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RE-EXAMINING THE RELATIONSHIP BETWEEN SUPERVISORY BOARD CAPABILITY AND DIRECTOR BOARD CAPABILITY IN PUBLIC HOSPITALS: INSIGHTS FROM NON-SIGNIFICANT FINDINGS

Agastya Agastya[1], Rina Fadhilah Ismail[2], Indra Bastian[3], Rida Perwita Sari[4]*

[1]Faculty of Econommics and Business, University of Gadjah Mada, Indonesia
[2]Faculty of Accountancy, Universiti Teknologi MARA, Malaysia
[3]University of Gadjah Mada, Indonesia
Visiting Professor at University of Darussalam Gontor, Indonesia
[4]Universitas Pembangunan Nasional Veteran Jawa Timur, Indonesia

agastya@ugm.ac.id[1]
rinafadhilah@uitm.edu.my[2]
indrabastian@ugm.ac.id[3]
ridaps.ak@upnjatim.ac.id[4]

*Corresponding author: Email: ridaps.ak@upnjatim.ac.id

Abstract

Governance structures in Indonesian public hospitals presume a direct relationship between the capabilities of the Supervisory Board and the Board of Directors. This study examines whether that assumption holds by testing the influence of Supervisory Board capability on Director Board capability. A quantitative approach was employed, using stratified sampling across 211 accredited public hospitals and analyzed through Partial Least Squares Structural Equation Modeling (PLS-SEM). Results indicate no significant effect between the two variables, suggesting a level of autonomy and independence in each board's function. The findings highlight the potential role of mediating factors such as communication breakdowns, institutional culture, and structural separation. These results challenge conventional assumptions of top-down governance influence and call for a more relational, context-sensitive framework. Interpreted through a post-humanist lens, the study reframes hospital governance as a distributed system of knowledge, agency, and constraint that extends beyond traditional human hierarchies.

Keywords: Public hospital governance; Board capability; Supervisory board; Director board; Organizational autonomy
JEL: H11; I18; I12; I23

1. INTRODUCTION

Hospital Boards are an important part of the elements of good corporate governance in a hospital in term of specific management practices seen as helpful to improving the quality of care. Study from across US and UK expressed that effective hospital Boards associated with specific management practices seen as helpful to improving the quality of care delivered by hospitals (Labrague, 2021).

The existing governance structures in Indonesian public hospitals adopts Senate Models which referred to the hospitals system in Germany and Belgia (Winanda et al., 2023). This governance structures supported by lower-tier operational board and an upper-tier supervisory board which ratifies certain decisions taken by the operational board, sets the direction and represents the different interests in the company, particularly those of shareholders and employees(Omar et al., 2016).

The two-tier Boards in hospitals industry is required as well by the Indonesian government to enhance hospital Board's role in hospitals. This structure allows the Boards to play an increased role in overseeing quality at the system level, with the growing emphasis on system-based approaches to meeting legislative and regulatory quality mandates (Fuertes et al., 2020).

In general, governance structures should involve interaction from both Supervisory Boards and Board of Directors in order to guide strategic decision-making and ensure the organization operates in accordance with legal, ethical, and operational standards. In the one-tier governance system the Supervisory Board is in charge of ratifying and controlling the decision. Meanwhile, the Management Board or Board of Directors is responsible for the initiation and the implementation of the decision (Al-Gamrh et al., 2020).

The public hospitals provide health services that involve humans therefore patient safety should be the utmost priority by designing holistic regulations, implementing standard operating procedures, performing supervision from the supervisory board, and ensuring capability of the Board of Directors. In Indonesia, the hospital industry is still confronting immense challenges in providing health service. For instance issues related to the quality health services, inefficiency of health services, and fraudulent practices as a result from mismanagement of the hospitals. Looking from problems arise above, many evidences point out to the insufficient performance of the Board of Directors and Supervisory Boards as the cause (Al Farooque et al., 2020; Boivie et al., 2021).

On the side of control, problems can be exemplified by the supervisory board's inability to provide constructive oversight to the executive board or board of management(Maulidi et al., 2024). This could be due to too few audiences between the board of directors and supervisory boards. The impact is that supervisory boards are not well informed about the activities carried out by the Board of Directors. The reason for the low frequency of audiences could be due to poor time management or perhaps because members of the supervisory board do not have adequate capabilities to carry out their responsibilities. Moreover, weak interpersonal relationships between public hospitals management and the Boards often develop conflicts which affect the sustainability of the hospitals.

To exacerbate, the recruitment of Hospital Boards members is carried out more politically and far from being professional consequently loosen the capability requirements as a member of the Hospital Boards (Choong, 2022). This condition then lead to the inability of the Hospital Board to perform well.

This study is important to conduct because the structure and capabilities of the board of directors of public hospitals in Indonesia, especially the Board of Directors and the Board of Supervisors, play a major role in determining hospital performance. Therefore, the following research question will be “Do capabilities of the Supervisory Board affect the capabilities of the Board of Directors?”.

This study examines the Board of Directors (represented by the hospital director) and the Supervisory Board (represented by the Chairman of the supervisory board) who are positioned as individuals who are the center of power in the hospital. By leveraging their capabilities, it is expected that a trickle-down effect will occur on increasing individual capabilities which leads to collective capability to leverage organizational performance.

This study aims to add value to existing knowledge on board capabilities, hospital quality services and hospital performance, including the relevance of the underlying theory, framework, and model, as well as the variables used in this study. In particular, this study is aimed at offering contributions in the following areas. The use of PLS-SEM to test the conceptual framework for better data interpretation.

2. LITERATURE REVIEW

2.1. Governance in Public Hospitals

Corporate governance is also often referred to as structures and relationships that determine the direction and performance of the corporation (Löhde et al., 2021). In contrast to McRitchie, Dasgupta et al. (2021) explains that corporate governance is an area in economics that investigates how to guarantee corporate guarantees by using incentives, such as contracts, organizational design, and legislation. In short, corporate governance is a system in which the corporation is regulated and controlled. Good corporate governance or known as Good Corporate Governance shows the principles applied by the company to maximize the value of the company, improve the performance and contribution of the company, and maintain the company's sustainability in the long term.

According to Tricker (2015), in general, the two-tier board system is considered better than the one-tier board. The underlying reason is based on the evidence of lesser corporate scandal cases that occurred in countries with the two-tier board as compared to the cases that occur in other countries with one-tier board systems (Pranataningrum, 2022). The two-tier board systems pattern which are applied to the limited liability companies in Indonesia, are also applied to the public hospitals in Indonesia.

The Supervisory Board is considered necessary as the separation of corporate control from corporate ownership potentially gives executive directors leeway to pursue their own interests at the expense of the owners of public corporations (Meckling & Jensen, 1976; Zeng et al., 2020). In a two-tier board system, the board of directors is a group that oversees activities and strategic planning and decision making in an organization.

2.2. Supervisory Board Capability

A capability can be defined as the coordinated use of resources in order to respond and act competently in the face of various problems and challenges. It consists of resources that provide problem-solving potential and an enabling factor that coordinates these resources (Castanias & Helfat, 1991; Chen et al., 2021).

Supervisory Board plays an important role in the governance of companies. The Supervisory Board is considered necessary as the separation of corporate control from corporate ownership potentially gives executive directors leeway to pursue their own interests at the expense of the owners of public corporations (Fanelli et al., 2020; Isfihan & Nugraheni, 2023). By having the authority to remove executive directors, set CEO compensation and ratify major strategic decisions and financial statements, the board is a key internal mechanism to monitor and discipline management (KS & Barkur, 2020; Morales-Burton & Lopez-Ramirez, 2022; Romiti et al., 2023).

In the two-tier board governance system, non-executive directors/ supervisory boards have an indirect effect on company performance. This is because the system of governance two-tier boards provides for a formal separation of both roles. Executive directors (i.e. the management board) are responsible for the daily operations of the company and Supervisory Boards are responsible for the supervision of executive directors. Thus, the influence of supervisory boards/ non-executive directors on agency performance occurs indirectly.

The study on board supervisory board/ independence and firm performance showed varied results; either positive, negative or no relationship with the firm performance (Alodat et al., 2022; Karim et al., 2020; Pucheta-Martínez & Gallego-Álvarez, 2020; Puni & Anlesinya, 2020).

2.3. Director Board Capability

The board of director's primary general duty as set out under Articles 92 to 98 of the Company Law, is to carry out the day-to-day operations of the company, as well as to represent the company inside and outside the court. The Company Law sets out certain specific duties of the board of directors, including the duty to submit annual work plans to the board of commissioners or general meeting of shareholders and annual reports to the general meeting of shareholders after consideration by the board of commissioners (Articles 63 to 69, Company Law).

Board capabilities can be seen from various dimensions. According to Jackson & Holland (1998), capability consists of 6 dimensions, namely Contextual, Educational, Interpersonal, Analytical, Political, and Strategic dimensions. Therefore, to be able to carry out its functions properly, the Board must have these six dimensions of competence. However, Klarner et al. (2021) argue that boards need specific capabilities to govern strategic activities effectively.

Because the set of tasks that boards face and the relative weight of recurrent tasks change over time, board capability is an inherently dynamic concept. In order to consistently solve the changing set of tasks, a board has to dynamically reconfigure the three board elements (composition, structure, and interactions) to address new and emerging tasks.

3. MATERIALS AND METHODS

3.1. Research Design

This research is quantitative, designed to test hypotheses based on existing theories, assuming that the selected sample represents the research population. The population of this research will be public hospital owned by the Indonesian government with several criterions. The sampling technique that will be carried out in this research is to use stratified sampling.

The number of hospitals in Indonesia in 2019 was 2,925 hospitals. Of the 2,925 hospitals, there are 736 public hospitals that have 4 criteria. Out of 736 public hospitals, 211 public hospitals were selected, consisting of 7 Class A Public Hospitals, 126 Class B Public Hospitals, and 78 Class C Public Hospitals.

3.2. Data Collection

This research will use a field survey carried out by 35 research assistants to the government-owned public hospital board. The field survey is included in the non-experimental design in which it does not control or manipulate the independent variables or give treatment, but measure and test the effect of the variables used by using statistical methods. Then by using the cross-sectional field survey method confirmed empirically so that it is expected to contribute to the development of theory in this study. In this study, researchers want to find answers to whether a variable can affect other variables. In this case, the variable (X) is capability of the supervisory board and variable (Y) is the capability of the director board.

3.3. Variables and Measures

In this study, the dependent variables used were the variable of the capability of the Director. The Director's capability is measured using the Board Self-Assessment Questionnaire (BSAQ) from Jackson & Holland (1998). BSAQ uses 6 dimensions to measure the Board's Competencies /capabilities.

Table 1. BSAQ Questions, Associated Capabilities, and Purpose

Number of Statement	Dimensi of Capabilities	Purpose
12	Contextual	Demonstrated how a board understood and took into account the culture, norm, and values of the organization it governed
12	Educational	Demonstrated how a governing board took the necessary steps to ensure that members were well informed about the organization and the professionals working there as well as the board's own roles, responsibilities, and performance
11	Interpersonal	Demonstrated how the governing board nurtured the development of its members as a group, attended to the board's collective welfare, and fostered a sense of cohesiveness
10	Analytical	Demonstrated that the board recognized the complexities and subtleties in the issues it faced and drew on multiple perspectives to dissect complex problems and to synthesize appropriate responses
8	Political	Demonstrated that the board accepted as one of its primary responsibilities the need to develop and maintain healthy relationships among all key constituencies
12	Strategic	Demonstrated that the board envisioned and shaped institutional direction and helped to ensure a strategic approach to the institution's future

Source: (Jackson & Holland, 1998)

While the the independent variables used were the variable of the capability of the Supervisory Board.

3.4. Analytical Approach

This study will use Structural Equation Modeling (SEM) as a data analysis method. The SEM method is one type of multivariate analysis in social science that includes Multiple Regression and path analysis with Path Analysis (factor loading) which explains the relationship between latent constructs and their manifestations in a complex model, which can be estimated/ tested simultaneously (Hair Jr et al., 2021).

4. RESULTS

4.1. Descriptive Statistics

Descriptive statistics are used to obtain an initial picture of the data of a study. The data in this study was primary data obtained from 211 copies of questionnaires that had previously been filled out by respondents.

Table 2. Descriptive Statistics of the Constructs

Constructs	N	Min	Max	Mean	Std.Dev
Capability of Director Board	211	92.00	153.00	126.02	14.97599
Capability of Supervisory Boards	211	93.00	149.00	117.05	10.30892

Source: Data processed by researchers

The Capability of Director Board variable consisting of 33 questions produces an average value of 126.02, indicating that respondents tend to choose answers close to a value of 4 in the agree category. The minimum value of 92.00 indicates that respondents tend to choose answers close to a value of 3 in the neutral category, while the maximum value of 153.00 indicates that respondents tend to choose answers close to a value of 5 in the strongly agree category.

The Capability of Supervisory Boards variable consisting of 33 questions produces an average value of 117.05, indicating that respondents tend to choose answers close to a value of 4 in the agree category. The minimum value of 93.00 indicates that respondents tend to choose answers close to a value of 3 in the neutral category, while the maximum value of 149.05 indicates that respondents tend to choose answers close to a value of 5 in the strongly agree category.

4.2. Hypothesis Testing

The result of the structural model evaluation shows the results of hypotheses developed in this study.

Table 3. Results of Bootstrapping for Assessment of Path Coefficients

Hypothesis	Path Relationship	β	Mean	Stdev	T-Statistics	P-Values
H1	BSC -> BDC	-0.130	-0.134	0.069	1.880	0.061

Source: Data processed by researchers

Table 4. Summary Result of Hypothesized Relationship

Hypothesis			Result
H1	:	The Capability of the Supervisory Board has a significant effect on the Capability of the Director Board	Not Supported

Source: Data processed by researchers

4.3. Intrepretation of Results

Based on Table 3, it can be concluded that Hypothesis H1, which states that the Supervisory Board's capability has a significant effect on the Board of Directors' capability, is not supported. As shown in Table 3, the research findings indicate that the capability of the Supervisory Board does not have a significant influence on the capability of the Board of Directors, with a p-value of 0.061 ($p > 0.05$). This suggests that, in the context of the public hospitals examined in this study, the level of competence or effectiveness of the Supervisory Board (such as the expertise, experience, and independence of its members) does not directly and significantly impact the competence or effectiveness of the Board of Directors (which includes aspects such as strategic leadership, operational decision-making, and performance management).

The interpretation of this non-significant finding is critical. As supported by previous studies Fanelli et al. (2020) and Isfihan & Nugraheni (2023), it is possible that the roles and functions of both boards in the governance of public hospitals possess a higher degree of independence than previously assumed. In other words, despite their interaction, each board's capabilities may be shaped more by their own specific internal factors rather than direct influence from the other board. This implies that each board may follow a distinct path in developing its capabilities, which are not necessarily significantly interdependent. Furthermore, the scope of the Supervisory Board's oversight may be more focused on compliance, risk, and long-term sustainability, while the Board of Directors' capabilities are more oriented toward operational performance and the achievement of short-term goals. This difference in focus could explain why no direct significant relationship was found.

This finding may indicate the presence of mediating or moderating factors that were not identified in the current research model. The influence of the Supervisory Board's capabilities on the Board of Directors may not be direct but could be affected by other variables such as organizational culture, unique governance structures in public hospitals, or even the level of operational complexity. For example, ineffective communication mechanisms or internal reporting processes may limit the extent to which one board's capabilities can influence the other. In short, the relationship between the two may be more complex and multi-staged than a simple cause-and-effect dynamic (Klarner et al., 2021).

5. DISCUSSION

5.1. Implications for Governance Theory

Governance theory inherently assumes that a highly competent Board of Commissioners will directly enhance the capabilities of the Board of Directors. This assumption is based on the ideal role of the Board of Commissioners as a provider of strategic direction, a performance overseer, and a party responsible for holding the directors accountable. However, the findings of this study challenge that conventional view. The results of this study reveal that a high level of competence within the Board of Commissioners does not necessarily correlate positively with improvements in the capabilities of the Board of Directors, whether in decision-making, management, or overall performance. This indicates a level of complexity within governance dynamics that is not fully captured by existing theoretical frameworks. Instead of a direct causal relationship, this study highlights the presence of moderating factors that can hinder the positive influence transfer from the Board of Commissioners to the Board of Directors.

Two main possibilities have been identified as the cause of this non-significance: the autonomy of the Board of Directors and structural or communication barriers. A high degree of autonomy within the Board of Directors, referring to their independence and freedom in making day-to-day operational and strategic decisions, can significantly limit the Board of Commissioners' ability to exert meaningful influence. Even if the Board of Commissioners possesses strong competencies, if the Board of Directors operates with a very high level of autonomy, directives or oversight from the commissioners may not be fully implemented or may even be disregarded.

In addition, structural and communication barriers also play a crucial role. These barriers include various constraints, organizational, procedural, or interpersonal, that may impede effective interaction between the two boards. For example, a lack of clear communication channels, complicated reporting procedures, or even disharmonious interpersonal dynamics can restrict the Board of Commissioners' ability to effectively convey their expertise and perspectives to the Board of Directors. Even if the commissioners are highly capable, if these barriers are not addressed, the value of their oversight will not be fully realized in enhancing the capabilities of the Board of Directors.

5.2. Implications for Future Research

Given that the autonomy of the Director Board might limit the Supervisory Board's influence, future research could focus on exploring under what conditions the Director Board is more or less likely to accept guidance from the Supervisory Board. Studies could investigate factors like industry type, company size, or organizational culture to see how they mediate this relationship.

5.3. Limitations of the Study

The scope of this study is firstly limited to the public hospital governance owned by the District and the Provincial Government have been accredited. In 2019, Indonesian Hospital Association reported that 1,568 or about 56% of hospitals in Indonesia have obtained accreditation status.

Secondly, respondents for the Supervisory Board are represented by the Chairman of the Supervisory Board, while respondents for the Board of Directors are represented by the Director of the hospital. In practice, the hospital director has a very dominant role on the Board of Directors and the Chairman of the Supervisory Board has a very dominant role in the Supervisory Board. Therefore, respondents for the Board of Directors are represented by the Director and the Chairman of the Supervisory Board represents the Supervisory Board.

6. CONCLUSIONS

6.1. Summary of Findings

This study challenges the assumption that the Supervisory Board's capability will naturally translate into the Director Board's improved capability. It implies that more attention should be given to how these boards interact, the structural or cultural factors that mediate their influence, and potentially, the need for new models in governance theory that account for the complex dynamics between oversight and management.

6.2. Recommendations

Based on the findings that the capability of the Supervisory Board does not significantly affect the capability of the Director Board, here are several recommendations for different stakeholders, such as organizations, researchers, policymakers, and governance practitioners. For organizations, the need to Increase informal communication between the Supervisory and Director Boards by setting up regular, informal meetings or feedback sessions outside of formal board meetings. These can help create a stronger working relationship and increase the flow of timely, relevant information. In addition, by ensuring that the Supervisory Board receives detailed, accurate, and timely information from the Director Board. This can involve improving the quality of board reporting systems, using technology (such as digital dashboards), and ensuring more transparency between the two boards.

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