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Executive Compensation, Firm Performance, and Net Community Benefits Within Nonprofit Urban Hospitals

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Walden University

College of Management and Technology

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Terry Long

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Walden University
2016

Abstract

Executive Compensation, Firm Performance, and Net Community Benefits Within
Nonprofit Urban Hospitals

by

Terry D. Long

MBA, Chancellor University, 2012

BS/BA, Chancellor University, 2010

Doctoral Study Submitted in Partial Fulfillment
of the Requirements for the Degree of
Doctor of Business Administration

Walden University

May 2016

Abstract

Nonprofit hospitals are under increased pressure to maintain financial stability and compliance with Internal Revenue Service (IRS) net community benefit requirements. Boards of directors are not always confident that the compensation packages awarded to executives stimulate them to act in the organization's best interest. The principal-agent theory formed the basis of this correlational study. Archival data from National Center for Charitable Statistics, Guidestar, and the Center for Medicare & Medicaid Services were collected from 117 nonprofit urban hospitals for the fiscal year 2013. Regression analysis was used to determine the significance of relationships between return on assets (ROA), change in net assets (profit), and net community benefits expense and average executive compensation (AEC). ROA and profit demonstrated a significant relationship with AEC. The direction of the relationship between profit and AEC was positive while the relationship with ROA and AEC was negative. There was no significant relationship between net community benefit and AEC. The implications for positive social change include improved understand of executive compensation alignment, job creation, and IRS net community benefits expense requirements. Lawmakers may use the information to create legislation related to net community benefits expense requirements.

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Dedication

I would like to dedicate this study to my beautiful wife Christine Spikes Long, my children Tré Deshawn, Christopher Wilson-Braxton, and Tegan Marie Long. I would not have been motivated to pursue this dream if I did not have you all to keep me inspired. To my mother, Carline Long-Rice, whom I watched work hard her whole life and kept me away from criminal activities. I continue to be in the house before the street lights come on. Thanks, Mom. My amazing friend Shayna Rae Wade-Argus, who always encouraged me to, “do better.” Your pep talks mean the world to me, and I am eternally grateful. My role model, my brother James Andrew Long. Thank you for making smart financial decisions that enabled me to pursue my education without the additional stresses of life. Also, thanks for not letting me follow your example and encouraging me to get an education. Debra Thompson, thank you for being the best mentor anyone could ask for. Lastly, the United States Marine Corps for instilling honor, courage, and commitment in me. Without commitment, I would have given up years ago.

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Section 1: Foundation of the Study

Organizational success depends on a firm leadership's ability to create sustainability (Ngo & Cass, 2013). In the United States, the nonprofit hospital (NPH) industry must maintain a high level of organizational efficiency to be successful (Himmelstein et al., 2014). In an era of increasing cost and regulation, NPH boards of directors must be sure that executive actions align with the strategic goals of the organization (Brandes, Dharwadkar, & Suh, 2015). The primary mechanism available to boards of directors is the alignment of executive compensation with the goals of the organization (Kolev, Wiseman, & Gomez-Mejia, 2014). In addition to sustaining financial performance, NPHs must also comply with Internal Revenue Service (IRS) regulations necessary to maintain a not-for-profit status as defined by Section 501(c)(3) of the IRS tax code (U.S. Department of the Treasury, 2015). NPH boards of directors may benefit knowing how executives' compensation relates to company performance as measured by (a) return on assets (ROA), (b) changes in net assets (profit), and (c) net community benefits expense as required by the IRS tax code (Young, Chou, Alexander, Lee, & Raver, 2013).

Background of the Problem

NPH executive compensation in the United States has risen steadily, increasing interest in the relationship between firm performance and executive pay (Balsam & Harris, 2014). Although researchers such as Murphy (2013) have identified a significant association between the variables of performance and compensation, others such as Jenter and Kanaan (2015) have conducted studies examining CEO compensation and firm

performance, concluding that the relationship existed but was limited. Corporate governance committees following directives from their boards of directors take on the task of setting executive salaries and determining that average executive compensation (AEC) aligns with the interests of shareholders (Sanchez-Marin & Baixauli-Soler, 2014). These committees' primary task is creating salaries and bonuses for the executives that link to the goals of the organization and the interest of stakeholders (Sanchez-Marin & Baixauli-Soler, 2014). Compensation packages for executives are heavily dependent upon business performance and usually include incentives such as restricted stock, stock options, and bonuses (Martin, Gomez-Meija, & Wiseman, 2012).

In addition, a complete incentive package would include a salary directly linked to changes in the company's stock price (Amoruso & Beams, 2014). Although NPHs do not issue stock, NPH boards are under pressure to ensure financial performance and may benefit from the alignment of executive compensation with business objectives (Saxton, Oh, & Kishore, 2013). Newton (2015) noted NPH governance committees can make excellent business decisions knowing a relationship exists between executive compensation and hospitals' performance.

Problem Statement

Branson, Buxton, Chen, and Smith (2014) noted the difficult decisions NPH boards of directors must make as a result of regulatory oversight and intense competition; executive compensation packages that align with hospital strategic objectives is a necessity for survival. Although the awarded compensation packages for NPH executives increased 244% in the last ten years (Cao & Wang, 2013), NPH executive compensation

packages are still 25% less than for their for-profit counterparts (Peterburgsky, 2012).

The general business problem is that boards of directors are not always confident that the compensation packages awarded to executives stimulate their behavior to act in the organization's best interest. The specific business problem is that some U.S. NPH boards of directors do not know the relationship between financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation.

Purpose Statement

The purpose of this quantitative correlational study was to examine the relationship between financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation. The population for this study was U.S. NPHs that met the following criteria: (a) provide short-term acute care, (b) classified as urban by Medicare, and (c) have more than 250 patient beds. The independent variables for this study included (a) financial performance as measured by ROA, (b) net profit as measured by the change in net assets, and (c) the total dollar amount of net community benefits expense. The dependent variable was AEC, including bonuses. I normalized the change in net assets; community benefits expense, and compensation by including average daily census (ADC) as a controlling independent variable. Stanowski and Lynn (2015) indicated that ADC accurately portrays hospital size. Contributions from this study may encourage a change in business practice through NPH governance committees pinpointing proper incentive packages for executives. Social change from this study may include decision-making persons using results from

this study to establish appropriate executive compensation packages that align with company performance to provide a stable level of health care services to the public while improving the urban economy.

Nature of the Study

Three research methods were available for this study: (a) quantitative, (b) qualitative, and (c) mixed methods (Raich, Müller, & Abfalter, 2014). The quantitative methods were most suitable for this study because I examined quantitative information and relationships existing between dependent and independent variables. Soederberg Miller (2014) indicated that quantitative data if used correctly, reflects accuracy and comprehension of a given set of data. Researchers can examine a phenomenon via collecting and analyzing numerical data for both independent and dependent variables of a study (Yilmaz, 2013). Qualitative research involves a subjective exploration of data and prohibits objective measurements within the sample population (Gioia, Corley, & Hamilton, 2012). Mixed methods include both quantitative and qualitative design methodologies (Halcomb & Hickman, 2015). The purpose of this study was to examine the relationship between (a) ROA, (b) change in net assets, (c) net community benefits expense, and (d) executive compensation, which did not involve an exploration of qualitative data. Neither qualitative nor mixed methods were appropriate for this study.

The three commonly used quantitative research designs include (a) correlational, (b) descriptive, and (c) experimental (Bettany-Saltikov & Whittaker, 2014). According to Boslaugh (2013), the correlational design allows a researcher to test the hypothesis that two or more variables relate to one another. Correlational design was the best method for

this study because the design permits the examination of relationships existing between quantitative variables. Yarcheski, Mahon, and Yarcheski (2012) stated that a descriptive research design results in a description of the status of identified variables. The description of the variables was not the primary focus of this study. Tang and Zhang (2013) noted that an experimental design involves manipulation of independent variables. The experimental design provided no benefits to this study because data manipulation was outside of the scope of this study.

Research Question

The overarching research question was the following: What is the relationship between urban U.S. NPH financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation?

Hypotheses

Based on the previously noted research question, I tested the following hypotheses:

Null Hypothesis (H_0): There is no statistically significant predictive relationship between (a) ROA, (b) change in net assets (profit), (c) net community benefits expense, and (d) executive compensation within the U.S. urban NPH industry.

Alternative Hypothesis (H_1): There is a statistically significant predictive relationship between (a) ROA, (b) change in net assets (profit), (c) net community benefits expense, and (d) executive compensation within the U.S. urban NPH industry.

Theoretical Framework

The theoretical framework of this study was the principal-agent problem, also known as the agency theory (Van Puyvelde, Caers, Du Bois, & Jergers, 2012). Agency theory is a supposition that details business relationships existing between the principals (owners) and agents (managers) of business (Jaskyte, 2012). Kistruck, Sutter, Lount, and Smith (2013) described the assumption that without proper incentives, agents act in their best interest. Bosse and Phillips (2014) used agency theory to help explain how principals design incentives which align efforts of management with organizational goals (Bosse & Phillips, 2014). For agents to perform in the best interest of the principals, compensation and incentives should align with firms' performance goals and shareholders' interest (Wiseman, Cuevas-Rodriguez, & Gomez-Mejia, 2012). Thus, agency theory provides an appropriate framework for this study.

According to agency theory, the proper alignment of executive self-interest with the organization's interest occurs with the alignment of incentives in the executive salary package (Saltaji, 2013). Song, Wang, and Cavusgil (2015) used agency theory to explain the relationships between principals and agents. Song et al. argued that officers whose compensation aligns with the principal's interest would make decisions that maximize organizational wealth. Takacs Haynes, Campbell, and Hitt (2014) noted the maximization of wealth for the principal also maximizes the agent's personal wealth while interests are in alignment.

Definition of Terms

Average daily census (ADC): A calculation of the mean number of patients on any given day during a given year. The calculation divides the total patient days during the year by the number of days the facility operated during the same period (Stanowski & Lynn, 2015).

CEO compensation: Base salary, bonuses, and other benefits awarded to a company's CEO (Haynes, 2014).

Firms size: Total assets used to make earnings predictions based on organization size (Al-Dhamari & Ismail, 2014).

Return on assets (ROA): An indicator of how profitable a company is considering its total assets. To calculate the ROA, divide net income by average total assets (Pleshko, Heiens, & Peev, 2014).

Statement of financial position: The nonprofit income statement is showing the change in net assets as net income (Mwango, Makau, & Kosimbei, 2014).

Surplus revenue: Additional revenue generated by nonprofits that exceed their expenses. Nonprofit organizations report surplus revenue on their statements of activity (Chikoto & Neely, 2013).

Changes in net assets: Surplus revenue related to what for-profit organizations call profit, net income, or revenue minus expenses (Chikoto & Neely, 2013).

Total patient days: The number of patients in a facility at the official midnight census count performed on a daily basis (Stanowski & Lynn, 2015).

Assumptions, Limitations, and Delimitations

Assumptions

The assumptions of a researcher are those assumed factors that may potentially influence the study (Kirkwood & Price, 2013). Researchers may have no hard data, may never know if assumptions are factual, and may not control for assumed data. Examples of assumptions include such items as honesty and the accuracy of information used. If data are anecdotal, it may be best not to report them as they are not necessarily valid or reliable and are results of personal accounts rather than factual research. Consequently, all assumptions were verified.

In this study, I assumed that the data published in the IRS Form 990 reports within the NPH industry accurately expressed the firm's financial position and executive compensation. Bhargava and Manoli (2015) argued that violations of assumptions could be detrimental to a study. If the assumptions of this study were invalid, the results of statistical calculations might present inaccurate relationships between variables. The outcome of this study includes recommendations for further research; violated assumptions may affect subsequent researchers examining nonprofit executive compensation.

Fan (2012) noted that educational research relies on credibility and reliability, which increase with the use of documents certified by a branch of the U.S. government. I assumed that information collected from the IRS Form 990 reports was complete and accurate. The IRS Form 990 provided the most accurate data on compensation, company performance, and net community benefits expense for the year selected for this study.

Limitations

Limitations are factors beyond the researcher's control (Brutus, Aguinis, & Wassmer, 2013). Limitations are the shortcomings, influences, or conditions researchers cannot control; limitations place restrictions on methodologies and conclusions. In considering limitations of this study, I examined the analysis, nature of self-reporting, instrument implementation, time restraints, and population.

To test the hypotheses, I analyzed data from all IRS Form 990s that met my nonprobabilistic sampling criteria. The results of this study may or may not apply to other industries or NPHs outside of my sampling criteria. Venkatesh, Brown and Bala (2013) noted that practical limitations include stakeholders and their interpretations of empirical research. Those stakeholders who have influence in NPHs may arrive at different conclusions depending upon how they interpret the results.

Also, the results may vary if future researchers perform a similar examination of for-profit, government, and privately held hospitals in the United States. Bai (2012) noted the composition of boards of directors varies for profit-driven organizations and influences their performance. The existence of a relationship between examined NPH variables does not prove causality (Arrawatia, Misra, & Dawar, 2015). The examining of cause-effect reasoning is outside the scope of this study.

Delimitations

The delimitations of a study are choices made by the researcher for various reasons (Newcomer, Marion, & Earnhardt, 2014). I made choices in my study regarding what I was not doing and why. I identified the literature not reviewed, the population not

studied, and the reasons why I did not use particular methodologies. I did not examine the circumstances and situations in which compensation committees' base executive pay. Likewise, an inquiry into the motivation behind compensation decisions was beyond of the scope of this study.

Ling Koh, Chai, and Tay (2014) noted the influence that time constraints place on a researcher's agenda. Such constraints during my doctoral study program did not allow the opportunity to interview the boards of every NPH in the United States to find out their motivation behind incentive packages. The data used for the study consisted of publicly available information. This data reduced the reliance on executive members who may have other, higher priority obligations.

The data for this included hospitals that (a) had accessible 2013 IRS Form 990s, (b) provided short-term acute care, (c) were Medicare classified as urban, and (d) had more than 250 patient beds. Large urban NPHs' have unique problems based on their location and size (Ko, Needleman, Derose, Laugesen, & Ponce, 2014). Ko et al. (2014) noted that large urban hospitals are critical to the distribution of services to communities. The research focused on large urban hospitals may not reflect issues of small or rural hospitals. The final delimitation was the sampled year, 2013, which may prevent generalization of results to other years. Wernz, Zhang, and Phusavat (2014) noted similar reliability and generalization concerns within their study, which did not address the for-profit or government-sponsored hospital population. For-profit hospitals do not have 501(c)(3) nonprofit status and are not required to provide community benefits (Baltagi & Yen, 2014). Baltagi and Yen (2014) confirmed that although government sponsored

facilities are tax-exempt, their financial structure is very different compared to NPHs. The generalization of results of this study may not apply to for-profit or government-sponsored hospitals.

Significance of the Study

Contribution to Business Practice

Boards of directors of the U.S. NPH industry determine whether company performance and executive compensation are in alignment (Wilkins, Hermanson, & Cohen, 2015). This study is of value to business leaders because it may help boards of directors make well-informed decisions related to executive compensation. These boards may use the results of this study as a basis for appropriate executive compensation packages. Executives must maintain a high level of financial performance to sustain the organization's mission (Zhang, Lawrence, & Anderson, 2014). The mission of NPHs, to provide community benefits, negatively influences financial performance (Young et al., 2013). The results of this study may contribute to the efficient practice of businesses by assisting U.S. NPH boards in addressing conflicting goals as they develop executive compensation plans.

Implications for Social Change

The implications for social change include boards of directors of organizations comprehending how the performance of NPHs correlates with executive compensation. Compensation incentives reward individuals for the work they perform and the increased value they bring to the company (Hidi, 2015). The question was whether the executive compensation package and business performance are in alignment to create a sustainable

environment. Because the board of directors must agree on executive compensation, those members charged with creating executive compensation packages should have knowledge of the accounting returns for the enterprise. The board of trustees should expect the return on assets to correlate with executive compensation (Sauerwald, Lin, & Peng, 2014). Increasing understanding of executive compensation and business performance could also benefit the board of directors by allowing them to use incentive-based executive rewards aligned with company performance.

A Review of the Professional and Academic Literature

This literature review includes a comprehensive review of academic literature and the theoretical framework supporting executive compensation. In this literature review, I focus on compensation paid to executives in the NPH industry. The review also includes an expanded view of executive compensation examples from other sectors. My research question addressed ROA, changes in net assets, net community benefits expense, and executive compensation. This study includes a review of the relationship between business financial performance measures and executive compensation.

The strategy used for reviewing academic literature included the use of Walden University Library databases, professional databases (Sage, ExecuComp, Capital IQ, Social Science Research Network [SSRN]), and Google Scholar. These databases provided access to scholarly and peer-reviewed articles and journals. The key words used in the literature search include various combinations of the following: *agency theory*, *agency problem*, *stewardship theory*, *social contract theory*, *nonprofit hospital*, *executive compensation*, *executive incentives*, *chief executive officer compensation*, *nonprofit*, *total*

compensation of chief executive officers. Additional keywords included *nonprofit CEO compensation, agency theory, history of CEO compensation, the board of directors, compensation determination, firm performance, CEO incentives, return on assets, ROA, surplus revenue, and net community benefit*.

The parameters of the search were limited to peer-reviewed journals published within 5 years of my graduation in May 2016. The 334 references that contributed to this study consisted of 318 peer-reviewed articles, which represent 95% of all sources exceeding the university required a minimum of 85%. Total references published between 2012 and 2016 are 307, which represents 92% of all sources, exceeding the university required minimum of 85%. The literature review includes 211 references, of which 189 are published between 2012 and 2016.

A thorough examination of agency theory, which guided this study, is at the beginning of the literature review. I examine the theory from its historical inception to its business and practical applications in modern business environments. This section also includes an examination of primary oppositional theories, providing explanations regarding why those theories would not prove beneficial to this study. The pertinent historical roots of scholar and practitioner analysis of compensation follow immediately after.

In addition, an examination of nonprofit organizations and their history of executive compensation is included. Succeeding the history of executive compensation is a description of compensation structure, how payment calculation occurs for senior managers, compensation measurements, and the power of the executives. The literature

review also addresses firm performance, how to measure performance, executive incentives based upon performance, and nonprofit executive compensation.

Agency Theory

The research question in this doctoral study addresses company financial performance measured by ROA, changes in net assets, community benefits expense, and their relationship to executive compensation packages. Van Puyvelde et al. (2012) suggested that agency theory illuminates transparency and accountability within nonprofit organizations. Likewise, Reid and Turbide (2012) noted that nonprofit governance enables sustainability within organizations as they navigate through dynamic changes. The primary objective of the study was governance, through which agency theory provided the most suitable lens.

Agency theory history. Smith's *Wealth of Nations* (1776) initiated an early dialogue related to organizational theory. In the manuscript, Smith predicted that in a firm controlled by an individual or group of persons other than the company's owner(s), the goals of the owner fall by the wayside. Numerous organizational theoretical inquiries would follow over the next century and a half. For instance, Berle and Means (1932) focused their discussion on the separation of ownership and control within big businesses. Berle and Means noted that industries tend to consolidate with ownership positions held by various individuals, limiting an individual's use of power.

Jensen and Meckling (1976) established a concern for ownership control separation by illustrating economic influence through the theory of the firm. Their study identified costs associated with the agency problem, including who handles the cost and

why they are responsible. Means (1929) concluded that the corporate revolution had occurred because only 11% of the largest 200 nonfinancial companies had an owner who held the majority of its shares. Means identified two trends, the growth of concentrated power and increasing stock ownership dispersal, which resulted in grander executive control and shared ownership.

Dorsey (2014) operated under the assumption that the principal and agent are only concerned with the maximization of their personal wealth. Dorsey argued that, according to agency theory, the agent may at times not act in the best interest of the principal. Pepper and Gore (2012) noted that contracts the principal negotiates with the agent are heavily reliant upon firm performance. Bosse and Phillips (2014) observed that to protect the principal's best interest, executive incentives should align with company performance.

The principal can also benefit from establishing monitoring mechanisms as a means of controlling unacceptable behavior by the agent. Jensen and Meckling (1976) defined *monitoring* as a comprehensive monitoring mechanism, such as rules and expenditure restrictions. The principal may also incur other monitoring costs such as bonding and residual losses (Van Puyvelde et al., 2012). Williams (1988) clarified such residual costs as those in which agent decisions are different from that of the principal's interest.

Williams (1988) further argued that principals should seek to reduce extra costs. To accomplish this reduction, the principal bears the cost of monitoring while the agent assumes the bonding costs. In essence, the intricate agency expenses are the least of the

three. Jensen and Meckling's (1976) examination excluded the normative aspect of optimal contracts, focusing only on those that exhibited positive incentives under which the design of contracts occur.

Typically, control and ownership separation occur once the principal reduces an ownership stake by offering a fraction of the interest to new owners (Campbell, Campbell, Sirmon, Bierman, & Tuggle, 2012). A chance to gain better utility may be the deciding factor for principals selling a small interest in their corporation (Galle & Walker, 2014). The interest sold is so small that new owners have no controlling interest. An important notation to such a transaction is that the former owner will continue to control the company as an agent while attempting to protect the interest of the new owners who are principals.

While the new owners may expect a divergence of interest with the old proprietor, new owners may still feel a need to monitor the actions of the former owner (Voronov, De Clercq, & Hinings, 2013). The most efficient way to achieve this monitoring is to subtract control costs from the agreed-upon purchase price (Hannafey & Vitulano, 2013). Noe and Forgione (2014) mentioned new owners often use a strategy referred to as pricing out, where a reduction in old owner's wealth occurs from the net payment for shares purchased. Voronov et al. noted that former owners could buy bonds that guarantee interest alignment with new owners. Keeping agency costs to minimum levels affects the wealth of the former proprietor and becomes an incentive to maintain low levels of company expenses (Noe & Forgione, 2014).

Jensen and Meckling (1976) argued that original owners may dissolve their ownership after examining factors such as bonding and monitoring costs as their relationship to partially owned and owned assets. Jensen and Meckling noted this scenario applies when the owner sells all controlling interest and continues to operate the company in a managerial capacity. Such a newly positioned manager typically agrees to compensate owners for defaults occurring because of their contracts (Goshen & Squire, 2015).

Business applications. Jensen and Meckling (1976) examined the principal/agent relationship because there was limited inquiry into large companies. The lack of investigation necessitated addressing corporate control as resulting from the agency problem. Fama (1980) noted that, while agency theory is a concern, larger firms use established internal controls as a means of responding to outside competition. Fama argued that domestic and external forces controlled by the market inevitably control the managers of a company.

Fama and Jensen (1983a) examined the principal/agent concept in detail while arguing that large firms use hierarchical decision-assignment models. The examples illustrate decision control and decision management and their relationships with decision management oversight and firm function accomplishment, respectively. Fama and Jensen (1983b) noted four components that compose the decision control paradigm: initiation, approval, execution, and evaluation. The solution to managing pending agency problems with upper management is the appointment of boards of directors (Krause & Bruton,

2014). This model allows the board to hold decision control authority while top management maintains decision management privileges.

An established compensation model and business constitutions influence board decisions regarding the agency problem (Saltaji, 2013). A board of directors composed of outsiders seeks to ensure objectivity regarding the decisions of internal administrators. The board of trustees appoints members to monitor major decisions and intervene when necessary. Members of the governing council typically receive stock options or grants as a means of incentivizing their decision alignment with principals (Galle & Walker, 2014). This strategy helps diminish the principal-agent problem. However, market discipline safeguards corporate governance fairness. In similar fashion, management control systems allow managers to monitor employees (Inamdar, 2012). The only exception is when the owner serves in a dual capacity and makes decisions, eliminating the conflict of interest that would otherwise exist. Therefore, the need for separating accounting and operational duties exists.

Practical application. Numerous researchers have supported the assumptions of the agency theory. However, the assumptions in which the methods apply have varying contexts. Examples of these various contexts are a company's equity offerings as illustrated by Shu and Chiang (2014). Additional examples include setting up a new franchise, retail product development strategy development (Williams, Kannan, & Azarm, 2011), and transactions involving labor unions. Although only a few of the numerous contexts, agency theory application to business practice are the results of well-planned strategies.

Shu and Chiang (2014) noted the causes of why company size dictates adoption strategies that likely increase firm value. Shu and Chiang found different approaches by small and big businesses who place their shares on the market. Examining vast and small firms, Shu and Chiang identified timing as an important element when offering equity. Shu and Chiang noted that while larger companies rely upon discretionary accruals, smaller entities rely on timing. Shu and Chiang argued that separate equilibriums be appropriate for different approaches.

Shang et al. (2014) noted that, according to agency theory, problem mitigation occurs through setting up franchises and eliminating the avoidance of duties by the agent. The compensation franchisees receive nothing more than the residuals derived from their owned units (Meiseberg & Ehrmann, 2012). The franchise bears the costs associated with negligent decisions. Summarily, there is a growing base of support for agency theory, with modern scholars and practitioners examining the theory as applied to newer variants and originations.

Nonprofit. Agency theory applies to all industries including for-profit and nonprofit (Van Puyvelde et al., 2012). As NPH competition grows in the nonprofit marketplace, organizations are increasingly required to become more efficient (Wellens & Jegers, 2014). The governance structure of nonprofits is a critical component to an organization's success. If the governance committee or board of directors fails to increase the effectiveness while meeting the needs of its stakeholders, the company could eventually be at risk for closure.

Nonprofit organizations face numerous obstacles as their executives pursue various means of decreasing expenses while increasing effectiveness (White, Lomax, & Parry, 2014). While different areas exist in which expense cutting is an option, executive compensation and auditing fees consume significant financial resources. Scholars have argued that executive compensation in nonprofits is excessive (Dhole, Khumawala, Mishra, & Ranasinghe, 2015). Theoretical modeling suggests that the contracts of executives are incentive based to encourage behavior (Eldenburg, Gaertner, & Goodman, 2014), ensuring that executive incentives are in alignment with the goals of the company. The incentive-based contracts encourage effort on behalf of managers because their personal wealth relates to firm performance. A lack of effort on senior executives' behalf may significantly influence their level of compensation.

The board of directors of the organization assumes the role of the principal while the executive members bear the role of the agents (Botje, Klazinga, & Wagner, 2013). Boards of directors are familiar with the quality guidelines applicable to hospitals, allowing quality standards and the governing body to set goals. The board's ability to monitor quality within the organization contributes to proactivity (McConnell, Chang, Maddox, Wholey, & Lindrooth, 2014). While the quality orientation proves to be a valuable asset via opportunities for improvement, there is no relationship existing between hospital performances.

The principal-agent theory also exists within the organization (Frey, Homberg, & Osterloh, 2013). The executives assume the role of the principals while the employees become agents (Van Puyvelde et al., 2013). The change in roles allows the executives to

focus on their managerial tasks and generate revenue through business activities (Pepper & Gore, 2012). The employee who serves as the agent in this relationship contributes to the executives' success by pursuing objectives that contribute to the success of the organization. Pepper and Gore (2012) noted as a countermeasure; the principal may find grounds to hire new, like-minded agents.

Turbide and Laurin (2014) noted the agency theory mostly inspires the business model of for-profit entities. While the purpose of nonprofit organizations is to create benefits for the community, many have adopted the business models of for-profit firms (Pennel, McLeroy, Burdine, & Matarrita-Cascante, 2015). Executives of nonprofit organizations must establish excess revenue that diverts back into the firms' sustainability and effectiveness. If the nonprofit executives' compensation is dependent upon excess, revenues generated as Grasse, Davis, and Ihrke (2014) distinguished, executives' interest align to encouraging innovation while consuming minimal resources.

Executives have found creative and innovative ways in which their nonprofit firms can reduce cash expenditures (Büchner, Schreyögg, & Schultz, 2014). Malatesta and Smith (2014) noted a few ways in which executives obtain critical resources while using little to none of their own. Bloom, Propper, Seiler, and Van Reenen (2015) noted executives have opted to merge with competitors, form alliances, and co-opt to increase surplus revenue. The growth in excess revenues benefits the organization and executives alike (Sedatole, Swaney, Yetman, & Yetman, 2014). If the executives did not have any incentive package tied to firm performance, they would be reluctant to work with other agencies (Pathak, Hoskisson, & Johnson, 2014).

Nonprofit executives are not in the same operational paradigm as for-profit managers (Pinho, Rodrigues, & Dibb, 2014). Nonprofit executives use similar aggressive approaches to business. To compare with for-profit firms, Vermeer, Edmonds, and Asthana (2014) found that nonprofits use far more aggressive behaviors than their for-profit counterparts do. Such behaviors illustrate an increase in performance. Ben-Ner and Ren (2013) argued that performance-based executive compensation packages increase executive efforts to exceed expected performance. Chin, Hambrick, and Treviño (2013) noted agency theory significantly influenced executives and the decisions they make on behalf of the organization. Speckbacher (2013) noted executives assume the role of agents, their stakeholders, or those who have an interest in the organization assume the principal function.

Alternative Theories of Explanation

In direct contrast to the agency theory, Donaldson and Davis (1991) presented stewardship theory. The stewardship theory is a model of management in which managers are considered good stewards and will act in the best interest of owners (Witesman & Fernandez, 2012). Donaldson and Davis (1991) further noted shareholders' interests' maximization occurs when sharing the responsibility for major decisions among the employees in leadership roles. Conveyed using the stewardship theory, which executives will be a good steward of company assets and resources (Bennett, 2013).

The family-owned business entity is the ideal culture that exemplifies the stewardship theory (Jell, Block, Henkel, Spiegel, & Zischka, 2014). Likewise, Colli (2013) argued that use of stewardship theory provide significant benefits to family-owned

operations via lower transaction costs that increase stability over time. While this theory relies on social psychology, its' focus on the behaviors of executive management members is outside of the scope of this study.

Gray, Owen, and Adams (1996) noted the social contract theory sees society as a series of social contracts. Such contracts refer to implied macro-social and micro-social contracts that relate to the community and the expectations of its businesses (Lacey & Lamont, 2014). Greller (2015) noted the mere implication that an executive may have a socially binding contract does not guarantee that the executives will act in the best interest of the business, owners, or the community in which they conduct business.

The theoretical framework aids researchers in explaining that the company and its' owner are obliged to perform in the community's best interest via social contract obligations (Lozano, Carpenter, & Huisingh, 2015). The examination of a company's position on corporate and social responsibility is outside of the boundaries of this study and renders the use of the social contract theory useless. While this approach may provide benefits to other scholars and practitioners, the social implications are outside of the scope of the study.

Executive Compensation

Academics and practitioners have examined executive compensation since the introduction of separation of ownership from control beginning with Berle and Means (1932) and the separation of financier and manager (Tan, 2013). Takacs Haynes (2014) noted two primary sections of theory examining CEO compensation: agency theory and

solutions outside of agency theory. The external examinations include such items as politics, social associations, and managerial control.

Horton, Millo, and Seraseim (2012) examined over 4,000 firms, concluding that the CEOs compensation relies upon their political and social status. Pepper and Gore (2012) conducted similar research yielding results suggesting behavioral agency theory provides optimal insight into CEO compensation packages. In each of the studies (Horton, Millo, & Seraseim, 2012; Pepper & Gore, 2012), the boards of directors are instrumental during compensation package assembly. The social status and behavioral characteristics of the CEOs are contributing factors concerning compensation packages with principals' interest in mind (Brown, Fisher, Sooy, & Sprinkle, 2014).

To protect principals, CEO awards include stock options or grants that have restrictions in which the stock must maintain a certain price (Branson et al., 2014; Denis & Xu, 2013). If the CEO can take actions that increase the stock price, their compensation package awards them. A growing trend among firms that sell or merge is CEOs receiving larger compensation packages regardless of their choice to stay onboard or exit (Larkin, Pierce, & Gino, 2012). Ishii and Xuan (2014) noted CEOs tend to receive bonuses and richly compensated after acquiring highly connected firms. In direct comparison, Reddy, Abidin, and Woon (2012) nonprofit CEOs have similar monetary increases.

History of Executive Compensation

Executive compensation is a term that appeared in the literature dating back to the late nineteenth and early twentieth centuries according to Hoffman (2015). Researchers

have studied the factors and appropriate levels of reward for chief executive officers of publicly traded companies, focusing primarily on firm size and their surplus revenue (Cao & Wang, 2013). The interest in surplus revenue and executive decisions dates back to the early 20th century (Hoffman, 2015). At the beginning of the 20th century, Taussig and Barker (1925) provided evidence that limits existed in increases in compensation and how company performance correlated with compensation.

Taussig and Barker (1925) noted the lack of decrease in chief executive compensation, even when company profits dropped. For instance, Pandher and Currie (2013) suggested that executives are self-serving and may not work in shareholders' best interest by the maximizing of profit for the company if salary is not a derivative of business performance. For that reason, Haynes, Campbell, and Hitt (2014) noted researchers have focused their efforts on ascertaining the relationship existing between CEO compensation and company size or profits.

Traditionally, the CEO compensation structure has consisted of numerous sources and incentives based upon equity for both profit and nonprofit organizations (Balsam & Harris, 2014). Sheikh (2012) noted the use of financial incentives as a form of motivation for managers to work in the best interest of stakeholders and shareholders. Li and Qian (2011) noted outside compensation committees increase CEO compensation at the expense of shareholders. The lack of relationship associated with equity ownership led to the owners of corporations monitoring CEOs (Desai, 2015). The performance of CEOs provides a clear indication that incentives provided to CEOs positively influenced decisions that increased company value (Martin, Wiseman, & Gomes-Mejia, 2015).

While an equity compensation package tries to influence CEO decisions, guaranteed alignment with profit maximization does not occur, and executive boards may require additional CEO monitoring (Hou, Priem, & Goranova, 2014).

The categorization of CEO decisions falls into two theories: neoclassic and managerialism, which explain compensation structure (van Essen, Otten, & Carberry, 2012). Managerialism asserts that a relationship exists between company size and chief executive officer compensation. Frydman and Jenter (2010) concluded that, given increasing executive pay for small-large cap companies, the large-cap companies have had superior executive compensation increases. Joubert and Fakhfakh (2012) noted company size and its surplus revenue explain a portion of the CEO incentives gap between small and large firms.

Scholars and professionals alike have attempted to measure the effects of CEO compensation on business performance (Zhu & Westphal, 2014). Researchers have concentrated on quantifying enterprise performance to the pay awarded to CEOs (Sun, Wei, & Huang, 2013). Other researchers primarily focused on CEO incentives and shareholder returns. Frydman and Jenter (2010) noted a general underestimation of CEO compensation because of base pay as the primary focus and incentives and their undervaluation. They concluded that the inclusion of all sources of CEO compensation in a comparison to company performance provided best results.

When the board of directors awards stock options to CEOs, which creates a link between company performance and CEO compensation (Frankforter, Becton, Stanwick, & Coleman, 2012). The incentive packages have grown as a business profits increase

(Fernando & Xu, 2012), which contributes to CEO compensation packages creating higher paying contracts for increased risk to executives. The growing danger, related to equity rewards, create wealth changes, which are results of company performance and its equity (Edmans, Gabaix, Sadzik, & Sannikov, 2012).

The compensation packages awarded to CEOs have nearly doubled between 1994 and 2000, even as boards of directors have used options grants as an alternative (Fernandes, Ferreira, Matos, & Murphy, 2013). Graham, Harvey, and Puri (2013) noted that although the stock price is sensitive to performance and increases CEO equity, CEOs are holding fewer shares of stock and more options since 2005. Harford, Mansi, and Maxwell (2012), via regression modeling, determined that options be decreasing as a means of compensation and replaced with stock grants since 2001. While the boards of directors are reducing salaries and increasing the use of stock (options and awards), subsidies are increasingly becoming the method of incentive awarded to CEOs.

The structure of executive compensation. Each package awarded to CEOs is proportionate to company size and typically have performance-based incentives (Eldenberg, Gaertner, & Goodman, 2015). Incentives for CEOs manifest through compensation packages that increase business value, possibly creating wealth for the CEO paid in stock (Frydman & Jenter, 2010). These forms of compensation packages provide CEOs with a base salary, bonuses, stock grants, or options, which fluctuate depending upon the stock performance of the company, illustrating the strong performance of the organization (Jenter & Kanaan, 2015). Many packages contain stock options whereby redemption must occur after a specified amount of time that the CEO

has been in the corporation (Krug, 2013). The CEO's stock options value changes regarding the long-term performance of the enterprise (Edmans & Manso, 2011).

The retention of executives and continuity of leadership are factors that boards of directors consider while establishing appropriate compensation packages (Hermanson, Thompkins, Veliyath, & Ye, 2012). The compensation packages is a tool of the board of directors to attract, employ, and retain top executive-level talent for their organization (Frydman & Jenter, 2010). CEO compensation often parallels company growth along with the complexity of the organization (Gritsko, Kozlova, Neilson, & Wichmann, 2013). The boards of directors' tasks include creating packages that align firm performance and potential actions of the CEO, as well as package competitiveness for a limited pool of talent.

Executive compensation determination. The board of directors develops compensation packages for the CEO (Kabir & Minhat, 2014). However, the IRS and Securities and Exchange Commission (SEC) have established rules applicable to boards of directors (Vermeer, Edmonds, & Asthana, 2014). These rules dictate that companies must rely on their directors and committees outside of their organization. The listing requirements of the main stock exchanges call for said committees to operate independently from the publically traded company. The typical reaction to this condition is the formation of compensation committees that have independent directors (Bouwman, 2011).

These executive boards, composed of different members, establish executive compensation. Dating back to the 1970s, outside directors serving on compensation

committees, has increased alongside institutional ownership and CEO turnover (Kaplan & Minton, 2012). The majority of compensations committees consist of outside directors and institutional shareholders who handle the monitoring of company performance and CEO compensation. Hermalin and Weishbach (2012) concluded that CEO pay raises are the direct result of close CEO monitoring by major shareholders of corporate stock.

Reducing the principal/agent problem, compensation committees created by the Board of Directors are primarily tasked to align CEO pay with shareholder interest. In situations where the CEO pursues an agenda of his or her own and not those that maximize shareholder wealth, an agency problem exists (Galle & Walker, 2014). Dalton et al. (2007) concluded the mitigation of agency problems should include the board of directors performing independent monitoring. The board should retain active corporate control mechanisms that rogue discipline managers discovered via merger and acquisitions.

The existence of complications with CEO's pay results in compensation committees using benchmarking tools (Prybil, Bardach, & Fardo, 2013). The benchmarking tools assist in determining adequate compensation (Bizjak, Lemmon, & Nguyen, 2011; Diprete et al., 2010). Faulkender and Yang (2010) explained benchmarking as a method of comparison among industry competitors. A vast majority of compensation committees (about 96%) use benchmarking as a tool when determining CEO compensation (Faulkender & Yang, 2010). Faulkender and Yang (2010) further stated that a factor in CEO pay is rising is compensation consultants, hired by compensation committees, using benchmarking. Although benchmarking simplifies

the CEO compensation calculation process, the result may lead to larger packages for the CEOs.

DiPrete et al. (2010) stated there must be an alignment of company performance and CEO compensation. The corporate consultants hired to calculate and implement CEO compensation recommend synchronizing CEO pay with that of the company's stock increases (Brandes et al., 2015). The link between company performance and CEO incentive packages solely depends on one's ability to generate appreciating stock. Stock options allow compensation committees to incentivize CEOs by aligning their financial rewards and wealth creation with improved company performance.

Nevertheless, the board of director's task is to remain independent while creating equity incentives aligning with shareholder interest (Laux & Mittendorf, 2012). Laux and Mittendorf further determined that compensation committees of non-executive members contribute to lower incentive packages possessing higher equity. The relationship between stock options and company performance aligns with CEO agenda; compensation committees are more likely to be composed of few or no executive members, resulting in increased equity compensation.

A CEO's past performance may also influence compensation package (Banker, Darrrough, Huang, & Plehn-Dujowich, 2013). The assumption is that previous performance indicates current ability. Researchers anticipate that base salary, a fixed component, has a positive relationship with the company's return on equity (ROE) (Banker et al., 2013). Banker et al. established that a negative correlation exists between bonus and company performance. Committees formed to establish CEO compensation

would benefit from an evaluation of compensation to verify alignment with business performance (Galle & Walker, 2014).

Wang (2011) indicated that the risk-taking actions of an influence enterprise performance result within the context of the size of its board of directors. Through larger incentive packages, executives have shown to take more risk (Wang, 2011). Wang argued that CEOs with smaller oversight boards use less debt while taking on high-risk projects, in direct contrast to their counterparts with a large board of directors. Considering project risk, researchers have hypothesized that the negative influence on risk is a result of board size (Schultz, Zippel-Schultz, & Salomo, 2012).

Additional examination of board size and CEO compensation indicated that the larger the board size, the higher the CEO compensation (Garner & Harrison, 2013). However, increased board sizes are contributing factors leading to inefficient CEO compensation packages (Conyon, 2014). Haynes, Campbell, and Hitt (2014) concluded that a direct relationship exists between board size and CEO compensation; companies would benefit from board size limits, which help eliminate possibilities of excessive nonprofit executive compensation.

Executive compensation measurements. Numerous studies have examined executive compensation in both profit and nonprofit organizations in relationship to business performance using various dependent variables. Ferri and Maber (2013) focused on compensation that is cash-based. Gormley, Matsa, and Milbourn (2013) believed that equity incentives provided the best variable. Pandher and Currie (2013) noted total CEO compensation provided the best utility for their study. Ferri and Maber (2013) used

multiple regression analysis to examine relationships existing between cash (bonus & salary) compensation and company performance. They used various independent variables including CEO compensation, CEO cash pay, CEO total pay, salary, bonus, and stock options. CEO total pay is the dependent variable because other forms of compensation are difficult to translate. Using a panel regression, Ferri and Maber (2013) concluded that CEOs' total compensation has positive relationships with ROE and market reaction.

Lin, Kuo, and Wang (2013) also examined company performance and its relationship to CEO compensation. Lin et al. used regression modeling with CEO cash compensation as the dependent variable and ROE, CEO tenure, CEO age, and company size as independent variables. The data collected included 900 randomly sampled publically traded U.S. companies between 2007 and 2010. Using the top five executives from the sampled data, Lin et al. found that CEO compensation positively related to age, tenure, and company size. Lin et al. also determined that there be a lack of relationship between CEO compensation and ROE, the nonprofit version of return on investment.

Gormley, Matsa, and Milbourn (2013), Ferri and Maber (2013), Lin et al. (2013), and Hou, Priem and Goranova (2014) found relationships statistically significant. These significant relationships exist between CEO compensation, age, tenure, and company size. Instead of using data from a single year, Gormley et al. examined company performance and CEO compensation using data from 1990 to 2004. Their study uses data from approximately 800 corporations and their CEOs' compensation, listed by Forbes magazine as among the 500 largest U.S. public companies. Gormley et al. used stock

variance, assets, market-to-book ratio, and cash flow as independent variables in their research. The dependent variables for their research included the various elements of CEO compensation including annualized base salary, bonuses, stock options and awards, and total CEO compensation. Via multiple regression analysis, the researchers determined that risk-taking options relate to board structuring in for-profit companies.

Researchers Ferri and Maber (2013), Gormley et al. (2013), and Lin et al. (2013) focused their research on executive compensation components. Other researchers have focused on the entire CEO compensation packages. Pandher and Currie (2013) reasoned that CEO total compensation provides an adequate measure as the dependent variable in compensation because of performance research. The use of various forms of equity compensation incorporated into CEO compensation packages, total compensation, has become significant because of the combination of both cash and non-cash compositions (Pathak, Hoskisson, & Johnson, 2014). Pandher and Currie used an analytical framework in which CEOs and stakeholders interact over the firms' resource surplus based on executive bargaining power. Pandher and Currie reported that CEOs of high-growth companies would have higher equity compensation regarding variable cash pay (bonus) and predicted the ratio of equity-to-bonus would increase sharply during bullish markets. Pandher and Currie use total compensation as the dependent variable, Firm performance exhibited no significant influence on for-profit CEO compensation.

CEO power. A common belief among agency theorists that controllership, over which shareholders have no claim, transfers directly to the management of the company, the CEOs (George, McGahan, & Prabhu, 2012; Speckbacher, 2012). Support for this

assumption of managerial power is evident in research by Armstrong, Ittner, and Larker (2012). CEOs possessing a significant influence on the board of directors could exercise their influence on the structure and measurement initiatives leading to excess CEO compensation.

The role of the CEO and its parallelism with the executive board allows direct impact on their compensation package (Speckbacher, 2013). The CEO is traditionally a member of the board of directors of the company in which he or she serves, allowing the additional managerial power (Krause, Semadeni, & Cannella, 2013). The compensation committee hires local managers after considering similarities in governance, financial, and investment policies (Fahlenbrach, Low, & Stulz, 2013). The likelihood of CEO dominance over the board increases when CEOs are managing members of compensation committees. Inevitably, the reduction in CEO compensation establishes dependence on company performance.

Board members can have CEOs from other enterprises, which increase chances of CEO compensation increases because of cronyism (Faleye, 2011). Lim (2015) examined board vigilance, another perspective of the pay-for-performance itinerary reflecting linkage from shareholders' best interest straight to CEO salary and compensation packages. The results of the study conducted by Lim indicated the lack of managerial power's existence.

Lunenburg (2012) argued that acquiring managerial control allows influence over compensation in which the organization pays them. The board of directors uses an optimal contracting theory to determine the alignment of CEO compensation and the

creation of shareholder value (Galle & Walker, 2014). The arrangements present are evident as positive gains in the stock market (returns) relate to the long-term CEO equity rewards (Cai & Walkling, 2011). Graham, Li, and Qiu (2012) stated that CEOs with abilities exceeding those of the average executive typically receive larger compensation packages in both nonprofit and for-profit organizations.

Managerial power exists when CEOs have autonomy to extract excessive pay (rent) from the organization via the board of directors' influence (Garner & Harrison, 2013). Lunenburg (2012) concluded that CEOs who influence board decisions had the managerial power to enable the pay structure creation, which compensation committees should control through governance. Precisely, a CEO's board influence can affect the compensation process in establishing contracts, eliminating the effectiveness of measuring pay-for-performance that constitutes compensation packages (Newton, 2015). Guthrie, Sokolowsky, and Wan (2012) indicated that board independence mitigates managerial extraction of rents (pay) via excessive compensation through its governance and practices.

CEO incentives. Using sample data from 2000 through 2007 associated with executive compensation, Elsilä, Kallunki, Nilsson, and Sahlstrom (2013) concluded that there is a statistically significant and positive relationship between CEO incentives and firm performance. The increasing use of stock and stock options granted to CEOs are major factors contributing to the positive correlation between firm performance and CEO compensation (Zhu & Westphal, 2014). The influence of debt levels in each organization also ensures the use of stock options as compensation for CEOs. Alderson and Berker

(2012) present a valid argument stating that decreases in debt levels are because of CEO stock options, which increase when they are a proponent of total CEO compensation.

However, complications arise when attempting an alignment of CEO incentives and shareholder interest in ways that increase innovation, which increases the pay-for-performance agenda of corporations and their respective CEOs (Zhu & Westphal, 2014). Sheikh (2012) examined the numerous boards of directors of corporations, finding some compensation methodologies in which the boards should use. Initially, Sheikh argued increased innovations within firms have significant correlations with CEO incentive pay. Sheikh noted the types of tools each board used as they provided numerous correlation levels for firm growth and innovation. Sheikh also found that unvested options and 2013 awards provided the most significant form of influence on CEO behavior to compare vested options and those previously granted. Consequently, boards of directors continued use of stock options to align CEO incentives with shareholder interest proves beneficial.

Unintended consequences can arise when the compensation committee introduces incentive components to CEO compensation packages such as earnings management. Earnings management is a strategy that some executives use to control the value of company stock (Hsieh, Bedard, & Johnstone, 2014). Stock options create an alignment of CEO interest and those interests of the shareholders. The alignment relates to the performance of firm stock prices, which induces CEOs to pursue wealth-creating activities. Using regression modeling, Boone et al. (2011) examined equity incentives used on CEO compensation packages. Noted in their study is the passage of the Sarbanes-Oxley Act of 2001 (SOX), firms are using equity incentives as a primary tool to

align CEO behavior and shareholder interest. After the implementation of SOX, executive compensation incentives align with risk management and earnings accuracy (Boone et al., 2011).

With increased financial oversight and regulation, increasing the chances of legal repercussions influence decisions about incentives for CEOs (Bai, Hsu, & Krishnan, 2014). Increased oversight because of regulatory changes directly influences the executive compensation structure. Bereskin and Cicero (2013) noted that since the 1995 Delaware Supreme Court Ruling prosecutors have strengthened ability to target company's management. CEOs can take less risk for their firms by pursuing those projects that have little net present value. As it correlates to CEO compensation, SOX reduces risk-taking by reducing equity incentives in both for-profit and nonprofits (Hostak, Lys, Yang, & Carr, 2013; Hsieh, Bedard, & Johnstone, 2014).

Firm Performance

Ding, Jia, Wilson, and Wu (2014) argued that the compensation committee of each corporation should arrange compensation packages as dependent upon the company's market performance. Frankforter, Becton, Stanwick, and Coleman (2012) and Hou, Priem, and Goranova (2014) similarly argued that boards of directors should create incentivized compensation packages aligning with the interest of shareholders. The board of directors, which determines executive compensation, should ensure the alignment of executive and shareholder interest using long-term equity-based incentives (Takacs Haynes et al., 2014). The alignment of financial incentives, mainly stock, influences managerial decisions to parallel those of shareholders. The board of directors can

establish an aligned agenda by issuing company stock as a form of executive payment (Frankforter, Becton, Stanwick, & Coleman, 2012). Martin, Gomez-Mejia, and Wiseman (2012) noted ownership of equity by executives encourages managerial decisions that increase shareholder wealth and positively influence long-term business performance.

Problems exist with the idea of CEO compensation alignment with the interest of shareholders using stock awards (Haynes, Campbell, & Hitt, 2014). First, the CEO may seek riskier activities that contribute to the long-term performance of the firm. Such decisions of the CEO can increase substantial risk in pursuit of compensation that results from the firms' stock performance (Lim & McCann, 2013). As the use of stock compensation increases, chief executives increasing the business risk also seek to increase their personal wealth tied to company performance (Brick, Palmon, & Wald, 2012). Increasing returns for investors (shareholders) is a critical component of CEO success. The executives who can produce returns exceeding expectations reflect shareholders' interest (Banker et al., 2013).

Prevost, Devos, and Rao (2013) noted CEO financial returns are highly dependent on the firm and its performance. Kolev et al. (2014) documented an increase of 614% in real dollars paid to CEOs using equity-based compensation incentives. Aligning CEO compensation packages with shareholder interests create a positive financial return benefit to the firm (Cowen, King, & Marcel, 2015). Accounting measurements provide the most relevant tool for analyzing CEO compensation using the companies' return on equity (ROE). ROE illustrates, by using numerical information, ratios relating to change of the past, current, and future firm performance (Nizam & Hoshino, 2015).

The more market share that a company can capitalize, the better the chances that CEO compensation will significantly increase. Gabaix, Landier, and Sauvagnat (2014) identified market capitalization as an important factor in a direct relationship with CEO compensation, albeit not considering performance. Cho, Huang, and Padmanabhan (2014) suggested that the relationship between firm performance and CEO compensation lacks existence. While CEO compensation is excessive in larger companies, in alignment with previous studies, the exception is positive for firm revenue based upon the relationship between CEO compensation and business performance. However, Cho et al. limited their inquiry to Taiwanese firms invested in China from 2001-2009. Fich, Starks, and Yore (2014) noted performance-based CEO compensation packages fail to respond to the underperformance of the company.

Filatotchev, Jackson, and Nakajima (2013) studied current debates criticizing pay packages and their assumed sensitivity to performance. Bradley (2013) concluded that no correlation exists between any CEO compensation variables and company performance variables using data from 2010 through data available in 2015. Bradley reported that ROE lagged positive relations with other payments made to the CEO and was in direct contradiction to the findings of Doucouliagos, Graham, and Haman (2012). Doucouliagos et al. determined that company performance relate to CEO incentive pay.

Disagreements exist in the current literature relating to firm size and its influence on CEO compensation packages within the financial services industry (Lin, Kuo & Wang, 2013). The compensation packages awarded to CEOs considers firm size and tenure, both of which influence the attractiveness of the compensation package (Lin et

al.). Nonetheless, research suggests the relationship existing between CEO compensation and firm size is delicate and relevant to the period used in the study (Bodolica & Spraggon, 2015).

The current exercising of CEO compensation structuring results from the board of directors aligning incentive packages with targeted financial accomplishments of the firm (Matolcsy & Wright, 2011). The identified financial goals may vary from year to year in comparison, which are results of economic conditions during that fiscal period. Also, using data from 1994 to 2003 from the Fortune Global 500, Charfeddine, Bouaine, and Smida (2011) conducted research using the least squares regression analysis. The dependent variable used in this analysis was the financial accruals of CEO deferred compensation. The independent variables consisted of firm performance, performance predictions, market capitalization, and annual compensation. Charfeddine et al. argued that CEO influence could lead to earnings management, which directly influences their compensation levels. Charfeddine et al. illustrated the significance of all the variables used, noting that, while annualized compensation is positive, a negative coefficient exists for current and long-term performance. Consequently, the authors noted CEOs' engagement in earnings management to improve annualized compensation. While economic climate influences CEO compensation, CEOs can manage earnings in ways that increase their compensation (Charfeddine et al.).

Sun, Wei, and Huang (2013) examined data from the U.S. property-liability insurance industry from 2000 through 2006. The primary source of data for the efficiency analysis is the regular annually filed financial statements extracted from the Compustat

Executive Compensation Database. To ensure the integrity of compiled data all monetary value variables were a direct reflection of real 2000 values using the consumer price index (CPI). The selected population is firm executives, of which a sample of 322 exists. Sun et al. then tested the relationship of compensation level (cash, bonus, and non-cash compensation) and structure with efficiency measures, resulting in 31 firms mapping to 139 observations. Sun et al., using descriptive statistics and regression modeling, identified a statistically significant positive correlation between CEO compensation and firm efficiency. Sun et al. note executive compensation packages have significant positive correlations with accounting returns. This notation is in agreement with previous researchers (Banker et al., 2013; Lin et al., 2013; Sigler, 2011).

The market and accounting returns both directly influence CEO compensation. Sun et al. (2013) found that, regardless of measurement, cost efficiency (CE) and revenue efficiency (RE) relate to total CEO compensation. The results of this study are in direct contradiction to previous studies (e.g., Haynes, Campbell, & Hitt, 2014) and findings indicating a negative relationship between CEO compensation and firm performance, demonstrating a need for further inquiry.

Firm performance measurement. In an examination of CEO compensation packages, varieties of independent variables exist that provide utility for measuring firm performance (Walls, Berrone, & Phan, 2012). Return on equity (ROE) is an accounting-based measurement derived by dividing the company's income by its total equity. Sigler (2011) and Banker et al. (2013) used ROE as the measurement tool for business performance while examining the relationship between CEO compensation packages and

ROE. The independent variables used in Sigler's (2011) study included tenure, the beta of the enterprise (specific risk), and ROE, and CEO compensation packages were the only dependent variable. The population used for this study consisted of 280 publically listed companies on the New York Stock Exchange between 2006 and 2009. In conjunction with the results of previous research, Sigler concluded that a firm's size is the most important factor foretelling CEO compensation packages. The results indicate the relationship between a companies' ROE and CEO compensation is positive and significant.

The multiple linear regression models used by Banker et al. (2013) to measure firm performance used stock performance and ROE as independent variables. The dependent variables of the study included CEO equity compensation, bonus, and base salary. The results of the study using data from 15,512 firms indicate that from 1993 to 2006 ROE and stock performance maintained a positive and significant relationship between CEO equity compensation and CEO salary. Nonetheless, the relationship between ROE and bonus are negatively related (Banker et al.).

Vemala, Nguyen, Nguyen, and Kommasani (2014) selected annual revenue and net income as independent variables for firm performance measurement. The dependent variables include CEO bonus and salary. Vemala et al. used time-series cross-sectional regression to study the relationships within a sample of Fortune 500 firms listed in 2008 with 2241 observations. The results indicate that CEO compensation has a significant positive relationship between firm size and firm performance. However, while some companies are experiencing a crisis during which time their CEOs equity decrease, equity

compensation increased during the post-crisis period (DeVaro & Fung, 2014). In summary, the use of total revenue and ROE as independent variables during the evaluation of accounting measurements reveals firm performance as a correlation to CEO compensation packages.

Ozkan (2011) and Lin et al. (2013) both use modified variables that accounted for the nonconformity among firms. The modifications to these studies are to variables that include firm size, CEO age, and CEO tenure. The expanding influence of CEOs within firms could result in higher CEO compensation packages because they may affect compensation (Ozkan, 2011). Intrinsically, CEO age and tenure may contribute to the reinforcement and allowance of enriched compensation packages (Ozkan, 2011). The number of years the CEO has held his or her position is CEO tenure and age refers to the age of the CEO. Lin et al. concluded firm size, when controlled by total assets, has a significantly positive relationship between the incentives package included in CEO compensation. Lin et al. also defined firm size as a measurement of companies' total assets.

Market performance, when used as a benchmarking tool, indicate the returns shareholders experience increase while maintaining ownership of company stock (Banker et al., 2013; Joubert & Fakhfakh, 2012). Market performance-based evaluations present problems because CEO stock incentives and shareholder stock will experience similar growth (Nyberg & Ployhart, 2012). Callan and Thomas (2014) used the multi-equation system to conduct their investigation examining relationships between CEO compensation and independent variables. The findings of their study conclude that

corporate social responsibility is among executive salary determinants. The net community benefits expense demonstrates corporate responsibility and needs further research.

ROA. Investors and stakeholders use ROA as a metric to measure management's ability to generate earnings while effectively using its assets (Nulla, 2013). ROA measures an organization's ability to control expenses and use assets to generate revenue (Gapenski & Pink, 2011). Nulla (2013) noted the user of the calculation's divides the firm's change in net assets for the period by average total assets, resulting in a percentage.

Beltratti and Stulz (2012) noted the importance of ROA and its contribution to firm policies. Researchers examine the banking industry regarding how ROA contributes to the banking policies and practices of banks on a globalized level. Companies that use ROA as a basis for policy implementation are illustrating their ability to produce revenue without overextending the firm (Colquit, Crutchley, & Swidler, 2012). The investors or stakeholders of a corporation are confident in the firms' actions.

Hirshleifer, Low, and Teoh (2012) examined ROA and relationships existing with CEO compensation. Their research indicated that managers who exude confidence generate a higher ROA than those that do not. The researchers also suggest that the industries in which firms operate are fundamental to the CEO's success. The ROA is a factor that has relations to CEO compensation packages (Pathak, Hoskisson, & Johnson, 2014), providing its necessity as a variable for this study.

Younis, Liu, and Forgione (2013) examined the turbulent marketplace in the hospital industry creating threats to teaching hospitals' financial viability. The researchers conducted an in-depth analysis of ROA and leadership structure. In their sample of 219 hospitals, the researchers concluded that the cost structure, along with executive salaries, is significantly associated with the hospitals' performance. Harrison, Spaulding, and Mouhalis (2015) noted that hospitals engaged in teaching practices need to manage their allocated resources and investments in fixed capital that support business.

Clark, Murphy, and Singer (2014) examined the role by which executive leadership influences firm performance. While various governance factors that influence executive agenda exist, the researchers note ROA varies within the nonprofit and for-profit firms. The ROA of a nonprofit firm is substantially higher than that of the for-profit firm. The data from 100 firms indicated a ROA mean of 2.452 and 0.534 for nonprofit and for-profit firms respectively. The higher mean indicates a focus on ROA while the lower indicates that for-profits may concentrate their efforts on return on equity (ROE). Harris (2014) conducted similar research that examined the board of directors' influence on nonprofit performance, specifically ROA. Although a limited study, there is evidence that supports the influence of board characteristics. The characteristics include such items as diversity and expertise. The improved nonprofit performance is the result of specific board characteristics, as indicated by statistical calculations of this study.

Surplus revenue. The terms, surplus revenue or net change in assets, reflect the difference between revenue and expenses and apply to profit and nonprofit organizations (Chikoto & Neely, 2013). Surplus revenue in nonprofit organizations is the equivalent of

profit in for-profit organizations (Hamann & Bezboruah, 2013). Novy-Marx (2013) noted the definition of surplus revenue as the excess revenue generated by a firm after subtracting its cost of goods sold and other operating expenses. Income generated during its business operating process is the foundation of its surplus revenue (Bowman, Tuckman, & Young, 2012). When completing the IRS Form 990, the accountant must classify revenue into the following categories: contributions and grants, (b) program or patient revenue, (c) investment activities, and (d) other revenue (IRS, 2014). The IRS requires the accountant to classify expenses into three categories including: (a) program service expenses, (b) management and general expenses, and (c) fundraising expenses. The calculation of revenue minus expenses represents a change in net assets and reflects the profitability of the organization (Gapenski & Pink, 2011).

Leary and Roberts (2014) investigated surplus revenue and its relationship to the economic policy of a company. The research examined the influence of peer companies and their surplus revenue within a business. The researchers note the effects of peer influence were necessary for capital structure. Essentially, the company will shape its financial policies after reviewing competitors and their surplus revenue (Maarse, Jeurissen, & Ruwaard, 2015). If the firm adheres to the completion and remains proactive in its economic systems, they can better adapt and react to market conditions.

The compensation of CEOs is reliant on benchmarks set by the competitors of the firm (Albuquerque, De Franco, & Verdi, 2013). This strategy used by the board of directors reflects a firm's self-serving behavior. While this contributes to higher CEO compensation, it also contributes to the rewarding of unobserved CEO talent. However,

observations show that the compensation packages reward CEOs for maintaining and increasing surplus revenue (Speckbacher, 2013).

Net community benefits. The IRS has issued directives that require nonprofit hospitals to pass organizational and operational tests to maintain their nonprofit status. The directive is under sub-section 501(r) of the internal revenue code (Campbell, Smith, & Hostetler, 2013). Included in the organizational test is the measure of community benefits. The community benefits are the amount of uncompensated medical care provided to their respective communities (Rubin, Singh, & Jacobson, 2013). This requirement is important to the organization as not abiding by the requirement can result in the IRS canceling the organization's 501(c) (3) status.

The boards of directors of nonprofit hospitals make tough decisions that affect the livelihood of the organization (Carman & Nesbit, 2013). The boards must decide if the firm should forego its 501(c)(3) status by reducing the amount of uncompensated care provided to the community. The board of directors can also modify the mission of the organization so that it parallels a for-profit entity (Hazen & Hazen, 2012). Ideally, the board members take an active role in the organization. If the board of directors does not take an active role in the organization, they may not have valuable insight into the effect of losing their 501(c)(3) status (Hazen & Hazen, 2012). De Andrade Costa (2014) noted when the governance committee of a nonprofit hospital includes a member who is a practicing physician; the governance committee is more insightful into policies and regulations regarding uncompensated care. The practicing members may provide valuable insight including legal ramifications, fiscal concerns, and medical expertise.

Affordable Care Act standards requiring community benefits have increased CEO strategies to maintain nonprofit status (Day, Himmelstein, Broder, & Woolhandler, 2015). Such strategies include using loopholes such as joint ventures (Pan, 2013). Executives use loopholes in the U.S. tax code to reduce expenses, giving the appearance of better performance and increased community benefits expense (Leroux, 2012). The board of directors may take particular interest in the IRS' community benefits requirement as it may change the business model if the revocation of the nonprofit status occurs and illustrating a need for a further scholarly investigation.

Firm Compensation Strategy

Researchers often examine the existence of any relationships between performance-based compensation packages and firm performance (Gordon & Fischer, 2014; Grigoroudis, Orfanoudaki, & Zopounidis, 2012). Chen and Jermias (2014) examined executive compensation literature and its correlation to firm strategy, using a sample pool of 194 S&P firms within the manufacturing industry. They found that differential product firms use higher performance-linked compensation packages than cost-leadership companies. The results of the study also indicated a positive relationship between strategy and remuneration. If the executive compensation structure and firm strategy are not in harmony, the performance of the company is negatively affected (Abor, 2015).

The human characteristics of executives also contribute to the success or failure of a business. O'Reilly, Doerr, Caldwell, and Chatman (2014) observed executives who exhibit narcissistic traits, and their potential to influence firm strategy and performance.

Such characteristics can have a direct effect on the ability to produce a profit or generate excess revenue in the case of nonprofits (Speckbacher, 2013). The executives who exhibit more narcissistic behaviors tend to have longer tenure within their firms. The same highly compensated executives receive higher direct compensation (salary and bonus), higher equity, and larger discrepancies between themselves and other executives. This non-performance-based compensation creates an environment where the executives receive financial rewards even if the firm fails to meet performance standards.

The boards of directors of organizations examine the human capital that executives bring to help determine compensation packages. Peng, Sun, and Markoczy (2015) noted international experience and political ties have emerged as potential drivers of executive compensation. Executives with international experience bring a globalized view on business to an organization. Those with political ties, such as an ex-Senator, can help an organization navigate confusing laws. Executives, executive human capital, and corporate governance influence an organization's strategy.

Wellens and Jegers (2014) noted the influence of legislation on organizational strategy. Personal political views, beliefs, and affiliations are also contributors to an executive's motivations and decisions while bearing the risk of the firm. Chin et al. (2013) examined political conservatism and liberalism regarding the corporate responsibility companies' exhibit, whereby a conservative executive controls the company is far less than their liberal counterparts. The liberal executives exhibit social responsibility on a grander scale than their counterparts. Chin et al. noted political ideologies correlate to firm strategies.

If the leaders fail to meet performance standards, it may be in the firm's best interest to refocus its programs, or change its strategy. Pathak, Hoskisson, and Johnson (2014) examined such changes and their influence on executive compensation. The authors indicated that the board of directors and the executives acceded to uncertainties resulting from the strategic change. The institutions sampled for the study are likely "settle up" with the executives, or compensate them for their risk-taking and effort during the transitional period within the firm. The findings also suggest the use of prior performance, industry dynamism, and corporate governance as moderators of the restructuring relationship.

Executive compensation is also a primary indicator in studies examining firm innovation (Akingbola & van den Berg, 2013). Executives are more motivated to pursue innovative strategies when compensation links to performance (Baranchuk, Kieschnick, & Moussawi, 2014). The compensation link alongside agency theory predicts that executives' behavior will be in the best interest of the shareholders as their wealth is also a derivative of performance. The strategic objectives of the firm may drive the company, but its innovative capacity exhibits the ability to influence firm strategy.

Although most research has examined the influence of executive compensation on firm strategy, there are limited studies illustrating the influence on family-owned businesses. van Essen, Carney, Gedajlovic, and Heugens (2015) suggested that family firms outperform their public counterparts. The strategic objectives of a family business are less complex than public companies and are more flexible. A family-owned business can adopt or change strategy more rapidly than a public company. The smaller entity

exhibits a flexibility that larger organizations do not have. The ability to have a proactive marketing strategy plan provides firms the ability to address changes in their respective product offerings market.

In nonprofit organizations, the boards of directors' election of primary executives influence firm strategies (Ben-Ner & Ren, 2013). Zhu, Wang, and Bart (2014) noted scholarly research and business view strategy influence within the organization from different perspectives. An investigation of 217 for-profits and 156 nonprofit organizations in Canada indicated that active boards of directors play equal parts in strategy implementation and execution. The board members' inclusion in major decision-making processes ensures that strategies are in alignment with company mission and executive compensation.

Eldenburg and Gaertner (2015) argued that although highly compensated, executives assume the risk while running an organization. Senior executives use human resource management practices as a strategy to manage their human capital (Slocum, Lei, & Buller, 2014). The efficient management of human resource components of an organization is critical to strategy and mission accomplishment. Human resource components within most organizations understand the complexity of human capital management. Executive decisions for an organization include aspects of human capital management (Grigoroudis et al., 2012). A lack of inclusion of human capital ideologies may negatively influence the company's profit or excess revenue. The opportunity exists to examine executive compensation compared to excess revenue.

Firm Sustainability

Kurucz, Colbert, and Marcus (2013) noted ideas of creating a sustainable environment has been at the forefront of the managerial agenda since 1960. Although executive compensation provides the basis in which sustainable solutions are born, it also encourages ethical decisions by senior managers. Cumming, Hou, and Lee (2014) noted creating sustainable growth required external financing development, governance, and institutional reform. The boards of directors of organizations may use institutional reform and external funding elements as important tools while creating executive compensation packages. Maas and Rosendaal (2015) sampled 490 public firms from 11 countries and different business sectors. The long-term and short-term targets of the companies provided content from an environmental, social, or combined point of view. The results suggested that an average of 33% of the firms used sustainable targets when determining executive compensation since 2010. The objectives of the executives are typically short-term and focus on social issues. Industries more inclined to include sustainable targets are those that produce toxins in the environment.

Other forms of sustainability include economic, legal, and philanthropic. To create profits or excess revenue, the executives must be economically responsible. The term *economic responsibility* refers to the primary agenda of the executives: turning a profit. Ims, Pedersen, and Zsolnai (2014) provided instances where managers' performance resulted in negative economic activity for firms, because of relying on the ever-increasing levels of executive compensation. The resulting negative performance associated with executive compensation is a debilitating factor for sustainability. The

executives within a firm are liable for their actions when it results in legal repercussions against the entity. Uduji (2014) observed that management handles the context in which executive efficiency is at optimal levels within the organization. Board members should be concerned that executives are not cutting corners and taking shortcuts that could result in legal action against the company. If the executives take unethical shortcuts, they are jeopardizing themselves and the reputation of the business, creating trouble and attracting unethical investors (Stevens, 2012).

The final form of sustainability is the firm's philanthropic ability. The philanthropic activities of the firm can lower its tax liability; however, operating using agency theory creates a problem for executives (Masulis & Reza, 2015). The problem is that when executive compensation links to performance (profit/excess revenue), executives may thwart the philanthropic efforts of the firm as their wealth is dependent upon performance. The other item considered is the tax rate of the company. If the firms' tax rate is astronomical, it may be in their best interest to become philanthropic to reduce their tax liabilities. On the other hand, if their tax liabilities are minimal, performance-based incentives may produce heavy incentives for executives although the community benefits provision exist. A thorough examination of relationship existing may contribute to efficient business practices.

Transition and Summary

Section 1 of this study began with an introduction to the problem of boards of directors' limited knowledge of executive compensation packages and their relationship to firm performance. I elaborated on the problem of board members not knowing

relationships existing between financial performance, profit, and net community benefits expense. Subsequently, I detailed the purpose of this study, its value to the business; contribute to effective business practices and the potential for social change. There is an explanation of the available research methods and details on why the quantitative method is best for this study.

The assumptions, limitations, and delimitations of Section 1 entailed an explanation of the agenda. The assumptions conveyed were items assumed correct but lack hard data for support. The limitations of the study detailed those influences outside of my control. The delimitations are those items that the researcher has chosen not to include for various reasons. The significance of this study and its implications for social change proceeds the final portion of Section 1.

In the closing segment of Section 1 is the review of the professional and academic literature. This review began with a detailed history of agency theory, the guiding theory for this study, as well as two alternative theories and reasons why they were not sufficient for this study. I explored executive compensation, its history and its application to business practices in 2015. The literature review leads to firm performance, which may or may not relate to the compensation packages awarded to executives. The literature review provided an overview of the executive compensation topic as well as its weaknesses, which I used to justify this topic.

In section 2 of this study, I described the primary elements of this research project such as my role as a researcher, the research method & design, maintaining an ethical study, and the techniques for data collection, analysis, and maintaining study validity. In

Section 3 of this study, I provided an additional overview of the study before I presented the findings. I conveyed the findings to professional practice and implementation for social change. The final portion of Section 3 includes my recommendation for action, future studies, reflections and study conclusions.

Section 2: The Project

In the context of academic research, there is continual interest in the salaries of executives and their relationships with organizational strategies (Hermalin & Weisbach, 2012). The strategies used to optimize administrative agendas are products of a board of directors, which implements performance-based compensation initiatives. An incentive package correctly aligned with shareholder interest in for-profit organizations rewards executives who produce positive financial results for their respective company (Sigler, 2011). The results of this research may be useful to boards of directors of NPHs to recognize relationships existing between ROA, change in net assets, net community benefits expense, and executive compensation in NPHs. In this section of the study, I address important issues along with research design and method.

Purpose Statement

The purpose of this quantitative correlational study was to examine the relationship between financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation. The population for this study was U.S. NPHs that met the following criteria: (a) provide short-term acute care, (b) classified as urban by Medicare, and (c) have more than 250 patient beds. The independent variables for this study included (a) financial performance as measured by ROA, (b) net profit as measured by the change in net assets, and (c) the total dollar amount of net community benefits expense. The dependent variable was AEC, including bonuses. I normalized the change in net assets, community benefits expense, and compensation by including ADC as a controlling independent variable. Stanowski and

Lynn (2015) indicated that ADC accurately portrays hospital size. Contributions from this study may encourage a change in business practice through NPH governance committees pinpointing proper incentive packages for executives. Social change from this study may include decision-making persons using the results to establish appropriate executive compensation packages that align with company performance to provide a stable level of health care services to the public while improving the urban economy.

Role of the Researcher

The role of the researcher in the data collection process is to collect and analyze data to draw conclusions (Szyjka, 2012). My experience with the subject was minimal. Although I was familiar with accounting terms and concepts, I had not worked in the NPH industry. Researchers need to remain unbiased and address possible ethical dilemmas before they arise (Pickard, 2013). A researcher needs to be conscious of potential ethical dilemmas while conducting research (Halse & Honey, 2014; Laukkanen, Suhonen, & Leino-Kilpi, 2015). To assist in this goal, the Belmont Report (1979) provided guidelines that researchers must adhere to while conducting research on human subjects. I used secondary, nonhuman data for this study; the requirements of the Belmont Report did not apply to my research.

Participants

Similar to Boyer, Gardner, and Schweikhart (2012), I used publicly available secondary data for this study. Although the Belmont Report (1976) noted respect for persons, beneficence, and justice when using human participants, I did not use human participants. I did remain mindful of the Belmont Report's requirements in the event

human contact did occur. Schulman et al. (2013) noted that secondary data provides utility to researchers for various subjects because of its accessibility. Fanning (2014) noted that researchers save time when using secondary data. I used secondary data in an electronic format that was available from National Center for Charitable Statistics (NCCS).

Research Method and Design

Academic researchers may choose from three types of methods while conducting their inquiry: (a) qualitative, (b) quantitative, and (c) mixed-methods (Raich et al., 2014). Gioia et al. (2012) noted that although each method requires different forms of samples and data, researchers use the most appropriate method that addresses their research questions. For this study, I chose the quantitative method because the specific business problem, purpose statement, and research question addressed a quantitative relationship. Also, I was interested in quantitative data.

Method

Hannes, Heyvaert, Slegers, Vandenbrande, and Van Nuland (2015) described qualitative research as exploring and understanding the meaning individuals or groups ascribe to a social or human problem. Gioia et al. (2012) noted that qualitative research methods are exploratory tools researchers used to gain an understanding of underlying reasons, opinions, and motivations. Qualitative research methods provide maximized utility for investigators seeking to explore participants' points of view (Wilson et al., 2014). Santos, Black, and Sandelowski (2014) noted that qualitative research requires human participants. I used numerical data generated by humans for this study and did not

attempt to understand how individuals or groups interpret executive compensation. For that reason, I found no utility in the qualitative research method.

The mixed-methods approach provides researchers the tools needed to gain an understanding of a phenomenon while simultaneously allowing quantification (Boeije, Van Wesel, & Slagt, 2012). Mixed methods research combines both qualitative and quantitative methods (Halcomb & Hickman, 2015). Venkatesh et al. (2013) indicated that mixed methods allow investigators to examine a phenomenon while collecting supporting data. The results of the mixed methods study may provide subjectivity and objectivity simultaneously argued Venkatesh et al. Due to the cost of attendance at Walden University and my time constraints because of diminishing financial support for higher education; I did not find any utility using the mixed methods research design.

Roos, Thakas, Sultan, Leeuw, and Paulus (2014) noted that quantitative research enables researchers to examine numerical data. Similar to Hammer and Berland (2014), I sought to quantify the relationship between a set of variables. Similar to Zuo and Xing (2014), I used the quantitative research method to test my hypothesis. The quantitative method was ideal for this study because quantitative data is less detailed than qualitative or mixed-methods. Additionally, quantitative research designs are not reliant upon responses from participants.

Research Design

Hagger and Lyszczynska (2014) argued that the links between all elements of research are products of the design. Vannest and Ninci (2015) identified three available quantitative designs: (a) experimental, (b) descriptive and (c) correlational. Simons,

Smith, and White (2014) noted that experimental designs involve the manipulation of variables to measure change. Huang, Liu, Song, and Keyal (2014) noted that experimental research designs are susceptible to human error. I did not manipulate any data; therefore, I found no utility in the experimental design.

Tastan et al. (2014) noted that descriptive designs are useful when observing, describing, or documenting. Tonetti and Palmer (2012) and Ploutz-Snyder, Fielder, and Feiveson (2014) argued that descriptive research is useful to identify the mean, mode, and standard deviation. I did not observe, describe, or document; therefore, I found no use for the descriptive design. I did not seek to understand the descriptions of variables.

Zuo and Xing (2014) noted that researchers use correlational studies to examine relationships between two or more variables. Schoenbaum, Esber, and Iordanova (2013) noted that correlational research enables researchers to measure the intensity of relationships among variables. Hasan, Bègue, Scharnow, and Bushman (2013) suggested that correlational designs are intricate in examining issues not addressed during experiments. Because I examined secondary numerical data, the correlational design was most beneficial to this study.

Population and Sampling

The population for this study was U.S. NPHs that met the following criteria: (a) provide short-term acute care, (b) classified as urban by Medicare, and (c) have more than 250 patient beds. This population demonstrated alignment with the overarching research question addressing the relationship between urban U.S. NPH financial performance as measured by ROA, change in net assets (profit), net community benefits

expense, and executive compensation. Durand (2013) and Landau and Stahl (2013) noted that an appropriate sample size is important to produce valid results.

To have a controllable sample like the one used by Bhatta, Karki, and Aryal (2015), I used a nonprobabilistic purposive sampling technique. Milroy, Wyrick, Bibeau, Strack, and Davis (2012) noted that nonprobability sampling does not involve random selection. Barratt, Ferris, and Lenton (2014) described purposive sampling as a method that allows the rejection of data that does not fit a particular profile. Barratt and Lenton (2014) asserted that nonprobability sampling allows researchers to use various criteria to create manageable samples while being cost efficient. Barratt et al. noted the primary advantage of using nonprobability sampling is that there is no need for generalization as a sample may not truly exemplify the generalized population. I chose to use the nonprobabilistic purposive sampling technique because I could limit the sample population based on defined criteria. Using the defined criteria of U.S. acute care urban hospitals with more than 250 beds resulted in a purposeful sample of 120 hospitals.

While I chose a nonprobability purposeful sampling technique, I also considered but rejected a probability sample. Otto, Otto, and Scholl (2013) noted that an important advantage of a simple random sample includes the ease of assembling the sample. Dunn, Wilson, Nicholls, and Broadhurst (2012) mentioned the sample is a representative of the population. Bornstein, Jager, and Putnick (2013) noted that an unbiased random selection and representative sample are significant when drawing conclusions from the sample results. Bornstein et al. argued that a major disadvantage of purposeful sampling is that the sample does not represent the population in which drawn from. I was not interested in

a representative sample of the entire population. I was only interested in those hospitals that aligned with my research question.

Using a purposeful sample of 120 NPHs exceeded the minimum needed. Daniel (2012) noted that although a purposeful sample does not follow probability requirements for sample size, the sample size requirements for probability samples provides a suitable point of reference for determining the sample size. Power et al. (2012) supported the G*Power 3 ability to achieve satisfactory power. I used G*Power 3 and determined that the minimum sample size to achieve a power of .95 was 89. The purposeful sample of 120 hospitals was sufficient for this study. After three outlier removals, I used a sample of 117, which still exceeded 89.

Ethical Research

Before initiating data collection or analysis activities at Walden University, doctoral candidates must submit their proposed studies to the institutional review board (IRB). Johnson et al. (2014) mentioned that an institution's IRB ensures that doctoral candidates follow applicable laws, professional standards, and institutional requirements. Savickas and Porfeli (2012) argued that researchers have an obligation to demonstrate the reliability of their study.

Like Harrison and Thornton (2014), I chose to access the databases of the NCCS. The Internet networks providing access to NCCS included my home internet connection and that of my current employer, Case Western Reserve University. Comparable to Arpaci, Kilicer, and Bardakci (2015), I stored data for this study on Google Drive, a secure Web-based cloud storage service. The only people whom had access to the file

were my doctoral study committee members and myself. Similar to Skulason, Hauksdottir, Ahcic, and Helgason (2014) and in line with Walden University's doctoral study requirements, I will destroy the data 5 years after study conclusion.

The protection of susceptible populations is a researcher's responsibility (Guta, Nixon, & Wilson, 2012). In similar fashion to Taljaard et al. (2013), I used secondary data for this study. I did not use human participants directly and did not require confidentiality agreements or consent forms. Similar to Damianakis and Woodford (2012), I removed identifying information for organizations and individuals before I assigned each a sequential number starting at one. The Walden University Institutional Review Board approval number for this study was 02-25-16-0436814.

Instrumentation

Barley and Moreland (2014) observed that instruments are items used in research to collect data, such as surveys, interviews, and experiments. I did not use any data collection instruments. I used only secondary data as described by Colbert, Sereika, and Erlen (2013) for this study. All data retrieved for variable analysis in this study came from NCCS and the Centers for Medicare & Medicaid Services in the alphabet and numerical formats. Omair (2015) noted the significance of numerical data for quantitative studies; I found numerical data appropriate for this study. In the event any data was missing, I retrieved missing data directly from the NPHs website because IRS 990 information was publicly available. Similar to Harris, Petrovits, and Yetman (2015), I used contact information from the Form 990 to contact the NPH and gather missing data while keeping information about human contact confidential. I did not use an instrument

for this study; therefore, I was not concerned with reliability and validity issues associated with an instrument.

Data Collection Technique

I collected data for this study electronically from NCCS and the Centers for Medicare & Medicaid Services in a Microsoft Excel format via requests on their websites. If data were unavailable electronically, I called the NPH and requested an electronic copy of its IRS 990 report to be sent via e-mail. IRS regulation mandates that all IRS Form 990 reports be open to public inspection (IRS, 2015). I collected all IRS Form 990 information for the 2013 reporting year from NPH organizations within the study sample. I chose the year 2013 because it overlapped the implementation of the community benefits provision as mandated by the IRS (Day et al., 2015). That year was ideal because some organizations may not have completed their 2014 forms, as auditing a robust organization takes time. The 2013 data provided adequate data to determine the relationship between urban U.S. NPH financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation.

Abzug, Olbrecht, Sabrin, and DeLeon (2016) noted IRS Form 990 information is publically available and includes information reported to the IRS. I used the IRS Form 990 to collect ROA, net profit, total net community benefits expense, and AEC. Part I of the IRS Form 990 is a summary that lists revenue, expenses, and net assets (Appendix A). I calculated the ROA by dividing the net income by average total assets. The change in net assets is a calculation consisting of revenues minus expenses. The current year

revenue is on line 12 of the Part I Summary. The current year expenses are on line 18 of Part I. The revenue and expenses are also located on line 12 of Part VIII Statement of Revenue (Appendix B), and line 25 of Part IX Statement of Functional Expenses (Appendix C). As a means of verification, I performed calculations equaling line 19 of the Part I Summary. The total net community benefits expense is on line K of Section 7 column E of the Schedule H of the IRS Form 990 in Part I (Appendix D). The executive compensation data are from part IRS Form 990 Part VII (Appendix E) listing primary executives, their pay, and average hours worked. I accumulated the total salaries of all executives disclosed and divided by the number of disclosed executives to arrive at the average of executive compensation. I normalized the change in net assets, community benefits expense, and compensation by including ADC as a controlling independent variable. Total hospital census was publicly available directly from the Center for Medicare & Medicaid Services (CMS). After acquiring 2013 census, I divided each census number by total days in the year.

An advantage of this data collection method, as noted by Leon, Stoner, and Dickson (2015), was that correlational studies provide superior insight. Litvak et al. (2012) argued an important advantage be that correlational studies examine issues that cannot be studied using a qualitative approach. A significant disadvantage as mentioned by Parise, Spence, and Ernst (2012) was that correlational studies do not indicate causation.

Makwana and Rathod (2014) indicated that Microsoft Excel is an efficient tool for storing, organizing, and comparing data. I retrieved data from NCCS and cms.gov

through a request online. After opening the data in Microsoft Excel, the format, font, sorting alphabetically by NPH name was next. Immediately after that, I included two columns for the purpose of calculations to the right of the main dataset. In the first column, the ROA calculation was a byproduct of dividing the net income by average total assets. I calculated AEC by adding the total executive compensation and dividing the total by the number of executives. Upon completion of the calculations, I copied the page and pasted the values only into a new page. I imported the data into the statistical package for the social sciences (SPSS). I then conduct a side-by-side comparison of Excel data and SPSS data to ensure successful data importation. Torabi, Shirazi, Hajali, and Monjezi (2013) noted the importance of verifying data input into SPSS. Once the importation of data verification concluded, I organized the dataset using columns to differentiate ROA, change in net assets, net community benefits, and executive compensation.

Data Analysis Technique

The purpose of this quantitative correlational study was to examine the relationship between financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation. The following research question sought to address the relationship between urban U.S. NPH financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation?

RQ1: What is the relationship between urban U.S. NPH financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation?

The null and alternative hypothesis are:

Null Hypothesis (H_0): There is no statistically significant predictive relationship between (a) ROA, (b) change in net assets (profit), (c) net community benefits expense, and (d) executive compensation within the U.S. urban NPH industry.

Alternative Hypothesis (H_1): There is a statistically significant predictive relationship between (a) ROA, (b) change in net assets (profit), (c) net community benefits expense, and (d) executive compensation within the U.S. urban NPH industry.

After exploring varying means of data analysis, I decided to use a linear regression model. The multiple regression analysis provides utility to researchers who are examining numerous independent variables while attempting to establish relationships with dependent variables (Agudo-Peregrina, Iglesias-Pradas, Conde-González, & Hernández-García, 2014; Chong, 2013). Pearson's correlation provides utility to researchers seeking to establish a relationship between a single independent and dependent variable (Metzger et al. 2013). To test the hypothesis of this study the multiple regression analysis methods is optimal. The inclusion of descriptive statistics aids in detailing material relating to scores, disparity, and ordinariness (Young et al., 2013).

Other techniques I considered but rejected included linear programming, cross-correlations, and Cox regression. Linear programming is a mathematical function in which efficiency measuring occur for best production levels (Tiemann & Schreyögg,

2014). This method is not appropriate because I was not examining NPH efficiency or best practices. Cross-correlation utility measures the similarities between two series as a function of the lag of one about the other (Xu, Duan, Wu, & Zhou, 2013). This method provides no utility because this study does not use multiple series of data. Lipton et al. (2013) use a Cox regression model to investigate the effect of variables at the time events occur. This method is useless because I was not examining time occurrence as a factor.

After collecting data for this study, I scrutinized the dataset for omitted or partial data. Boyd and Crawford (2012) noted the importance of accurate information when drawing conclusions that rely upon data. Similar to Girotra et al. (2014), I had to ensure that all data fields are complete, discard, and replace those items not representative of a complete piece of data to ensure proper sample size. Similar to Shin and Lee (2014), I omitted the missing information because finding out why data is missing would consume excessive amounts of time, and this study had limits on time because of financial constraints.

Adamowski, Fung Chan, Prasher, Ozga-Zielinski, and Sliussarieva (2012) noted using the multiple regression analysis methods one must rely on certain assumptions. Type I and II errors occur when researcher's fail to meet the assumptions of their chosen analysis method (Bedeian, 2013). Francis (2012) mentioned that type I errors occur when a true hypothesis rejection occur. Vinaixa et al. (2012) stated type II errors occur when the acceptance of a false hypothesis happens.

Wakefield, Bickley, and Sani (2013) mentioned that common assumptions include normality, linearity, and homoscedasticity. Wiedermann, Hagmann, and von Eye

(2014) noted assumptions as normal distribution assume random variables have normal distribution from the mean and asymmetric in a bell-shaped graph. Willis and Hyde (2014) mentioned the possibility of inaccurate relationships attributed to abnormal data. Similar to Price-Whelan et al. (2014) I used a histogram to identify outlying data points. Similar to Welsh, Eschrich, Berglund, and Fenstermacher (2013), I performed data cleansing and remove outlying data points.

Hopkins and Ferguson (2014) argued linearity assumption be that dependent variables linearly relate to other coefficients within the model. Warton, Duursma, Falster, and Taskinen (2012) mentioned a common method for testing the existence of linearity is by plotting residuals on a graph. Vargha, Bergman, and Delaney (2013) stated SPSS functionality provides a means to test for linearity. If the residuals are linear in fashion, the data points distributions are close to a diagonal line. Duru, Bulut, and Yoshida (2012) noted if the data is not linear, the researcher might need to adjust the data set.

The homoscedasticity assumption means that variance around the regression line for all variables are the same (Hopkins & Ferguson, 2014). Violations of this assumption use the Levene's or Brown-Forsythe tests. The Levene's test ensures that the variance existing between two groups are true, meeting the requirement of a regression. A visual scatter plot along with this method of testing ensured that regression analysis is optimal for this study. Hopkins and Ferguson further argued that a violation of homoscedasticity might produce a spurious regression.

The results of the descriptive statistics produced by the regression allow generalizations from the sample to the population. Because the possibility exists that the

sample may not epitomize the population, SPSS calculated the probability (p value). The p value comparison is a predetermined SPSS standard. Green and Salkind (2014) noted .05 as the research standard. G*Power 3 used the same alpha and p value of .95. The proper effect size for this study was .15, or $F=.15$.

Numerous software packages are available to researchers for the purpose of analyzing data including Statistical Analysis System (SAS), LIMDEP, Stata, and Statistical Package for the Social Sciences (Abdel-Karim, 2014; SPSS). SPSS is a robust statistical program used by other researchers conducting correlational analysis both within and outside the university (Akin, Gulmez, Bozkurt, Nuhoglu, & Usta, 2014; Anderson, Baylor, Eadie, & Yorkston, 2015; Block et al., 2014). Consequently, I chose to use SPSS version 21 for this study. I examined data and in the sequence of stated hypothesis, reported findings in a parallel manner, that supports the theoretical framework of this study.

Study Validity

Lobo, Fisher, Peachey, Ploeg, and Akhtar-Danesh (2015) noted researchers' responsibility to recognize the most appropriate data to collect for the study based on the hypothesis and research questions. The quantitative research method enables researchers to examine the relations of datasets to validate the purpose of the study (Morard, Stancu, & Jeannette, 2012). SPSS software allows statistical testing so that the researcher can accept or reject the hypothesis (Tabachnick & Fidell, 2012).

External and Internal Validity

Within the research paradigm, two types of validity exist: internal and external (Price et al., 2012). The external validity of this study has urban NPHs, similar to Sigler (2011) notation, operating in the same industry within the same geographical limitation of the United States. I focused primarily on urban NPHs, and the results of this study may not apply to the entire hospital industry. Consequently, the users of this study's outcome may implement the results at hospitals, both public and private. Nonetheless, the same users should not generalize the results of this study to the hospital industry (specialized, teaching, and clinics).

Henderson, Kimmelman, Fergusson, Grimshaw, and Hackam (2013) noted threats to external validity include interaction, pre-testing, and multiple treatments and interventions. Olbert et al. (2013) argued interaction occur if subjects are not selected randomly from the population their characteristic may bias performance. Charlesworth, Burnell, Hoe, Orrell, and Russell (2013) stated that pre-testing might cause a subject to react more or less strongly to treatment if they are not pre-tested. Because I did not pre-testing a survey instrument, this external threat was nonexistent. Funderburk, Kenneson, and Maisto (2014) noted that generalization is limited when multiple treatments occur on subjects. I did not administer multiple treatments in this study and eliminated this external threat.

The requirement for internal validity is that researchers recognize if their results are attributable to their hypothesis or another variable (Price, Palmer, Battista, & Ansari, 2012). Henderson, Kimmelman, and Ferguson (2013) noted history, instrumentation, and

maturation as internal validity threats. Weeks, Clochesy, Hutton, and Moseley (2013) noted studies taking repeat measures on subjects over time might likely affect by history. In this study, there were no repeat measures on subjects because I was not using an experimental design. Irvin and Kaplan (2014) stated instrumentation threats occur when instruments change during the observation; however, I did not use an instrument, I am collecting secondary data, and this threat's concern did not apply. Maturation, as noted by Irvin and Kaplan (2014) are natural changes that occur resulting from normal time passage. There were no natural changes to data and consequently, no threat to maturation.

Statistical Conclusion Validity

The threat to internal validity is not valid for this study because this is a non-experimental design. Khorsan and Crawford (2014) noted experimental research designs manipulate cause while observing the outcome. Also noted during their research is the need to observe whether cause-effect relates to variation. The methods of the experiment to reduce the plausibility of other explanations for the effect. In the absence internal validity concerns, a researcher must be aware of statistical conclusion validity (SCV) threats (Kratochwill & Levin, 2014). SCV is a factor whereby a researcher reaches an incorrect conclusion and relationships existing in a correlational study. Pigott, Williams, and Polanin (2012) noted two main errors could occur: (a) concluding that a relationship does not exist when it does, and (b) concluding that there is a relationship existing when there is not. Numerous factors contribute to SCV. For the purpose of this study, I explored (a) reliability of the instrument, (b) data assumptions, and (c) sample size in the coming paragraphs.

Instrumentation reliability. Cook, Brydges, Zendejas, Hamstra, and Hatala (2013) noted the reliability of the collection device negatively influences the validity of the study. Hott, Limberg, Ohrt, and Schmit (2015) mentioned that instruments must be both valid and reliable. In this study, I did not use any instruments to collect the data. Because I am using secondary data in this study, similar to Leidy et al. (2014), the reliability of the instrument was not a primary concern. As previously noted in the assumptions of this study, I assumed that NPHs reported accurate information to the government.

Data assumptions. Warton et al. (2012) noted the data assumptions of multiple regression analysis include many areas; two important areas researchers should always test: (a) that the distribution of variables is normal, and (b) assumption of a linear relationship between variables. The non-normal distribution of variables or outliers can distort the actual value of the mean (Hannigan & Lynch, 2013). The outliers' identification occur by using various visual inspection methods such as histograms, frequency of distributions, or converting data into z-scores according to Jannigan and Lynch (2013). In this study, I used a histogram to test for outliers. Rosner, Cook, Daniels, and Falkner (2013) noted linearity assumption as the assumption that the relationship between independent and the dependent variable is linear. To test this assumption, I used the scatter plot feature in SPSS.

Sample size. For those researchers wishing to generalize their findings to a small sample population, their sample size should be of a size that meets or exceeds the significance level as Ilieva, Hook, and Farah (2015) noted. Button et al. (2013) noted

studies with low statistical power have a reduced chance of detecting a true effect. In this study, there was no attempt to generalize the results of the study to the health care industry. I have used a purposeful sample technique, which restricts the ability to generalize results. I conducted a power analysis using G*Power as a reference point to compare experimental designs. Similar to Suresh and Chandrashekara (2012), I used a .95% confidence interval that resulted in a minimum population of 89 for generalization. The sample size of 120 used for this study exceeds the minimum required.

Transition and Summary

In Section 2 of this study, I expanded upon the quantitative research method and applying the correlational design chosen for this study. I explained in detail the rationale for selecting this quantitative approach versus qualitative or mixed methods and experimental or quasi-experimental designs. I explained my role as a researcher and addressed the need to remain unbiased, and ethical throughout the research process. Also provided are the population details in which I chose the sample. Along with the technique I used to collect, store, and analyze data, the internal and external validity concerns and methods of mitigation convey. In Section 3, I present the results of statistical analysis, along with an interpretation of the findings with applications to the hypothesis, research question, and social change. In Section 3, I recommend ideas for action, future research, and personal research reflections of this study, inclusive of a summary of conclusions.

Section 3: Application for Professional Practice and Implications for Change

The proper alignment of financial incentives for executives is critical to the survival of NPHs. In Section 1 of this study, I introduced the foundation of the study and the gap in current research that examines net community benefits expense. In Section 2, I described the steps performed to examine the relationships among the study variables. In section 3, I present the results of my research and explain how the findings may influence professional practice. The conclusion of this study focuses on implications for social change and reflections on the doctoral study process.

Overview of Study

The purpose of this quantitative correlational study was to examine the relationship between financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation. With increasing costs and regulation of NPHs, boards of directors' challenges include ensuring that executive compensation aligns with organizational goals (Brandes et al., 2015). Kolev et al. (2014) noted executive compensation alignment as a board strategy necessary for survival. Boards of directors are primary influencers of executive compensation strategies (Ben-Ner & Ren, 2013).

I collected data from NCCS, Guidestar, and the Center for Medicare & Medicaid Services. The independent variables for this study were (a) financial performance as measured by ROA, (b) change in net assets (profit), and (c) the total dollar amount of net community benefits expense. The independent controlling variable was ADC. The dependent variable for this study was executive compensation. The findings of this study

may provide boards of directors' financial insight in creating executive compensation policies that align with organizational goals. When scrutinizing the relationship between the variables of this study, I determined that a statistically significant relationship did exist for the model; therefore, I rejected the null hypothesis and failed to reject the alternative hypothesis. ROA, net assets, and total community benefits expense were good tools when predicting executive compensation in 2013.

Presentation of Findings

Research Question and Hypotheses

The research question was the following: What is the relationship between urban U.S. NPH financial performance as measured by ROA, change in net assets (profit), net community benefits expense, and executive compensation? The study included three independent variables: ROA, change in net assets (profit), and net community benefits expense. The independent controlling variable was average daily census, and the dependent variable was executive compensation. I conducted an in-depth examination of current literature before I developed the research question and hypothesis.

Ferri and Maber (2013) and Gormley, Matsa, and Milbourn (2013) acknowledged the utility of regression analysis in their studies addressing executive compensation and company performance. Similarly, I used regression modeling to determine the extent to which relationships existed between the variables of this study. I used regression analysis for this study to examine relationships between the variables (a) ROA, (b) change in net assets (profit), (c) total community benefits expense, and (d) executive compensation. I framed the testing of variables in the following hypothesis:

Null hypothesis (H_0): There is no statistically significant predictive relationship between (a) ROA, (b) change in net assets (profit), (c) net community benefits expense, and (d) executive compensation within the U.S. urban NPH industry.

Alternative hypothesis (H_1): There is a statistically significant predictive relationship between (a) ROA, (b) change in net assets (profit), (c) net community benefits expense, and (d) executive compensation within the U.S. urban NPH industry.

Descriptive Statistics

After examining the IRS 990 reports to determine whether the financial results fairly represented results from continuing operations. I removed three financial reports because the results contained material one-time gains or losses that skewed the financial results. Table 1 depicts the descriptive statistics for the variables. The five most common titles of executives included vice president of fund development, physician, chief operating officer, president, and chief financial officer.

Table 1

Statistics of Sample Mean and Sample Standard Deviation

	<i>M</i>	<i>SD</i>	<i>Min</i>	<i>Max</i>
Average Executive Compensation (\$)	571,626	285,893	222,095	1,695,489
ROA (%)	5.2	4.8	-4.82	21.81
Net Income (Profit) (\$)	42,327,915	53,088,057	-27,342,855	401,639,442
Total Net Community Benefits Expense (\$)	41,550,196	35,371,949	5,499,381	267,170,077
ADC	320	185	110	1346

To gain a further understanding of the relationship between variables, I completed a correlational matrix for all variables, as illustrated in Table 2. The table includes the Pearson correlation and one-tailed significance (p value). Although I did not use the correlational matrix to test my hypotheses, the results provided an understanding of the relationship among variables. All correlations were positive with the exception of the relationship between AEC and ROA.

Table 2

		AEC	ROA	Net Income (Profit)	Net Community Benefits	ADC
Pearson Correlation	AEC	1.000	-.061	.368	.441	.654
	ROA	-.061	1.000	.571	.046	.046
	Net Income (Profit)	.368	.571	1.000	.398	.398
	Net Community Benefits	.441	.008	.411	1.000	.497
	ADC	.654	.046	.398	.000	1.000
Sig. (1- tailed)	AEC	.	.257	.000	.000	.000
	ROA	.257	.	.000	.312	.465
	Net Income (Profit)	.000	.000	.	.000	.000
	Net Community Benefits	.000	.456	.000	.	.000
	ADC	.000	.312	.000	.000	.
N	AEC	117	117	117	117	117
	ROA	117	117	117	117	117
	Net Income (Profit)	117	117	117	117	117
	Net Community Benefits	117	117	117	117	117
	ADC	117	117	117	117	117

Assumptions Testing Results

Prior to testing the hypotheses, I examined the data for missing data, outliers, and homoscedasticity and linearity violations. While there were no missing data, I discovered and removed three outliers from the initial sample of 120, resulting in a final sample of 117 financial statements. I then inspected the data for homoscedasticity and linearity violations (Figure 1). The inspection indicated that none had occurred. Figures 2-5 show partial regression plots illustrating the effect of adding each variable to the regression model.

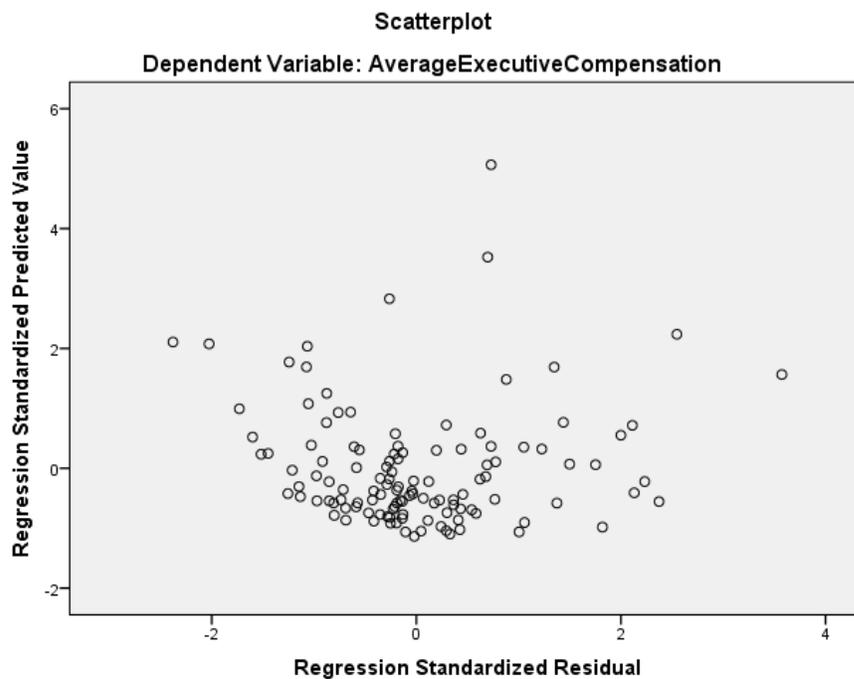


Figure 1. 2013 scatterplot for residuals.

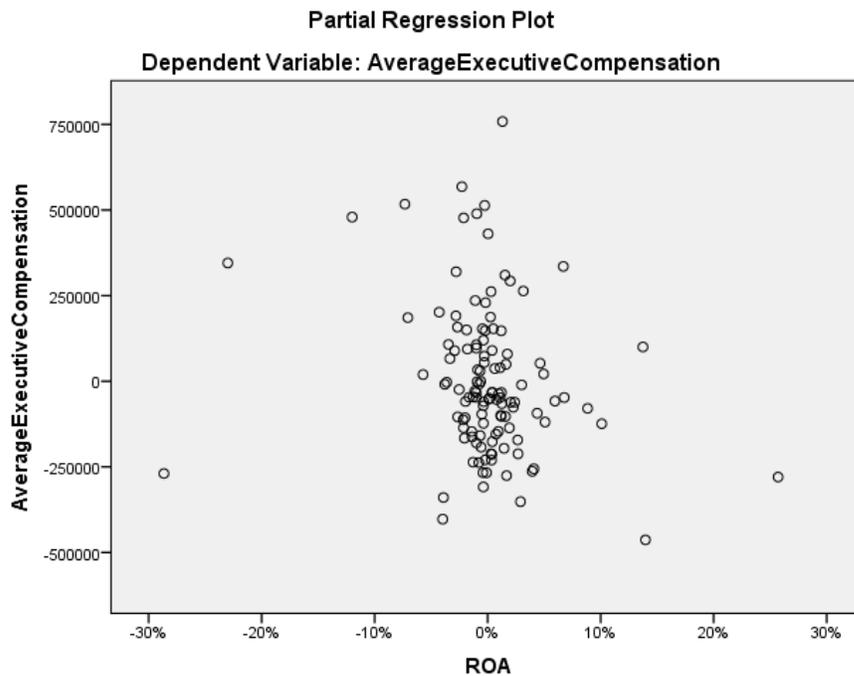


Figure 2. 2013 partial plot for ROA.

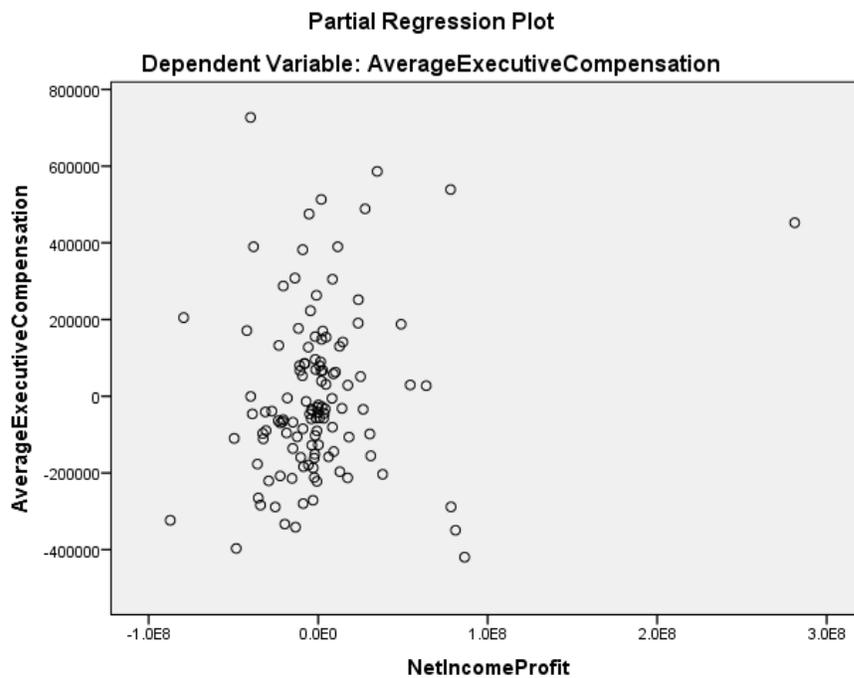


Figure 3. 2013 partial plot for net income (profit).

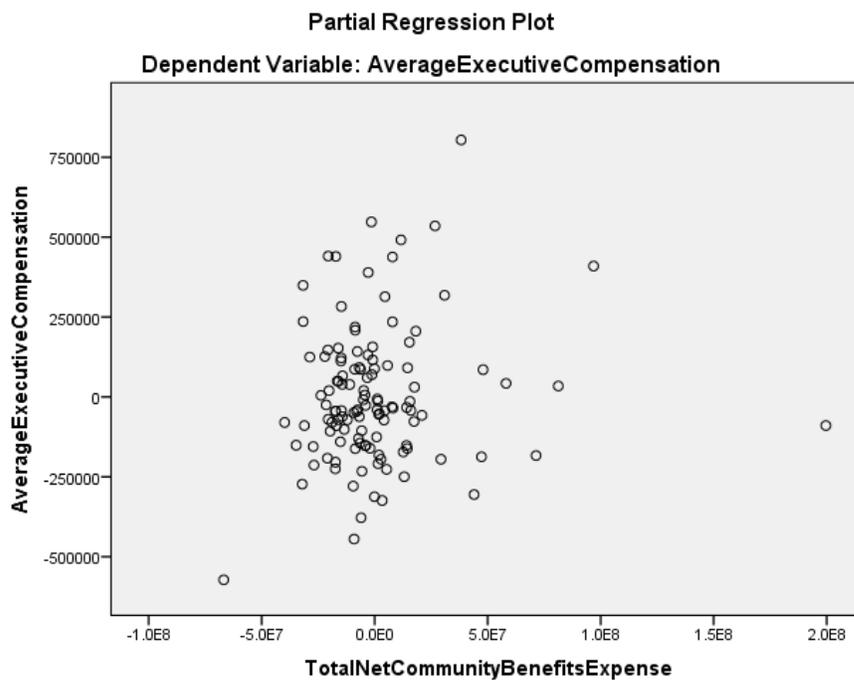


Figure 4. 2013 partial plot for total net community benefits expense.

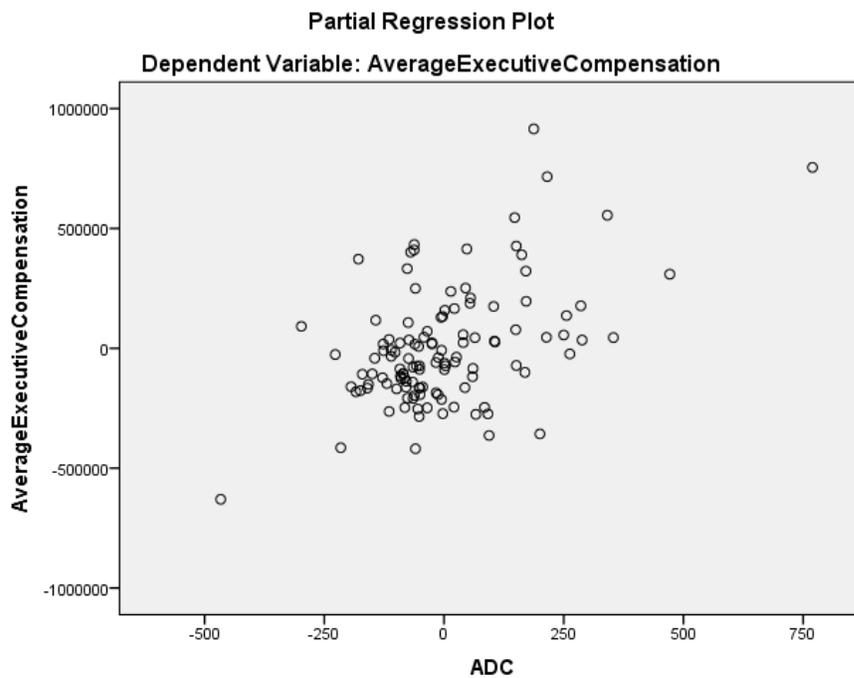


Figure 5. 2013 partial plot for ADC.

Using normal probability plots (P-P) of the standardized residuals, I did not detect violations of the normality assumption. Illustrated in Figure 6, the residual plotting is near the normal line. Because all residuals are close to the line, there is reason to believe that residuals are independent. There is no indication that autocorrelation occurs.

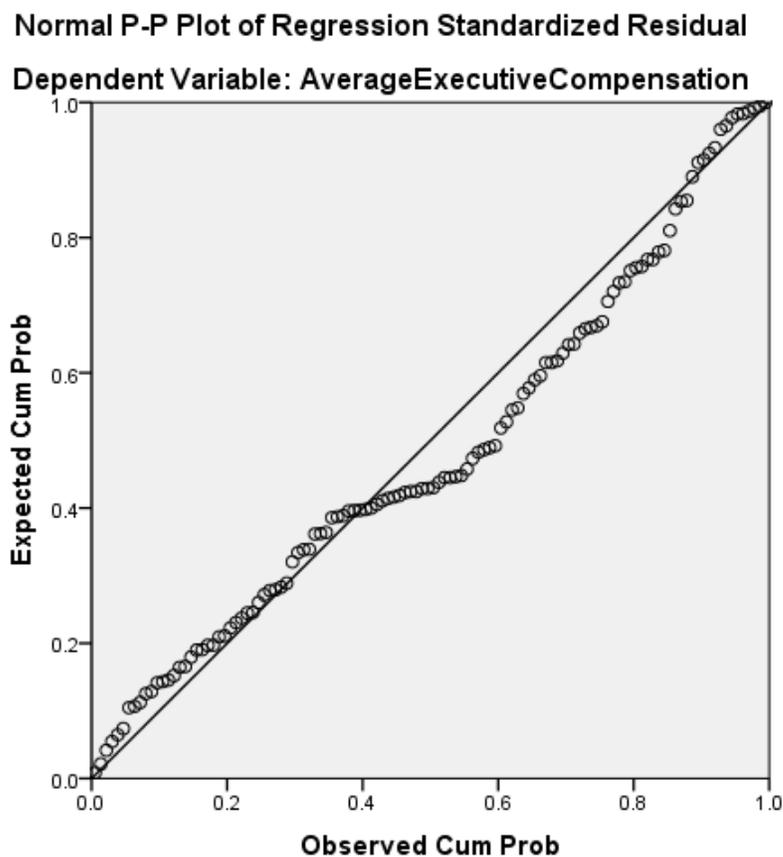


Figure 6. Normal P-P plot of residual standards.

As a further test of the data, I examined the potential for collinearity. As displayed in Table 3, all tolerance values were below 1.0 and all variance inflation factor (VIF) values exceeded 1.0. In addition, no correlations among independent variables were

greater than 0.7 (Table 2). As explained by Moore (2014), when statistical results fall within these benchmarks for tolerance, VIF, and correlation, the researcher can assume no violations of multicollinearity exist for the data.

Table 3

Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
ROA	.589	1.699
Net Income (Profit)	.464	2.155
Net Community Benefits	.652	1.534
ADC	.664	1.505

Inferential Results

I piloted a linear regression model to determine if a relationship existed between the independent variables including ROA, change in net assets, and net community benefits expense with the dependent variable average executive compensation and. I used ADC as an independent controlling variable. The null hypothesis was that there was no significant predictive relationship between ROA, change in net assets, net community benefits expense, and executive compensation. The alternative hypothesis was that there is a significant predictive relationship between ROA, change in net assets, net community benefits expense, and executive compensation.

The model as a whole was able to significantly predict AEC, $F(5,111) = 23.041$, $p = .000$, $R^2 = .509$. The $R^2(.509)$ value indicated that approximately 51% of variations in AEC is accounted for by the linear combination of the predictor independent variables

(see tables 4-6 for model summary). In the final model, the relationship between change in net assets ($\beta = -.253, p = .004$) and ROA ($\beta = .273, p = .006$) with AEC was significant at the .05 level. Total net community benefits did not show a significant relationship with AEC ($\beta = .063, p = .449$), which indicates that although a relationship does exist the relationship is not statistically significant. Additionally, Droby et al. (2015) noted that further t-test examination would result in erroneous conclusions. Thus, the regression coefficients located in Table 7 may lead to future research.

My findings are similar to those produced by Gormley, Matsa, and Milbourn (2013), Ferri and Maber (2013), Lin et al. (2013), and Hou, Priem, and Goranova (2014) who all found statistically significant relationships between executive compensation and company performance. The most surprising find is the negative correlation between ROA and AEC. Turner, Broom, Elliot, and Lee (2015) noted that NPHs often have restricted funding that limit managerial behaviors, and consequently may accrue to future managers. However, none of the previous research included ADC and net community benefits expenses are variables. That there was no relationship between net community benefit and AEC may suggest that boards of directors do not use metric to target executive compensation. To ensure an in-depth examination of data, I examined the 117 hospitals, which represents 97.5% of the total proposed sample of 120 NPHs (Table 2). Although there was a statistical significance to the model, I can conclude that boards of directors' will find the information useful as executive compensation packages align with hospital objectives.

Table 4

Analysis of Variance

		ANOVA ^a				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.829E+12	5	9.658E+11	23.041	.000 ^b
	Residual	4.652E+12	111	41914348193		
	Total	9.481E+12	116			

a. Dependent Variable: Average Executive Compensation

b. Predictors: (Constant), ADC, ROA, Total Net Community Benefits Expense, Net Income (Profit)

Table 5

Model Summary^A

Model Summary ^c							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.714 ^a	.509	.487	204729.94	.509	23.041	5

Table 6

Model Summary^B

Model Summary			
Model	Change Statistics		Durbin-Watson
	df2	Sig. F Change	
1	111 ^a	.000	1.849

a. Predictors: (Constant), ADC, Total Net Community Benefits Expense, Net Income Profit

b. Predictors: (Constant), Average Executive Compensation

Table 7

Coefficients

Model	Unstandardized Coefficients		Standardized	T	Sig.
			Coefficients		
	B	Std. Error	Beta		
(Constant)	396337.12	61859.52		6.407	.000
ROA	-14976.47	5128.42	-.253	-2.920	.004
Net Income Profit	.001	.001	.273	2.800	.006
Net Community Benefit	.001	.001	.063	.760	.449
ADC	875.14	126.26	.565	6.931	.000

Applications to Professional Practice

The primary goal of this study was to close the gap in existing literature regarding predictive executive compensation and the performance of the company as measured by ROA, change in net assets (profit), and net community benefits expense while controlling for ADC. The purpose of this study was to determine the predictive nature of executive compensation on NPH performance. The findings of this study may be of significant practical utility to professionals, academic researchers, and people seeking to understand executive compensation of NPHs.

Academia may want to encompass and expand upon the contributions of this study via further examination of possible correlating executive compensation and NPH performance. The growing pools of NPH data, conjoined with various combinations may influence nonprofit performance (Bai, 2012; Pinho, Rodrigues, & Dibb, 2014). The results of this study offer a fresh perspective on NPH executive compensation and its relationship with net community benefits expense.

Moreover, the results of this study may be key elements NPH boards of directors may use crafting executive compensation alignment strategies. NPH boards of directors may use incentives to align executive decisions with company goals (Bosse & Phillips, 2014; Kistruck et al., 2013; Stanowski & Lynn, 2015). Though agency theory is applicable when creating incentive packages (Song et al., 2015), there still exists the possibility of executive motivation not aligning with NPH agenda (Galle & Walker, 2014).

Implications for Social Change

Maintaining IRS 501(c) (3) nonprofit status is imperative to NPH operations (Bhargava, & Manoli, 2015; U.S. Department of the Treasury, 2015). The implications of the study's results could serve three potential purposes. The overall results indicated that net community benefits expense was not a great predictor of executive compensation. Nevertheless, the analysis also indicated a negative relationship between net community benefits expense and executive compensation. Thus, the opportunity exists for NPH governance committees' to investigate the negative relationship, while potentially diverting additional funding to create more jobs in the communities in which they serve. Furthermore, lawmakers may find the results useful as they construct legislation that may increase NPH sustainability through various policies. Due to closures and mergers, politicians may want to assign a percentage of net community benefits expense based on NPH bed count, and ADC. Insurance companies may find the results useful for potential lowering of premiums.

Recommendations for Action

The existence of the agency problem greatly influences the need for executive monitoring by the boards of directors (Dalton et al., 2007). The implications of results of this study may serve three future purposes. For boards of directors, the overall results indicated net community benefits relate to executive compensation. While the IRS mandates net community benefits expense as a requirement to maintain 501(c) (3) status, compensation package alignments may include maintaining such requirements. Thus, retaining non-profit status enables the structure to remain as is without restructuring to compete with for-profit entities. Secondly, NPH boards of directors may include various metrics in executive salary packages such as ADC.

As a final point, academia, legislators, and scholar-practitioners may use the results of this study to align governance policies in which community job creation occur. Legislators may see a need to raise or lower the required community benefits expense requirement. Scholar-practitioners may use the results of this study as a basis to explore other areas of NPH expenditures and categories. I intend to publish the results of this study in the ProQuest/UMI dissertation database, pursue academic journal publications, and discuss results at academic conferences.

Recommendations for Further Research

In this study, I examined the relationship between executive compensation, ROA, return on assets (profit), net community benefits expense, and ADC. Future researchers may want to conduct a similar study examining multiple years focusing on those hospitals with a minimum of 500 patient beds. Future researchers may also wish to

examine the numerous variable pools for relationships existing with the control variable ADC, as there may be a relationship existing between change in net assets and ADC. Additionally, scholars in the future may want examine the relationship between executive compensation and negative ROA.

Reflections

My primary goal of this study was to understand executive compensation and its relationship to NPH performance. I encountered numerous obstacles including the data collection, analyzing, and interpretation of results. The NCCC, Guidestar, and CMS websites were user-friendly but required the user to know their data needs. I spent countless hours downloading the wrong data. However, once figuring out how CMS catalogs their data, it became a much easier process. It was difficult to find the average daily census for some of the hospitals, as maybe 20 of them did not post their total inpatient days online. Although I reached out to many via phone calls and electronically, very few responded within the timeframe needed for this study. I later discovered that most annual reports include inpatient days for the reported period. The experience I gained working with data will be valuable to me as I continue this research after graduation.

Summary and Study Conclusions

The main purpose of this quantitative correlational study was to investigate executive compensation and its relationship to NPH performance. Explicitly, the first goal was to determine if a statistically significant relationship existed between executive compensation, ROA, change in net assets (profit), and net community benefits expense

while using ADC as a controlling variable. I examined the relationship using a linear regression model and a sample of 117 NPHs.

The findings revealed that there is a statistically significant linear relationship existing because all the p -values were less than that of the alpha of .05. As a result, I rejected the null hypothesis H_0 , and failed to reject the alternative hypothesis H_1 . Thus, the findings of a statistically significant relationship may indicate NPHs may be slowly implementing net community benefits expense clauses into executive compensation packages.

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Appendix A: IRS Form 990 Part I

Form 990 Department of the Treasury Internal Revenue Service	Return of Organization Exempt From Income Tax Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations) Do not enter social security numbers on this form as it may be made public. Information about Form 990 and its instructions is at www.irs.gov/form990 .	OMB No. 1545-0047 <div style="border: 1px solid black; padding: 5px; text-align: center;"> 2015 Open to Public Inspection </div>																																																							
A For the 2015 calendar year, or tax year beginning _____, 2015, and ending _____, 20____																																																									
B Check if applicable: <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:15%;"><input type="checkbox"/> Address change</td> <td style="width:55%;">C Name of organization</td> <td style="width:30%;">D Employer identification number</td> </tr> <tr> <td><input type="checkbox"/> Name change</td> <td>Doing business as</td> <td>E Telephone number</td> </tr> <tr> <td><input type="checkbox"/> Initial return</td> <td>Number and street (or P.O. box if mail is not delivered to street address) Room/suite</td> <td></td> </tr> <tr> <td><input type="checkbox"/> Final return/terminated</td> <td>City or town, state or province, country, and ZIP or foreign postal code</td> <td></td> </tr> <tr> <td><input type="checkbox"/> Amended return</td> <td></td> <td>G Gross receipts \$</td> </tr> <tr> <td><input type="checkbox"/> Application pending</td> <td>F Name and address of principal officer:</td> <td>H(a) Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No</td> </tr> <tr> <td></td> <td></td> <td>H(b) Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)</td> </tr> </table>			<input type="checkbox"/> Address change	C Name of organization	D Employer identification number	<input type="checkbox"/> Name change	Doing business as	E Telephone number	<input type="checkbox"/> Initial return	Number and street (or P.O. box if mail is not delivered to street address) Room/suite		<input type="checkbox"/> Final return/terminated	City or town, state or province, country, and ZIP or foreign postal code		<input type="checkbox"/> Amended return		G Gross receipts \$	<input type="checkbox"/> Application pending	F Name and address of principal officer:	H(a) Is this a group return for subordinates? <input type="checkbox"/> Yes <input type="checkbox"/> No			H(b) Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list. (see instructions)																																		
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J Website: _____																																																									
K Form of organization: <input type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other _____																																																									
L Year of formation: _____		M State of legal domicile: _____																																																							
Part I Summary																																																									
1 Briefly describe the organization's mission or most significant activities: _____																																																									
2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets.																																																									
Activities & Governance	3 Number of voting members of the governing body (Part VI, line 1a)	3																																																							
	4 Number of independent voting members of the governing body (Part VI, line 1b)	4																																																							
	5 Total number of individuals employed in calendar year 2015 (Part V, line 2a)	5																																																							
	6 Total number of volunteers (estimate if necessary)	6																																																							
	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a																																																							
	b Net unrelated business taxable income from Form 990-T, line 34	7b																																																							
	<table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2"></th> <th style="text-align: center;">Prior Year</th> <th style="text-align: center;">Current Year</th> </tr> </thead> <tbody> <tr> <td rowspan="5" style="writing-mode: vertical-rl; transform: rotate(180deg);">Revenue</td> <td>8 Contributions and grants (Part VIII, line 1h)</td> <td></td> <td></td> </tr> <tr> <td>9 Program service revenue (Part VIII, line 2g)</td> <td></td> <td></td> </tr> <tr> <td>10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)</td> <td></td> <td></td> </tr> <tr> <td>11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)</td> <td></td> <td></td> </tr> <tr> <td>12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)</td> <td></td> <td></td> </tr> <tr> <td rowspan="7" style="writing-mode: vertical-rl; transform: rotate(180deg);">Expenses</td> <td>13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)</td> <td></td> <td></td> </tr> <tr> <td>14 Benefits paid to or for members (Part IX, column (A), line 4)</td> <td></td> <td></td> </tr> <tr> <td>15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)</td> <td></td> <td></td> </tr> <tr> <td>16a Professional fundraising fees (Part IX, column (A), line 11e)</td> <td></td> <td></td> </tr> <tr> <td>b Total fundraising expenses (Part IX, column (D), line 25) ▶</td> <td></td> <td></td> </tr> <tr> <td>17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)</td> <td></td> <td></td> </tr> <tr> <td>18 Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)</td> <td></td> <td></td> </tr> <tr> <td>19 Revenue less expenses. Subtract line 18 from line 12</td> <td></td> <td></td> </tr> <tr> <td rowspan="3" style="writing-mode: vertical-rl; transform: rotate(180deg);">Net Assets or Fund Balances</td> <td>20 Total assets (Part X, line 16)</td> <td style="text-align: center;">Beginning of Current Year</td> <td style="text-align: center;">End of Year</td> </tr> <tr> <td>21 Total liabilities (Part X, line 26)</td> <td></td> <td></td> </tr> <tr> <td>22 Net assets or fund balances. Subtract line 21 from line 20</td> <td></td> <td></td> </tr> </tbody> </table>					Prior Year	Current Year	Revenue	8 Contributions and grants (Part VIII, line 1h)			9 Program service revenue (Part VIII, line 2g)			10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)			11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)			12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)			Expenses	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)			14 Benefits paid to or for members (Part IX, column (A), line 4)			15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)			16a Professional fundraising fees (Part IX, column (A), line 11e)			b Total fundraising expenses (Part IX, column (D), line 25) ▶			17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)			18 Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)			19 Revenue less expenses. Subtract line 18 from line 12			Net Assets or Fund Balances	20 Total assets (Part X, line 16)	Beginning of Current Year	End of Year	21 Total liabilities (Part X, line 26)			22 Net assets or fund balances. Subtract line 21 from line 20	
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Part II Signature Block																																																									
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.																																																									
Sign Here	Signature of officer _____ Date _____																																																								
	Type or print name and title _____																																																								
Paid Preparer Use Only	Print/type preparer's name _____ Preparer's signature _____ Date _____	Check <input type="checkbox"/> if self-employed PTIN _____																																																							
	Firm's name ▶ _____ Firm's EIN ▶ _____	Phone no. _____																																																							
	May the IRS discuss this return with the preparer shown above? (see instructions) <input type="checkbox"/> Yes <input type="checkbox"/> No																																																								
For Paperwork Reduction Act Notice, see the separate instructions.																																																									

Appendix B: IRS Form 990 Part VIII

Form 990 (2015)

Page 9

Part VIII Statement of Revenue
 Check if Schedule O contains a response or note to any line in this Part VIII

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514	
Contributions, Gifts, Grants and Other Similar Amounts	1a Federated campaigns	1a				
	b Membership dues	1b				
	c Fundraising events	1c				
	d Related organizations	1d				
	e Government grants (contributions)	1e				
	f All other contributions, gifts, grants, and similar amounts not included above	1f				
	g Noncash contributions included in lines 1a-1f: \$					
	h Total. Add lines 1a-1f					
Program Service Revenue	Business Code					
	2a					
	b					
	c					
	d					
	e					
	f All other program service revenue					
g Total. Add lines 2a-2f						
Other Revenue	3 Investment income (including dividends, interest, and other similar amounts)					
	4 Income from investment of tax-exempt bond proceeds					
	5 Royalties					
	6a Gross rents	(i) Real				
		(ii) Personal				
	b Less: rental expenses					
	c Rental income or (loss)					
	d Net rental income or (loss)					
	7a Gross amount from sales of assets other than inventory	(i) Securities				
		(ii) Other				
	b Less: cost or other basis and sales expenses					
	c Gain or (loss)					
	d Net gain or (loss)					
	8a Gross income from fundraising events (not including \$ of contributions reported on line 1c). See Part IV, line 18	a				
	b Less: direct expenses	b				
c Net income or (loss) from fundraising events						
9a Gross income from gaming activities. See Part IV, line 19	a					
b Less: direct expenses	b					
c Net income or (loss) from gaming activities						
10a Gross sales of inventory, less returns and allowances	a					
b Less: cost of goods sold	b					
c Net income or (loss) from sales of inventory						
Miscellaneous Revenue		Business Code				
11a						
b						
c						
d All other revenue						
e Total. Add lines 11a-11d						
12 Total revenue. See instructions.						

Form 990 (2015)

Appendix C: IRS Form 990 Part IX

Form 990 (2015) Page **10**

Part IX Statement of Functional Expenses
Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX

		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21				
2	Grants and other assistance to domestic individuals. See Part IV, line 22				
3	Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees				
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7	Other salaries and wages				
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)				
9	Other employee benefits				
10	Payroll taxes				
11	Fees for services (non-employees):				
a	Management				
b	Legal				
c	Accounting				
d	Lobbying				
e	Professional fundraising services. See Part IV, line 17				
f	Investment management fees				
g	Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)				
12	Advertising and promotion				
13	Office expenses				
14	Information technology				
15	Royalties				
16	Occupancy				
17	Travel				
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest				
21	Payments to affiliates				
22	Depreciation, depletion, and amortization				
23	Insurance				
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O.)				
a	_____				
b	_____				
c	_____				
d	_____				
e	All other expenses				
25	Total functional expenses. Add lines 1 through 24e				
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)				

Appendix D: IRS Form 990 Schedule H

SCHEDULE H (Form 990) Department of the Treasury Internal Revenue Service	Hospitals ▶ Complete if the organization answered "Yes" on Form 990, Part IV, question 20. ▶ Attach to Form 990. ▶ Information about Schedule H (Form 990) and its instructions is at www.irs.gov/form990 .	OMB No. 1545-0047 <div style="border: 1px solid black; padding: 2px; display: inline-block;"> 2015 </div> <div style="border: 1px solid black; padding: 2px; display: inline-block; background-color: black; color: white;"> Open to Public Inspection </div>
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Name of the organization	Employer identification number
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Part I Financial Assistance and Certain Other Community Benefits at Cost

		Yes	No
1a Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	1a		
b If "Yes," was it a written policy?	1b		
2 If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year. <input type="checkbox"/> Applied uniformly to all hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> Generally tailored to individual hospital facilities			
3 Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year. a Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing free care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for free care: <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input type="checkbox"/> 200% <input type="checkbox"/> Other _____ %	3a		
b Did the organization use FPG as a factor in determining eligibility for providing discounted care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care: <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ %	3b		
c If the organization used factors other than FPG in determining eligibility, describe in Part VI the criteria used for determining eligibility for free or discounted care. Include in the description whether the organization used an asset test or other threshold, regardless of income, as a factor in determining eligibility for free or discounted care.			
4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	4		
5a Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a		
b If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?	5b		
c If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?	5c		
6a Did the organization prepare a community benefit report during the tax year?	6a		
b If "Yes," did the organization make it available to the public?	6b		

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
7 Financial Assistance and Certain Other Community Benefits at Cost						
Financial Assistance and Means-Tested Government Programs						
a Financial Assistance at cost (from Worksheet 1)						
b Medicaid (from Worksheet 3, column a)						
c Costs of other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs						
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)						
f Health professions education (from Worksheet 5)						
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)						
j Total. Other Benefits						
k Total. Add lines 7d and 7j						

Appendix E: IRS Form 990 Part VII

Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response or note to any line in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed. Report compensation for the calendar year ending with or within the organization's tax year.

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation. Enter -0- in columns (D), (E), and (F) if no compensation was paid.
- List all of the organization's **current** key employees, if any. See instructions for definition of "key employee."
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee, or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations.
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations.
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations.

List persons in the following order: individual trustees or directors; institutional trustees; officers; key employees; highest compensated employees; and former such persons.

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee.

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Highest compensated employee	Former			
(1)										
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
(11)										
(12)										
(13)										
(14)										