CEO Duality and Performance of Not-For-Profit Hospitals

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Abstract

Depending on their needs for enhancing and sustaining their business and market values, some firms choose to operate with a corporate governance structure of CEO duality, in which an executive serves as the CEO and the chairperson of the board of directors. This study used multiple regression data analyses of financial indicators from 146 U.S. not-for-profit hospitals selected from the Office of Statewide Health Planning and Development database of California, for the period from 2009 to 2012. The results of this study suggested CEO duality and presence of physicians on healthcare governance were not related to financial performance of not-for-profit hospitals.

Problem

Past empirical and theoretical studies of the relationship between CEO duality and firm performance of organizations across different industries have generated ambiguous results, and no studies have focused specifically on the relationship between CEO duality and financial performance of not-for-profit hospitals.

CEO duality's effects on firms' financial performance are contextually specific to each type of industry and dependent on certain industry conditions.

As not-for-profit hospitals are integral to the healthcare system and the well-being of people and communities, it is important for these not-for-profit organizations to operate with efficiency, sustainability, and with a desired governance structure.

Purpose

The purpose of this quantitative study was to answer three research questions that examine the relationship between CEO duality, presence of physicians on governance board, hospital size, hospital age, board size, and financial performance of not-for-profit hospitals.

Relevant Literature

Agency and stewardship theories and **clinical governance** served as the lenses to guide the focus of this study.

The agency theory explained the conflicts of interest inherently existing in corporations, creating the need to separate ownership and control in order to facilitate effective monitoring and control mechanisms of corporate board.

Under stewardship or administrative theory depicted intrinsic motivation of CEOs serving nonprofit organizations and the unitary leadership inherited from CEO duality, justifying the rationale of CEO duality as an appropriate governance structure for not-for-profit hospitals.

The clinical governance construct elaborated the advantages of having physicians, who often possess and acquire intensive clinical experiences, as members of governance boards of organizations in the healthcare sector.

CEO duality and physicians as board members provide corporate expertise and clinical experiences and bridge the gaps of different attributes and organizing principles between philanthropic and corporate models, resulting in an ideal governance model for not-for-profit hospitals.

Research Questions

1. Was there a positive, statistically significant relationship between CEO duality, presence of physicians on the governance board, hospital age, hospital size, board size, and total margin of not-for-profit hospitals?

2. Was there a positive, statistically significant relationship between CEO duality, presence of physicians on the governance board, hospital age, hospital size, board size, and operating margin of not-for-profit hospitals?

3. Was there a positive, statistically significant relationship between CEO duality, presence of physicians on the governance board, hospital age, hospital size, board size, and free cash flow of not-for-profit hospitals?

Procedures

Design

- Quantitative Method using secondary data

Sample

- 146 U.S. not-for-profit hospitals were selected for analysis from the healthcare organizations that were listed in the Office of Statewide Health Planning and Development (OSHPD) database of State of California.

Instrumentation (N/A)

Procedure

- Financial data from 2009 to 2012 included operating margins, current ratio, cash on hands, total operating revenue, net income, total operating expenses, net from operating, market values of assets, and total assets that were reported by each not-for-profit hospital .

- The financial data, such as operating margin, total margin, and free cash flow were derived from the average values of the calculated financial data.

- 'Other data included CEO duality, number of physicians on the board, board size, hospital age, and hospital size, and other information related to governance members and board structures were retrieved from each hospital website.

Data Analysis

Multiple regression analysis was used analyze the data.

Findings

CEO duality and **presence of physicians** on healthcare governance were **not** related to **financial performance** of not-for-profit hospitals.

Hospital age was *negatively* related to **total margin** but *positively* related to operating margin.

A significant *positive* relationship was observed between **hospital size** and **free cash flow.**

Limitations

The secondary data were limited to not-for-profit hospitals providing healthcare in the State of California

Not investigated were the effects of CEO duality, presence of physicians on other financial performance indicators such as Approximate Tobin's q, return on equity (ROE), return on assets (ROA), Z score, and liquidity ratios (current ratios, quick ratios, and cash ratios), which might have suggest different findings.

Conclusions

The outcomes are consistent with the results generated by other studies that CEO duality had no relationship with organizational performance.

CEO duality and presence of physicians on boards were not related to financial performance of not-for-profit hospitals.

Hence, not-for-profit hospitals can choose to operate without having a CEO duality governance structure and that the presence of physicians on boards may not be necessary for improving financial performance.

Social Change Implications

Awareness of appropriate healthcare governance structures that enhance organizational effectiveness and sustain hospitals' charitable missions of provision of community services and transformation of communities and society.

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