

Accepted Manuscript

Title: Adoption and Learning Across Hospitals: The Case of a Revenue-Generating Practice

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PII: S0167-6296(17)30111-X

DOI: <https://doi.org/doi:10.1016/j.jhealeco.2018.06.005>

Reference: JHE 2128

To appear in: *Journal of Health Economics*

Received date: 3-2-2017

Revised date: 1-6-2018

Accepted date: 10-6-2018



Please cite this article as: Adam Sacarny, Adoption and Learning Across Hospitals: The Case of a Revenue-Generating Practice, *Journal of Health Economics* (2018), <https://doi.org/10.1016/j.jhealeco.2018.06.005>

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Adoption and Learning Across Hospitals: The Case of a Revenue-Generating Practice

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June 12, 2018

Abstract

Performance-raising practices tend to diffuse slowly in the health care sector. To understand how incentives drive adoption, I study a practice that generates revenue for hospitals: submitting detailed documentation about patients. After a 2008 reform, hospitals could raise their Medicare revenue over 2% by always specifying a patient's type of heart failure. Hospitals only captured around half of this revenue, indicating that large frictions impeded takeup. Exploiting the fact that many doctors practice at multiple hospitals, I find that four-fifths of the dispersion in adoption reflects differences in the ability of hospitals to extract documentation from physicians. A hospital's adoption of coding is robustly correlated with its heart attack survival rate and its use of inexpensive survival-raising care. Hospital-physician integration and electronic medical records are also associated with adoption. These findings highlight the potential for institution-level frictions, including agency conflicts, to explain variations in health care performance across providers.

JEL Classification: D22; I1; O31; O33; L2

Keywords: Hospitals; Healthcare; Technology adoption; Firm Performance; Upcoding

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