**Introduction**

Hart once proposed in his book “corporate governance”: Some theory and implications that governance issue would emerge if there is any interest conflict between principal and agent with no support of a complete contract in a principal-agent relation.\(^1\) Governance theory developed from the governance issue believes that an effective institutional arrangement could avoid or decrease the occurrence of these issues and force the agent to maximize his principal’s interest.\(^2\)

China’s government appoints deans for public hospitals and endows them powers to manage their hospitals, which forms a principal-agent relationship. The government, as the principal, holds public hospitals for the purpose of providing cost-effective medical service for its citizens to ensure their health rights.\(^3\) While the hospital deans, as the agent, not only need to meet public interest and accomplish the government original intention of holding public hospitals but also need to consider their hospitals’ economic benefits and ensure hospital’s development. Otherwise, they have personal goals such as good political performance, higher social status, and income.\(^4\) The objective of the government and hospital deans could not be totally consistent. While a complete contract covering all accountabilities in whatever circumstance could not be made in advance, either. These result in current China’s public hospital’s governance issue. From the perspective of current reality, public hospitals’ reckless expansion, and revenue-centered operation mechanism are disoriented, deviating from the government’s original intention of holding public hospitals, which have resulted in negative social and economic consequence and become the target of public criticism in recent years.\(^5-7\)

These problems show China’s current governance arrangement for public hospitals could not avoid or decrease the occurrence of governance issues, for the governance arrangement itself is irrational and could not urge agents to accomplish principal’s objective on the one hand. On the other hand, even if such an institutional arrangement does work, but due to some reasons, the government and hospital deans did not follow the provisions or did not well implement, resulting in rational institutional arrangement could not fully play its role. Former researches found irrationality did exist in the institutional arrangement of public hospital. The separation of power and accountability between the government and hospital dean is either ambiguous or irrational with regard to the following aspects: Some important power was not defined to any side, hospital deans have large power on residual control right and residual claim, the setting of accountability is incomplete or ambiguous, which leads to the imbalance between incentive and restriction on public hospital deans.\(^5,8-12\) Meanwhile, the author also found that although many critical decision-making power influencing public hospitals’ development direction were in the government’s hand, as the government’s incomplete execution of its power, these power were actually in the hospitals deans’. In addition, due to government’s absence of supervision on public hospital deans, some measures, such as the power of appointment and removal, that the principal could effectively restrict the agent in corporate governance did not play its role in public hospital governance.
Full execution of an institution could ensure it plays its role and if the above execution problems could not be addressed, no matter how irrational is the institutional arrangement through on-going reform, current problems with regard to China’s public hospitals could not be solved, either. Therefore, this article intends to explore the reasons why theoretically rational institutional arrangement could not play its role from the perspective of executive ability and further discuss its solutions.

**Performance and Explanation of Governments’ Low Executive Ability**

The performance of governments’ low executive ability of institution is as follows while the author tries to explain the reasons.

First, the government has the power of capital construction and approval of purchase of large scale equipment, theoretically ensuring the resource allocation and development of public hospitals is consistent with the government planning. However, the decentralized power of owner, under-powered officials resulted in the reality that the government could not stop public hospitals’ reckless expansion and equipment competition. The Development and Reform Commission is responsible for the approval of capital construction of public hospitals, but through on-site study, it is found that such examination and approval only focus on compliance procedure without consideration of the regional health planning issued by the Health Department or current regional medical resource. So does Financial Departments in examining and approving public hospitals’ budget. As for the hazard that the cost of public hospitals’ reckless construction could be transferred to patients, officials in relevant departments have few motive to consider during examination and approval. In fact, as with the construction applications submitted by public hospitals’ deans, they would always be approved in most occasions. Under the condition that both construction application and financial budget are approved, Health Department is unable to stop it even if it finds out the hospitals’ expansion is not consistent with its planning, especially when some capital for construction comes from the Financial Department. Given that the invested capital for construction from the Financial Department would not be appropriated for other purpose in health field, Health Department do not have motive to stop hospitals’ construction behavior. Despite the approval right of large scale equipment is in Health Department’s hand, the capital for equipment purchase are self-raised by hospitals’ deans, which could not have any negative impact on officials in Health Department when the equipment purchase is inconsistent with regional health planning. In such occasions, officials incline to approve the application instead of veto as a good personal relation with the hospital would offer them convenience when seeking medical service. In addition, the administrative level of some public hospitals’ deans is higher than government officials in Health Departments. Officials’ restriction on hospitals’ deans would be weakened due to the bureaucracy nature.

Second, performance assessment power and budget subsidy power are in the government’s hands. If budget subsidy was correlated with hospitals’ performance assessment and full allocation of the budget was only feasible on the condition of hospitals’ completion of tasks, hospitals’ deans would strive to accomplish the goals in performance assessment set by the government. However, due to the decentralization of power and departments interests, the control power that could theoretically have an effect on hospitals’ deans’ behavior is weakened. In the current system, the performance assessment is in the charge of Health Department while budget allocation is in the charge of Financial Department. However, Financial Department allocates the budget with no reference to performance assessment’s results, which offsets the deans’ motive to accomplish the goals. Even another provision rules that the amount of budget allocation should be correlated with performance assessment’s results, but the division of the power into different departments still could not play its role as the detention of the budget subsidy is left in Financial Department and could not be used to award other well-performed hospitals or other aspects with regard to health, which results in the Health Department lacks motive to require Financial Department decreasing budget allocation. In some occasions, Health Department could even relax the assessment rules.

Third, the government’s power of appointment and removal on public hospitals’ deans does not effectively control deans’ behaviors. The administration management on public hospitals’ deans is based on the scale of the hospital and administrative subordination, which determines the deans’ administrative level and treatment. Therefore, the management on public hospitals is not the critical factor that could impact the status and income of the manager. Organization Department would take qualifications and political consciousness into consideration when they select hospitals’ deans. Although Health Department would assess public hospitals’ deans, the result of which is neither crucial for the deans’ remuneration nor removal. In this case, the hospitals’ deans would prefer building a good relation with relevant officials of organization department to meeting the requirements set by Health Department, leading that the assessment lose its control on deans’ behaviors. Even if the hospital dean was removed due to poor performance, according to current cadre administration rules, organization department would arrange him based on his original administrative level with no influence on his remuneration.

**Analysis on the Low Executive Ability of the Government**

In a whole, the reason why government fails to control hospital deans’ behavior by means of the power of owner is mainly due to the two aspects: The motive as owner representative and decentralization of the power of owner.

First, as the owner representative, the government is short of natural motive. The ownership of public hospital is in
the government’s hands while the substantial executive power is in government officials’ hands. However, the development of public hospitals is not correlated with the official’s self-interest. All important decision-making about public hospitals, their operation and supervision on their administrators are in the charge of collective, which take officials off the financial responsibility as the property owner when the development and operation of public hospitals deviates due to wrong decision-making or ineffective supervision. Even if someone should be held accountable for administrative negligence, it would never be an individual accountability. Besides, when government officials execute their power of owner on public hospitals, they might make use of their status or personal relations with public hospitals’ administrators to get convenience in access to medical service. Such a favorable relation might be established on the officials’ deliberate overlook when they supervise the behaviors of public hospitals’ administrators, which means collusion mechanism takes the place of supervision mechanism.\(^{13}\)

As for government officials, acquisition of self-interests through rent-seeking is more immediate and convenient compared with sharing the benefit of holding public hospitals as one of the citizens after executing the power of owner to control the behavior of public hospitals’ administrators and promote hospitals’ development. Therefore, no matter from the perspective of officials’ accountability or the realization of self-interests, the executor of public hospitals’ ownership does not have the natural motive to well administrate public hospitals.

Second, the decentralization cripples the owner representative’s status. The power of owner of China’s government’s on public hospitals has been dissociated. Although the consensus of “government is the owner representative of public hospitals” is acknowledged, which department should take the accountability as the owner has not been determined? Meanwhile, the execution of powers on public hospitals is from different government departments instead of integration. Except for the Health Departments, other departments handle public hospitals affairs from their departments’ perspective according to the universal law for public institutions, which might not be the optimal decision for public hospitals’ development as they do not take public hospitals’ specialty into consideration. In comparison, Health Department has more information concerning each public hospital and is more likely to make the optimal decision, but for some affairs, Health Department is not the final decision-maker. Although Health Departments could offer suggestions to other departments, whether they would be adopted would depend on the rules and regulations, working procedures and interests of other departments, which would be of high coordination cost. Therefore, in some occasions, different government departments would give inconsistent commands to public hospitals out of their own departments’ rules, working procedures and interests, which in turn might weaken the restriction of ownership on public hospitals’ deans due to the inconsistency.\(^{14}\)

China’s citizens, as the ultimate principal of public hospitals’ ownership, are of low constraint force on the government. If all citizens could effectively monitor the execution of ownership on public hospitals by the government, and further urge the government to well execute its power through political democracy (election), it is likely to avoid the poor execution of ownership due to under-power and decentralized power. However, China’s citizens are of poor awareness of owner, little critical consciousness on the government, citizens’ supervision awareness on government for is very limited. In addition, as the number of citizens is huge, supervision turns to be a public good, most of the public natured with an economic man would take opportunistic behaviors and rely on others. The initiative of owners largely drops and results in no one or few people to monitor government’s behavior. In other occasions, even citizens realize that the government does not well on behalf of themselves to execute the power of owner, they were unlikely to take use of their democracy to protect their interests.

**Discussion on the Solutions**

Based on the above analysis, the decentralized power of ownership results in a situation in which the government could not effectively control the agents’ behavior. There are two ways to solve this problem. One is to strengthen the cooperation between government departments while the other is to centralize the powers from relevant government departments and appoint one department to take the accountability. However, China’s current cadre selection and government officials’ assessment mechanism do not support the cooperation between departments. Instead, current cooperation is based on the personal relationships between officials. It is hard to establish an effective cooperation mechanism in short-term and poor cooperation between different departments that would last for a long time, which left power integration to be the optimal solution.

Researchers have put forward the ideas of integrating the public hospitals’ ownership to health bureau or a new institution such as hospital authority.\(^{15-20}\) However, power integration also face difficulty in the adjustment and integration of power among relevant government departments.

In general, different departments have their own administrative objectives, means, management system and procedures and execute their own accountability in accordance with the co-negotiated plan. If relevant power is integrated into Health Department or a new department, it would face the problem that whether the objective and rules between executive department and principal department need to be consistent and who will take the accountability after power integration. If it is still the original department’s accountability, it will have no motive to hand in the power. Therefore, new rules and redistribution of accountability must be made during power integration in case of the occurrence of new problems. It is understandable that most of the departments are unwilling to give up the vested power.
If government at higher level did not impulse the reform, the adjustment and integration of power in plenty of areas would face great challenge. That is why the management system reform in many pilot cities lags behind.

As for government officials, lack of motive is unchangeable as they are not property owners. However, accountability mechanism could force them to well execute their power of owner on public hospitals and keep public hospital deans’ behavior consistent with the goals set by the government. It could be ruled that if the deviation of public hospital’s behaviors occurs due to official’s dereliction of duty or poor supervision, the corresponsive official should take the accountability on himself. The supervision from all citizens on government officials is also an alternative to force them to well execute their power, but as China’s citizens have been absent of the owner consciousness, there is a long way to guide them to make the best of the right of supervision and democratic right.

Financial support and sponsorship
Nil.

Conflicts of interest
There are no conflicts of interest.

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