

# STUDY OF CORPORATE GOVERNANCE IN GOVERNMENT HOSPITALS: A CASE STUDY OF THE EMERGING MARKET

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## Abstract

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Governance in a government hospital setup is complicated due to its economic and financial dimensions but also incorporates societal responsibility. The current study focuses on the processes and procedures as the key factor of corporate governance. This paper presents evidence of a comprehensive range of procedures related to governing healthcare quality undertaken at the corporate governance level. The study explores the viewpoint of the stakeholders including patients, doctors, and the management. The aim of the study is to identify indicators of effective governance in an emerging country like India where the state regulates the health system. For this purpose, three major hospitals of Delhi - AIIMS, Safdarjung, and Ram Manohar Lohia hospitals - were studied. The response of 582 respondents was analyzed using logit regression. The study documents the comfort level of patients with the doctor, the ability of the doctors to address the concern of patience, registration time in the hospital, and easy availability of the medicine improves the corporate governance of the hospital. The main contribution of the research is analyzing the health care system in an emerging market like India which is characterized by the complexity of interaction between the environment and policies related to health care.

**Keywords:** Corporate Governance, Clinical Governance, Government Hospital, Government Expenditure, Public Health

**Authors' individual contribution:** Conceptualization - A.A.; Methodology - A.A. and S.A.; Validation - A.A.; Formal Analysis - S.A.; Investigation - A.A.; Writing -Original Draft - A.A. and S.A.; Writing - Review & Editing - A.A. and S.A.

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## 1. INTRODUCTION

The multifaceted dimension of today's business organization has led to an unprecedented focus on corporate governance in business. Corporate governance encompasses the system, processes, relation, and mechanism through which an institution is controlled. It synchronizes corporate performance along with the interest of its stakeholders like customers, management, employees' government, etc. The framework of such policies ensures that the interests of various stakeholders are taken into consideration. Page (2005) outlines the importance of corporate

governance in harmonizing the business interest of the stakeholders and upholding a transparent environment where stakeholder contributes to the organization growth and value creation. Consequently, good cooperate governance upholds operational efficiency along with the ideologies of transparency, integrity, ethics, and honesty.

Hospitals are a critical element in the health care delivery system. Owing to the challenges faced by the health industry, corporate governance has attracted attention. Factors like the augmented cost in health care, a consistent increase in consumer expectation, and diseases coupled with technological advances have put high constraints on the hospitals.

Domestic and international competition emphasizes transparency and accountability. Consequently, health care institutions and policymakers are focusing on governance in the health care system. Under the framework of corporate governance, the hospitals intend to focus on effective accountability, transparency, and profitability.

The issue is of critical interest to the hospital administration, investors, policymakers, and all the stakeholders of the industry. Good governance empowers the hospital to become an economically self-sustaining institution, apart from focusing on social welfare. It ensures the humanitarian objective of this sector by committing to high standards of ethics. It will enable the hospital to deliver affordable, accessible, and high-quality services for its patients on ethical grounds. Consequently, good corporate governance bridges the gap between the social and humanitarian mission of the hospital on one side and its organizational nature on the other side.

Secondly, by nature, the healthcare sector is multi-faceted and consists of a large number of stakeholders and beneficiaries. As a result, it upholds many conflicting interests. These have to be settled in a way that balances different stakeholders' interests. Consequently, this research paper will contribute towards achieving harmonization of interest in an integrated manner.

According to Patel (2012), corporate governance in India was stagnant till 1990. The concept furnished post the economic reforms in 1994. In 1996 Confederation of Indian Industry (CII), developed a code for corporate governance to safeguard the interest of small investors and transparency in the business. Despite the concept gaining momentum, there is limited research on the concept in the health care sector in India. Few industry reports on the health sector motivated the policymakers to introduce governance reform program for health care settings. As per the researcher, there is no study which discusses a comprehensive list of the key driver of corporate governance in the health care sector in India. Consequently, it attempts to fulfill the gap by studying the effect of doctor's availability, medicine availability, age, income level, etc. on the governance of the hospital. The research also attempts to study how the interest of stakeholders of a government hospital can be harmonized. Most of the research in India is focused on private hospitals. As per the knowledge of the researcher, there is no study that focuses on the cooperate governance of government hospitals. Thus, the research bridges the research gap by studying the three major hospitals of Delhi like AIIMS, Safdarjung, and Ram Manohar Lohia hospitals.

This research contributes to the literature by extending the concept of governance in the health sector in India. Due to the size of the Indian economy, the health care sector has a massive impact on the well-being of the citizen of the country. Consequently, the scale of the contribution of the study can be seen through the governance of the health sector in the Indian economy. It adds to the existing body of structure and interactions in the different spheres, levels of the health environment, and their impact on patient care. The research will enable the health care

organizations in developing the governance protocol that will enable them to attain its objective. The study also contributes to the literature on governance by detailing the policy and procedures which contribute to effective governance. It provides a practical guideline to hospitals in developing a framework for effective governance. It will also help in applying the concept of corporate governance in an emerging country like India where the two important key drivers of the governance reform program include the desire for value for money and reassurances about the way that resources are utilized. The state can use the findings of the research in developing a policy framework for government-driven hospitals in reviewing and strengthening the work of governing healthcare quality through fostering greater understanding of and engagement with key processes. Reforms in the health sector can be framed for the emerging countries will which can harmonize the interest of the government, managerial sets, and all relevant stakeholders. This study will act as guiding research for countries where the state regulates the health system.

In an attempt to study factors affecting corporate governance, effective governance is taken as a dependent variable. This is a categorical variable that has two values one for average governance and two for effective governance. Backed by earlier research of Ohlson (1980) the application of a binary response model helps in examining the underlying structure of the predictors. Consequently, a logistic regression model is used to analyze the effects of independent variables on a binary dependent variable in terms of the probability of being in one of the other. Predictors used in the current study; hospital procedures, the commitment of stakeholders, and individual characteristics can best be evaluated using logit regression.

The remainder of the paper has the following structures. Section 2 reviews the relevant literature on corporate governance with a special reference to the health sector. The literature distinguishes between private hospitals and government hospitals. It also incorporates clinical governance to study the health sector. Section 3 discusses the methodology which has been used to identify factors affecting corporate governance. It also details the independent factors used in the study. Section 4 documents the result of the research. It documents the corporate governance model from the perspective of patients, doctors, and management while Section 5 presents the discussion followed by the conclusion in Section 6.

## 2. LITERATURE REVIEW

To build the conceptual framework and a base for further research, a review of existing literature is done. There is a vast body of literature on the concept of corporate governance. The concept can be traced back to 1932 when Berle and Means (1932) in their book contributed the first research into this area, explaining the concept of corporate governance. Various researchers have defined corporate governance. Cadbury (1992) in his report puts forth corporate governance as the system by which companies are directed and controlled. Julien

and Rieger (2003) explain corporate governance as the system within an organization that protects the interests of its diverse stakeholder groups. In essence, corporate governance has become critical due to the complexity of the business. Scheifer and Vishny (1997) define corporate governance as a means by which investors safeguard their return on their investment.

Corporate governance in the health sector has limited research. Orlikoff and Pointer (1999) in their book pointed out the challenges faced by the health care industry. The researcher emphasized the need to study corporate governance in this sector. Hospitals are huge economic entities that consume significant expenditure and resources. Due to the co-existence of economic and humanitarian dimensions, governance is extremely critical. Eeckloo, Van Herck, Van Hulle, and Vleugels (2002) have explored the application of the corporate governance model in the health care sector. According to them, the current model used in the corporate world is not applicable in the health care sector, as the model focuses on managing organizational structures.

The literature also distinguishes between the governance of private hospitals and government hospitals. Ezzamel and Willmott (1993) asserted that the government hospitals provide public services which lead to a higher sense of purpose in their work as compared to the private sector. However, it does not attract "willing customers", making corporate governance difficult. Brickley, Van Horn, and Wedig (2003) in their research documented that the government hospital relies on subsidies given by the government. The surplus profits do not get distributed among the board members; rather it is reinvested or used for social activities. According to Delaney (2015) government, hospitals have less conflict of stakeholders however lack of clear-cut ownership leads to the problem in managing the organization. It is also characterized by bureaucracy and inefficient control mechanism.

Further insight into the governance of the health care sector can be gained from the related literature of clinical governance which is integrated with health care. Clinical governance focuses on the activities of the hospital or clinic while corporate governance is a broader issue that encompasses clinical governance as one of its performance indicators. A need for an integrated approach to supporting and supervising all hospital activities including clinical performance is required. Clinical governance came as a response to increased dissatisfaction of the customers with health care institutions in early 1990 in countries like the UK, Canada, and Australia (Braithwaite & Travaglia, 2008). The main purpose of clinical governance was to ensure quality and safety of medical services and procedures are the main drivers for healthcare institutions, operations, and performance, with a focus on patient outcomes. Researchers like Balding (2005), Duncan-Marr and Duckett (2005) and Braithwaite and Travaglia (2008) documented that institutions in the health care sector with clinic governance enhances transparency, accountability, improvement, and continuous learning. Delaney (2015) focused his study on integrating the approach of corporate and clinical governance. The researcher pointed out that a thorough understanding of

institutions' objectives and their health strategy can bring a synergizing effect between the two concepts.

When World Health Organization (WHO) first considered the topic of clinical governance, it highlighted four main dimensions, including professional performance, resource allocation, risk management, and patient satisfaction. However, subsequently, many other elements have been incorporated as the concept has been rolled out into hospitals. Other elements include:

- patient involvement in service delivery;
- staffing and staff management;
- continuous professional development;
- clinical effectiveness;
- education and training;
- using available information;
- clear lines of accountability and responsibility

for clinical care.

Recent research in this field focuses on the impact of corporate governance on the services offered to the patients. Afriyie, Kong, Danso, Ibn Musah, and Akomeah (2019) in their research emphasized that good governance policy is essential to deliver on their operation and operational efficiency in the health sector. The study concluded that the diligence of the board of directors helps in improving the mortality rate in hospitals. Berland (2019) studied the Canadian market health care sector to study community engagement and accountability. The study emphasized long-term commitment from the leaders to achieve total value for the community in the hospitals, are required. Afriyie et al. (2020) studied the Ghana health industry to investigate the impact of corporate governance on hospital performance regarding HIV and malaria control. The sample included 1005 patients across 125 hospitals. The study documented that effective governance improves the performance of the hospital. Stoopendaal and van de Bovenkamp (2015) focused on governance and regulations. The study documents that effective governance is not only the responsibility of the directors of the hospital, but it requires responsibility from state regulators and employees responsible for supervising the quality of service. In a similar study by Weir, Jones, and Wright (2015), the researcher pointed that effective governance will come with accountability at the macro (government regulators), meso (board of directors and supervisory council), and micro (professional) level. Marques, Serrasqueiro, and Nogueira (2020) explored the concept of corporate governance in the health sector from 2015-2019 through a systematic literature review. The study focused on attributes of effective governance, corporate social responsibility in the Health sector, health risk management, and global health governance.

The literature review details that despite extensive consideration given to the issue, there is no model of clinical governance that is accepted to be ideal. As a result, many hospitals are struggling in their efforts to find a suitable clinical governance framework. Moreover, the concept of health governance in developing countries has received limited attention. Consequently, the study attempts to explore the insight of health care governance in India by studying three government hospitals in Delhi.

### 3. RESEARCH METHODOLOGY

The three government hospitals, AIIMS, Safdarjung, and Ram Manohar Lohia Hospital in Delhi, were studied as case studies in an exploratory framework, as a part of a broader research project of investigating the factors affecting effective governance. These hospitals cater to 70% of the population in Delhi across different departments like Heart Centre, Pediatrics, Orthopedic, Pathology, Gynecology, and Endocrinology, using simple random sampling. To select the respondent from the selected hospitals, stratification based sampling was used. The sample was proportional to the size and departments of the hospital. 1000 pre-coded questionnaires were designed. A total of 720 questionnaires were collected yielding a 72% response rate. However, out of the 720 responses, 582 were usable. Consequently, the response rate was 58.2% of the distributed profits. 582 sample, included 219 doctors, 227 patients, and 136 respondents of the management across for the study period January 2019 and April 2019. The response obtained was used in logit regression to explore factors affecting the governance of hospitals.

The research is based on primary data that was collected through the administration of a structured questionnaire. The questionnaire used a Likert measurement scale to determine the perception of the respondents on effective governance in hospitals. The questionnaire was divided into two sections. Section A discussed the profile of the respondents such as gender, household size family income. Section B discussed the parameters of corporate governance like procedures, stakeholder participation, and contextual factors. Before collecting the data a pilot study was conducted to pre-test all the measures used in the research instrument. The idea of the pre-test was to reduce the measurement errors and improve the validity of the construct. The study used simple random sampling to select 100 respondents for the pilot study. Based on earlier researchers 10% of the sample is used for pilot testing.

The study takes governance as a dependent variable. It is a binary variable that can have two outcomes. An average or below average governance is coded as 0, while good governance is given the code 1. The predictors used in the study is based on the list of governance performance measures for the direct public health care provided by WHO (2008), Lewis and Pettersson (2009). Lewis and Pettersson (2009) proposed 5 governance indicators for health mainly budget and resource management, human resources, institutional providers, informal payments, and perception of corruption while WHO focused on financial management, personnel management, drug management, client relations, and regulation as determinants of governance in the health sector. Savedoff (2011) after analyzing the literature on the governance of public health detailed five broad categories of determinants of governance in the health sector: 1) ownership, 2) decentralization, 3) formal procedures, 4) stakeholder participation, and 5) contextual factors. These factors are crisp and considered as the main determinants of effective governance. Based on these governance determinants,

a questionnaire was developed to detail the associated governance performance measures. Questions based on billing time and registration time focus on formal procedures. The doctor's attitude, the comfort level of the patients with the doctor, addressing the concern of patients by the doctor, the medical staff assistance and attitude focus on stake holder's participation. Availability of the medicine and the delivery time taken to get the medicine can be derived from contextual factors. Apart from studying four categories of governance in the health sector, the study also attempts to investigate if individual factors affect the kind of treatment given to the patients in government hospitals. The individual characteristics of respondents include household size, monthly income, and gender. The household size and monthly income are used to capture the effect of a poor standard of living on the perception of governance.

Logistic regression is generally thought of as a method for modeling in situations for which there is a binary response variable. The predictor variables can be numerical or categorical (including binary). Multinomial (*aka* polychotomous) logistic regression can be used when there are more than two possible outcomes for the response. Letting  $Y$  be the binary response variable, it is assumed that  $P(Y = 1)$  is possibly dependent on  $\bar{x}$ , a vector of predictor values. The goal is to model  $p(\bar{x}) \equiv P(Y = 1|\bar{x})$ . Since  $Y$  is binary, modeling  $p(\bar{x})$  is really modeling  $E(Y|\bar{x})$ , which is what is done in OLS regression, with a numerical response. If we model  $p(\bar{x})$  as a linear function of predictor variables, e.g.,  $\beta_0 + \beta_1x_1 + \dots + \beta_px_p$ , then the fitted model can result in estimated probabilities that are outside of 0,1. What tends to work better is to assume that:

$$P_i = E(Y = 1|X_i) = \frac{1}{1 + e^{-(\beta_0 + \beta_1X_1 + \dots + \beta_pX_p)}} \quad (1)$$

which can be written as

$$P_i = E(Y = 1|X_i) = \frac{e^{(\beta_0 + \beta_1X_1 + \dots + \beta_pX_p)}}{1 + e^{(\beta_0 + \beta_1X_1 + \dots + \beta_pX_p)}} \quad (2)$$

$$P_i = E(Y = 1|X_i) = \frac{e^{z_i}}{1 + e^{z_i}} \quad (3)$$

where,

$$z = \beta_0 + \beta_1X_1 + \dots + \beta_pX_p \quad (4)$$

then

$$1 - P_i = E(Y = 0|X_i) = \frac{1}{1 + e^{z_i}} \quad (5)$$

therefore, we can write

$$\frac{P_i}{1 - P_i} = e^{z_i} \quad (6)$$

take logarithm

$$L_i = L_n \left[ \frac{P_i}{1 - P_i} \right] = z_i = \beta_0 + \beta_1X_1 + \dots + \beta_pX_p \quad (7)$$

that is,  $L$ , the log of the odds ratio, is not only linear in  $X$  but also (from the estimation viewpoint) linear in the parameters.  $L$  is called the logit and hence the name logit model for models like. As  $P$  goes from 0 to 1 (i.e., as  $Z$  varies from  $-\infty$  to  $+\infty$ ), the logit  $L$  goes from  $-\infty$  to  $+\infty$ . Although  $L$  is linear in  $X$ , the probabilities themselves are not.

$$L_i = L_n \left[ \frac{P_i}{1-P_i} \right] = z_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \mu \quad (8)$$

where,

$z_i$  = governance (= 0 for average or below it; = 1 for above average);

$X_1$  = comfort level of patients with the doctors (= 1 if comfort is excellent; = 2 if comfort is good; = 3 if comfort is fair; = 4 if comform is poor);

$X_2$  = addressing the concerns by the doctor (= 1 if addressing the concerns is excellent; = 2 if addressing the concerns is good; = 3 if addressing the concerns is fair; = 4 if addressing the concerns is poor);

$X_3$  = the doctor's attitude towards the patients (= 1 if the doctor is pleasant; = 2 if the doctor is friendly; = 3 if the doctor is warm; = 4 if the doctor is indifferent);

$X_4$  = staff assistance (= 1 if staff assistance is excellent; = 2 if staff assistance is good; = 3 if staff assistance is fair; = 4 if staff assistance is poor);

$X_5$  = the assistant staff attitude towards patients (= 1 if the staff attitude is pleasant; = 2 if the staff attitude is friendly; = 3 if staff attitude is warm; = 4 if the staff attitude is indifferent);

$X_6$  = registration time (= 1 if registration time is < 10 min; = 2 if registration time is 10-15 min; = 3 if registration time is 16-29 min; = 4 if registration time is > 29 min);

$X_7$  = billing time (= 1 if billing time is < 10 min; = 2 if billing time is 10-15 min; = 3 if billing time is 16-29 min; = 4 if billing time is > 29 min);

The logit becomes negative and increasingly large in magnitude as the odds ratio decreases from 1 to 0 and becomes increasingly large and positive as the odds ratio increases from 1 to infinity. In our case we used the following logit model:

$X_8$  = medicine availability (= 1 if medicine availability is excellent; = 2 if medicine availability is good; = 3 if medicine availability is fair; = 4 if medicine availability is poor);

$X_9$  = medicine delivery time (= 1 if medicine delivery time is < 10 min; = 2 if medicine delivery time is 10-15 min; = 3 if medicine delivery time is 16-29 min; = 4 if medicine delivery time is > 29 min);

$X_{10}$  =  $hh_{size}$  = household size;

$X_{11}$  = gender (= 1 for male; = 2 for female);

$X_{12}$  = monthly income.

#### 4. RESULTS

The study views the corporate governance of government hospitals from different perspectives. Model 1 represents the perception of the patients; Model 2 investigates the responses of doctors, while Model 3 analyzes the perception of the management towards effective governance. The governance indicators used in Models 2 and 3 are comfort level of the patient with the doctor, addressing of the concern by the doctor, registration time taken in the hospital, availability of the medicine, and individuals' characteristic of the respondents.

**Table 1.** Average marginal effect<sup>1</sup>: Logit regression

Variables	Model 1	Model 2	Model 3
	Governance	Governance	Governance
Comfort level of the patients with the doctor	-0.168***	-0.174***	-0.121***
Addressing the concern of the patients by the doctor	-0.0892**	-0.0969***	-0.162***
The doctor's attitude	0.0124		
Assistance by the medical staff	0.0172		
The assistant staff attitude	-0.0524		
Registration time	-0.0354**	-0.0525**	-0.0415*
Billing time			
Availability of medicine	-0.0677**	-0.0772***	-0.0822***
Delivery time	-0.0477		
Size	-0.00534	-0.00616	
Gender	0.0350	0.0488	0.0718
Monthly income	0.356		4.43e-07
Observations	219	227	136

Note: Standard errors in parentheses \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ .

<sup>1</sup> Marginal effects show the change in probability when the predictor or independent variable increases by one unit.

## 5. DISCUSSION

The research attempts to identify factors affecting good governance in the health sector. Table 1 documents the result of the logit analysis from the patients, the doctors, and the management perspective. The model shows that the comfort level of patients with the doctor, the ability of the doctors to address the concern of patience, registration time in the hospital, and easy availability of the medicine determines a framework for the good governance of hospitals. Consequently, the government should focus on the quality of medical education, which must incorporate ethical sensitiveness also. The findings conform to Ahmad et al. (2003) which focused on stakeholder participation for improving the governance in the health care sector. By assigning the role to the doctors to supervise public health care services and soliciting their feedback on service quality can improve public health care service quality and productivity. Creating opportunities for medical staff and nurses and soliciting their feedback on service quality can improve the quality of management and boost staff morale. The result of the current study also emphasizes the pillars of effective governance laid by WHO in 2008 of personnel management, drug management, client relations, and regulation. Similar findings can be traced from the research of Lewis and Pettersson (2009) who focused on the participation of doctors and nurses in improving the governance in the health sector.

The study documents that easy accessibility to medicines improve the efficiency of the doctors, thereby contributing to good governance. The research suggests that the presence of a medical shop inside the hospital premises contributes towards effective governance. The results of the study corroborate with the pillars of effective governance laid by WHO in 2008. According to WHO, formal procedures clarify various expectations of the stakeholders. It defines the task assigned to doctors, staff, medical attendants. It also increases accountability from a higher level of authority. The existence of motivational guidelines and mechanisms for the participation of an internal stakeholder of the health system in the formulation of rules, procedures, and implementation of health policies leads to effective governance. WHO (2014) states that effective governance can be implemented by ensuring accountability and putting governance structures, rules, and procedure in place.

The study also shows that the registration process in a government hospital is very cumbersome and time-consuming. It acts as a critical indicator in the governance framework. Usage of information technology in hospital administration will enable the management to reduce the billing time. The latest policy of the central government linking the online registration process to AADHAR cards will ensure improved governance. This acts like a contextual factor affecting the governance in the health sector. The findings corroborate with Savedoff (2011) who documented that contextual factors support effective governance. The study shows that

assistance of the medical staff, the attitude of the doctor and medical, individual characteristics of the respondent income does not have a significant effect on the governance of the hospital. The coefficient of the income level of the respondents and gender are not statically significant. Thus, the quality of governance in the government hospitals does not get significantly improved with these variables.

The findings of the research can be used by the policymaker to draft an adequate health policy emphasizing governance. They should consider opening policy decisions to stakeholders to improve the quality of the health care sector. The findings of the research can also be used in the context of developed countries like the UK where the health sector is driven by the State National Health Service. The state can focus on rules and procedures apart from emphasizing stakeholders' participation and contextual factors. This will help in reducing the long wait for specialized services. The policymakers can emphasize stakeholders' participation, rules procedures, and contextual factors to improve governance in the health care sector.

## 6. CONCLUSION

The concept of corporate governance ensures the stakeholders, processes; rule procedures are all aimed towards attaining the company's mission. Good governance translates into economic and non-economic performances. The study contributes to applying the concept of good governance in the health sector. Budget constraints, insufficient medical facilities, and the medical professional make government hospitals a unique case to study. The complexity of health care is multiplied by the co-existence of economic and humanitarian dimensions. The contribution of the research is in identifying indicators of effective corporate governance in the health care sector. For this purpose, three major hospitals in Delhi - AIIMS, Safdarjung, and Ram Manohar Lohia hospitals - were studied. 582 respondents were analyzed using logit regression. The study documents the comfort level of patients with the doctor, the ability of the doctors to address the concern of patience, registration time in the hospital, and easy availability of the medicine improves the corporate governance of the hospital.

The study is extremely critical for the government and various stakeholders of the health sector. Based on the research, the government should focus on the key drivers to provide the effective and efficient provision of healthcare services. The management should consider corporate governance health sector in its complexity. Based on the findings of the study, the management should focus on good quality doctors and ethical issues. The study is limited in its scope. It only studies three main hospitals in Delhi. Future research can study the governance model of the hospital across the country. Despite the limitation, the study will also act as a guiding force to the management of government hospitals in delivering good quality governance.

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