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THE GOVERNANCE OF CEO INCENTIVES IN ENGLISH NHS HOSPITAL TRUSTS

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Abstract

Institutional arrangements for the governance of CEO pay and turnover in English NHS Hospital Trusts replicate best practice for listed companies but with the additional feature of centrally imposed performance measurement. In this paper we investigate the impact of this unique combination of incentives on the relationship between CEO pay/turnover and Trust financial and operating performance in the period 1998–2005. We identify a strong association between poor Trust performance and CEO turnover but find little evidence that remuneration committees relate pay to performance in the best performing Trusts. Our findings raise questions about the economic rationale for remuneration committees in the governance of NHS Hospital Trusts.

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