of public hospital corporate governance reform, and this success was not able to be copied in any other pilot hospitals. In addition to the key factor of 10 million dollars donation, there are too many obstacles in the reform of public hospital corporate governance in China. And even as successful as Dongyang people's hospital looks like, it is far from perfect so far, and it is still on its way to explore the most suitable model for Chinese public hospitals. Combined with the practice experiences during the internship in functional departments of a Grade 3 public hospital in Zhejiang province

last year, and referring to the literature during preparing this dissertation, the author will try to summarize the problems and make some superficial recommendations in some aspects.

#### **4.2.1 Legal status**

The establishment of corporate governance structure must be based on an independent legal status of a public hospital. However, according to *General principles of the civil law* in PRC, a public hospital is a institution legal person, which determines its relationship with government as an administrative subordination. The government is used to intervening in the management of public hospitals by means of administrative measures. Government provides financial support for the operation of public hospitals, but at the same time, deficiency payment, setting quotas for subsidies, balance of retained, and such policies are working on public hospitals, which put public hospitals into a position between public legal corporation and private legal corporation. The public nature of public hospitals and the reality that public hospitals can make profits but the profits must be used in self development other than bonus indicate that Chinese public hospitals should be classified as public welfare legal person, but there is no public welfare legal person concept or system in Chinese laws. When the government encourages public hospitals to carry out the reform of corporate governance, it is quite necessary to clear and clarify the legal status of public hospitals, so that the rights and responsibilities can be identified.

#### **4.2.2 Role of government**

Government is the only investor of public hospitals, while lack specific body on behalf a investor, leading to those policies come from different levels and departments without unified and coordinated management mechanism. Rights of government are separated



into many parts, which are mixed and crossed to some degree, into different departments. For example, National Development and Reform Commission is responsible for hospital infrastructure investment development plan and charge price; Ministry of Finance is responsible for fund subsidy; State-owned Assets Supervision and Administration Commission of State Council is responsible for hospital assets; NHFPC is responsible for health care issues, etc. The government's intervention and control of the hospital is arbitrary, and it also plays a variety of roles representing different interests, so that the power and the supervision can not be fully exercised. It is necessary to build a public hospital investor system to clarify government's power and make it possible to separate the investor ownership and hospital management rights.

Furthermore, Party committee has played a significant role in public hospitals since new China. Most of the public hospitals in China still stay in an administrative governance model since the planned economy era. That is, management personnel has an administrative title in public hospitals, which makes it possible for an internal hospital manager go up into government administrative department. This link between internal and external leads to a mix between hospital internal management and external government administration. Therefore, to set up the public hospital corporate governance, it is necessary to clear the relationship between Party and government system and internal hospital corporate governance structure. That is to say, the Party committee in public hospital should play a role in political area, other than step into management function of corporate governance structure.

#### **4.2.3 Laws and Regulations**

In terms of public hospital management, except *Regulations on administration of medical institution* published by MOH in 2001, there is no more basic laws and

regulations about public hospital administration and management. However, the standard of public hospital corporate governance need related laws and regulations, the absent of legislative authority and implementation details is a major block on the way to public hospital corporate governance. Some public hospitals in pilot cities have an intention to make difference but do not take actions because they are afraid of policy changing because there is no legislative support. Thus, it is imperative to formulate and implement the relevant laws and regulations of public hospitals. Only then, the public hospital comprehensively deepening reform can go on.

#### **4.2.4 Board of directors**

In most of the public hospitals those already set up a board of directors, in pilot cities, the chairman is a local government deputy representative, board members are representatives from government relevant departments, and the daily work of the board is in charge of local health care department. These boards of directors are not set for a real corporate governance structure from a corporate governance view. The government should build a principal-agency relationship with the boards, transfer the control and management right to the board by taking the ownership in hand. Board members should come from not only the government but also hospital itself, community representatives, external medical and managers experts, and so on. Especially, the citizens, as patients and potential patients, should have a position in the board so that their voice can be heard, because the public, as the stakeholders, is the one who know exactly what they need from health care services, and the public welfare nature of public hospitals needs their voice.

#### **4.2.5 Management team**

In Chinese public hospitals, nine tenths presidents are in major of medicine. They are now at a age of about fifty, they graduated from medical colleges and started working in clinical department in 1980s, and as professional title goes up and show some abilities in management skills, they stepped into management team, and then becoming presidents under government's appointments. They are not professional managers, although they took some lessons on management, they still manage the hospital under experiences by following the seniors' step. Regarding the corporate governance, most of these presidents have no idea about it and they do not have the sense and abilities to understand even how to build corporate governance structure in public hospitals. However, with the development of social progress, this kind of presidents will be a drag on public hospital reform and development. Therefore, public hospital president selection system should abandon the old habits, consideration should be given to the directors' and management personnel's professionalization and specialization. Dare to hire professional management personnel in most positions, and in some medical professional knowledge needed management positions, choose those have the medical background. All managers cooperate with their talents and potentials, building the professional hospital management team. The society and university should actively develop the talents with the abilities of medical and management skills.

#### **4.2.6 Supervision system**

The reason why public hospitals supervision is not in place is that not only the mix of governance and affairs, and the mix of investor and management, but also the supervision system itself. The mix of governance and affairs leads to the government is both a player and a judge, which makes it lose credibility in industry supervision. And the mix of investor and management makes the government is tired and exhausted in

managing public hospitals operation and supervising medical industry, even worse, the corruption of hospital senior leaders and government officials happened. Therefore, besides solving these two urgent problems, new supervision systems should come up. The supervision of the hospital internal management structure is indispensable, by giving superintendence to the staff and workers' congress, Party committee, financial audit committee and other internal institutions, it should be taken into consideration that they pay more attention to hospital internal interests than the public interests. Thus, a pluralistic supervision system should be set for public hospitals. In addition to government administrative departments, the supervision from patients, community, public media, and medical association and unions should be included. At the same time, perfect the supervision system, medical disclosure system, patient complain handing system, doctor-patient communication system, hospital spokesman system, medical dispute third party processing system, and any other external systems. The external supervision system is benefit for preventing self shielding and administrative corruption, therefore realize the goal of maximizing the public benefits and social benefits.

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