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## Investigating the effects of ICT on innovation and performance of European hospitals: An exploratory study

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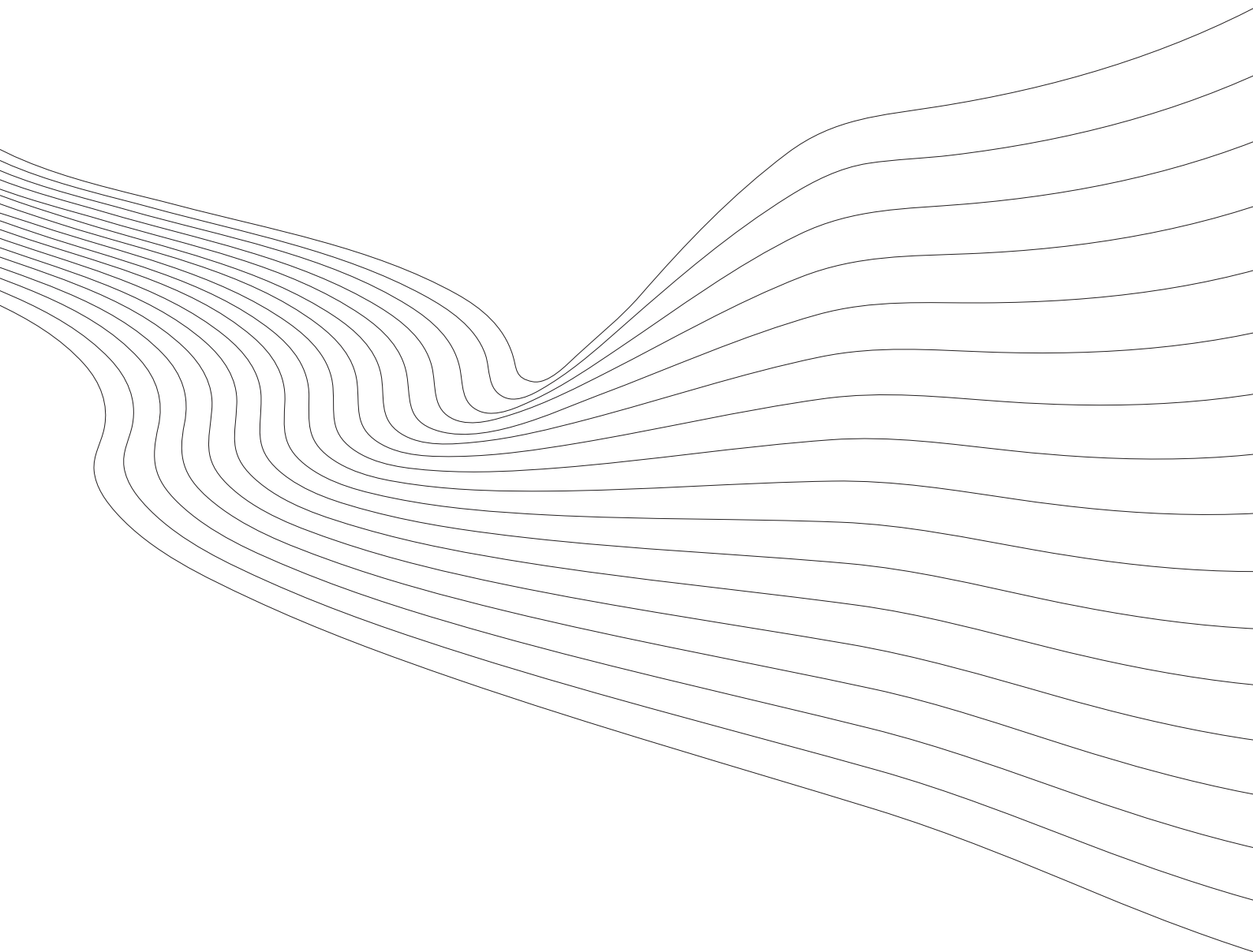
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# KOF Working Papers

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An Exploratory Study

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# **Investigating the Effects of ICT on Innovation and Performance of European Hospitals: An Exploratory Study**

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## **Abstract**

Hospitals are making big investments in various types of ICT, so it is important to investigate their effects on innovation and performance. In this paper is presented an empirical study in this direction, based on data for 743 hospitals from 18 European countries, which were collected in the course of the e-Business Survey of the European Union. We specified and estimated econometrically five equations: one for product innovation, one for process innovation and three equations for the three different dimensions of (ICT-enabled) hospital performance that are taken into consideration in this study. All five equations included various ICT-related variables reflecting ICT infrastructure and a series of important ICT applications, some of them hospital-specific, and some others of general business use, and also ICT personnel (viewed as a kind of ‘soft’ ICT investment), as right-hand variables, while the performance equations also included the two innovation measures.

The study contributes threefold to literature. First, it is to our knowledge the first comprehensive study of this kind for European hospitals. Second, it analyzes the effects of various types of ICT on innovation and (ICT-enabled) economic performance of hospitals in an integrated framework. Third, it is based on relatively detailed information on ICT infrastructure and specific ICT applications, both health-specific and general, and also ICT personnel, examining and comparing their effects on innovation and economic performance.

*JEL-classification:* O31

*Key words:* hospitals; innovation; performance; ICT use

## 1. Introduction

This study investigates the impact of the use of modern information and communication technologies (ICT) on innovation and performance of European hospitals. Hospitals began investing in health ICT already in the 1960s, and since then have made big investments for the development of various types of ICT applications. ICT were first used to support auxiliary functions, such as financial services; in a later phase, ICT were utilized to manage pharmacy, laboratory and radiology service lines, thus to monitor and support clinical activities.<sup>1</sup> The respective ICT applications facilitated important services, such as drug interaction controls, laboratory quality controls and documentation of patient's radiology records. These systems were already quite widespread among USA hospitals by 2000 (McCullough 2008). Two further important technologies that were subsequently developed were electronic medical record (EMR) systems and computerized providers order entry (CPOE) systems. The development of EMR has greatly expanded the automation of clinical services. These systems integrate information from pharmacy, radiology and laboratory in a way that allows physicians to directly access this information and have a complete and integrated picture of a patient. The technology of CPOE is aiming at reducing communication errors and serving as a platform for treatment guideline automation; it enables the electronic entry of physicians' orders for examinations and treatment of patients, which are communicated over a computer network to the medical staff of the pharmacy, laboratory and radiology departments responsible for fulfilling these orders, and finally the results are communicated back to the physicians. It is only during the past decade that the latter technology has begun to diffuse widely. The combined use of these two technologies "should standardize care and reduce errors, thus enhancing both clinical quality and productivity" (Lee et al. 2012, p.8). These two technologies have been investigated by a series of USA studies with respect to the determinants of their diffusion (e.g., Cutler et al. 2005; McCullough 2008) as well as their impact on clinical quality and productivity (see the literature review in section 2).

A previous study examined ICT adoption, particularly adoption of EMR, in seven countries (besides the USA, Canada, Australia and New Zealand also three European countries – Germany, Netherlands and the UK) and found that many of them have achieved high levels of ambulatory EMR adoption, but lagged with respect to hospital adoption of this technology (see Jha al. 2008). Adoption rates in hospitals were less than 10% until 2005 with not large differences among these countries. However, the authors mentioned that they "found almost no high-quality, reliable data on Electronic Health Records in acute care settings from any of seven countries" (p. 850). Since then the data situation in Europe has improved. The data used in this study show that the percentage of hospitals in 18 European countries using Medical Records Management Systems and CPOE amounted to 67.4% and 33.7%% respectively in

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<sup>1</sup> We draw here on McCullough (2008) and Lee et al. (2012).

2005 (see Table 2).<sup>2</sup> Therefore the endowment with ICT has by now reached in Europe a certain level that allows to investigate possible effects of ICT use, not only on the performance of European hospitals (a topic that is particularly examined in USA studies), but also on hospital innovation, which is presumably an important determinant of hospital performance.

The study intends to contribute threefold to literature. First, it is to our knowledge the first comprehensive study of this kind for European hospitals. Second, it analyzes the effects of various types of ICT on innovation and (ICT-enabled) economic performance of hospitals in an integrated framework. Third, it is based on relatively detailed information on ICT infrastructure and specific ICT applications, both health-specific and general, and also ICT personnel, examining and comparing their effects on innovation and economic performance.

The paper is structured as follows. Section 2 deals with the conceptual background and related literature, section 3 presents the data and section 4 the model specification. In section 5 the results of the econometric analysis are presented, while section 6 concludes the paper.

## **2. Conceptual background and related empirical literature**

### **2.1 Innovation in the health sector**

The existing literature on innovation activities in hospitals is scarce. There are at least two reasons for that: first, conceptual difficulties to apply the standard innovation definition, which has been primarily developed for technological novelties in manufacturing, on the health sector; and second, the lack of innovation data for hospitals. Djellah and Gallouj (2007) state in their survey article that existing studies on hospital innovation are case studies, but there are no comprehensive studies based on larger samples of hospitals.<sup>3</sup> An operationable concept of hospital innovation that remains quite close to standard innovation concept was developed in a project financed by the European Union, and then applied in case studies from five countries (Ireland, Netherlands, Spain, Sweden and UK) (Cunningham 2005). This concept has also stimulated the definition of hospital innovation that was used in a survey of Swiss hospitals in 2011 (Arvanitis et al. 2013a). In that study, product innovation refers to pharmaceutical and biomedical novelties (e.g., new drugs, tracers), technical novelties (e.g., equipment for Magnetic Resonance Imaging (MRI), infusion pumps, implants) and novel surgical and/or therapeutic procedures. Process innovation in hospitals comprehends primarily ICT-driven and organizational innovations (changes of workplace organization, horizontal

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<sup>2</sup> For a descriptive study on the diffusion of some ICT uses in European hospitals that is based on the same data as this study see Mikalef and Batenburg(2011); see also European Commission (2007). For the perspectives of eHealth infrastructures in European countries see Stroetmann et al. (2011).

<sup>3</sup>The same authors provide an analytical concept of innovation in hospitals, which is too abstract to be easily operationalized in empirical studies (Djellah and Gallouj 2005). For a conceptual approach specific to “innovation in healthcare” see Thakur et al. (2012).

integration of departments, etc.). The innovation concept used in the present study (and also in the E-business Survey 2006; see section 3) covers – in analogy to the concept of the Community Innovation Surveys – new products, services and processes that are either new for a certain hospital and/or new for hospitals in a certain country or even worldwide.

To our knowledge, the only study that investigates explicitly the innovation performance of hospitals is the study of Salge (2012). It is based on data for 153 public hospitals in the UK. The main findings were that differences as to innovation performance among the hospitals can be explained by firm size, the availability of resources and different “strategical aspirations” of hospital management. ICT has not been taken explicitly into consideration in this study. We know of no study that deals with the effects of ICT on hospital innovation, which is the main topic of this paper.

Other existing studies on innovation in hospitals deal mostly with the adoption of specific new medical technologies. For example, Grebel and Wilfer (2010) analyzed the decision process of providers of medical services for adopting “cardiological technologies”; Garcia Goni (2005) examined the adoption of organizational and technological innovations in a public hospital in Spain; Yang and Hsiao (2009) investigated mechanisms for developing innovative information-enabled services in Taiwanese healthcare service.

## **2.2 ICT and innovation<sup>4</sup>**

Kleis et al. (2012) argue that the use of ICT contributes to firms’ innovation activities through three main channels. The first channel goes through the improvement of the management of the knowledge used in the innovation process. This knowledge might be internally created or externally acquired. Information technology enables an efficient storage and a high accessibility of this knowledge throughout an enterprise. Internal networks, e-mail systems, and electronic databases all facilitate the transfer of knowledge and the communication between innovation participants. This is particularly the case for external information, which is critical for successful innovation (Klevorick et al. 1995; Laursen and Salter 2006).

Second, ICT enables a more efficient cooperation in innovation with external partners. The creation of new knowledge through collaboration with other firms has become more and more important in the last twenty years (Enkel et al. 2009). Information technology facilitates the exchange of information with external partners that are located far away from the focal firm.

Third, ICT contributes directly to the innovation production in several ways. Kleis et al. (2010) identified three main stages of the innovation process, for which the application of ICT has proved to be useful. First, the stage of the generation of ideas for new products can benefit from information systems (e.g., Customer Relationship Management CRM) that enable a firm

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<sup>4</sup> This section is based on Arvanitis et al. (2013b), where also a brief review of empirical literature can be found.



to analyze customers' communication and transaction data, and identify needs that can be covered by new products or significant modifications of existing products. Further, information technology enables the development of efficient design capabilities for new products. For example, technologies such as computer-aided design (CAD) and computer-aided manufacturing (CAM) help to digitize a new product's design and make it available throughout the innovation process. Finally, ICT helps integrate design and production systems, so that errors of information transfer and translation are reduced and, as a consequence, the efficiency of this last stage of the innovation process is increased.

Furthermore, ICT can also directly drive ICT-based innovations in firms' processes and products and services, and even business models (Tapscot et al. 2000; Bresnahan et al. 2002; Brynjolfsson and Saunders 2010). It can transform existing business processes and enable new products and services, and also existing products' and services' variety and personalization, which were not operationally and economically feasible before without ICT.

We assume that these general notions about the possible relationship between innovation and ICT can be also applied to the health sector. In sum, we expect a positive impact of ICT through these four channels on innovation performance.

### **2.3 ICT and hospital performance**

Existing empirical literature on the influence of ICT on hospital performance is more extensive than that for the effect of ICT on hospital innovation, but it refers almost exclusively to USA hospitals and the situation in the USA health sector (see, e.g., Buntin et al. 2011 for survey of this literature).<sup>5</sup>

The group of the USA studies, on which we focus here, examined the impact of ICT use in hospitals on the quality of health care (Agha 2012; McCullough et al. 2010), certain patient outcomes (McCullough et al. 2011), hospital productivity (Lee et al. 2012), hospital cost efficiency (PwCW2007), hospital operating costs (Borzekowski 2009) and the efficiency of the utilization of clinicians (Atkinson et al. 2006).

Agha (2012) in a study based on 3900 USA hospitals for the period 1998-2005 found only little impact of ICT on the quality of patient care (as measured by patient mortality, medical complication rates, adverse drug events and (patient) re-admission rates). However, ICT is measured by two types of health information technology: Electronic Medical Records (EMR) and clinical decision support, that is, only by a limited spectrum of available hospital ICT applications.

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<sup>5</sup> We refrain here from surveying empirical literature that deals with the influence of technology and innovation in general on productivity in health care (see, e.g., Skinner and Staiger 2009; Baltagi et al. 2012; Lichtenberg 2013).

McCullough et al. (2010) examined the relationship between six process-quality measures (such as the percentage of smokers with heart failure and pneumonia, respectively, who were given smoking cessation advice, the percentage of pneumonia patients assessed and given pneumococcal vaccination if indicated; the percentage of pneumonia patients given the most appropriate initial antibiotic, etc.) and ICT use (measured by the use of EMR and Electronic Physician Order Entry Systems CPOE). The study was based on data for 3400 USA hospitals in the period 2004-2007. The use of these two technologies resulted in significant improvements in two quality measures, with larger effects in academic than nonacademic universities.

McCullough et al. (2011) estimated the impact of the use of ICT on patient outcomes for four high mortality conditions (acute myocardial infarction, congestive heart failure, coronary artery bypass surgery and pneumonia). The authors studied primarily the impact of Electronic Medical Records (EMR) and Electronic Physician Order Entry Systems (CPOE) in the period 2003-2006. No relationship was found between ICT (measured by the use of CPOE and EMR) and quality for the average patient. However, the use of ICT improved quality for severe patients as well as for those patients requiring cross-specialty coordination. The authors concluded that ICT in hospitals is particularly effective for collecting and providing information on clinically complex patients.

Lee et al. (2012) investigated based on data for 309 California hospitals in the period 1997-2007 the impact of health information technology (measured by IT capital and IT labour inputs) on hospital productivity in the framework of a value-added (operating revenues net of all intermediate inputs) hospital production function and found that potential benefits from expanded ICT adoption were modest. In the reference period IT inputs increased by more than 210% and contributed about 6% to the increase of value-added. The authors concluded that the reason for this small contribution might be the slow pace of productive utilization of these new technologies as it has been observed also in other sectors.

Borzekowski (2009) measured the impact of ICT use (measured by detailed information on systems for cost management, the administration of managed care contracts and for both financial and clinical support) based on data for 3000 USA hospitals (with more than 100 beds) in the period 1987-1994. He found that both financial/administrative and clinical IT systems at the most automated hospitals are associated with declining costs three and five years after adoption.

The study in PwCW (2007) examined the effect of IT-investment on hospital operating costs based on data for about 1500 USA hospitals in the period 1999-2004. It was found that IT-investment significantly affected this aspect of performance in USA hospitals. Higher levels of IT-investment were associated with reduced operating costs, but only after hospitals had reached a threshold level of investment; at lower initial levels of IT-investment operating costs increased with IT-investment.

Atkinson and Cockerill (2006) investigated the relationship between IT-investment and hospital efficiency (measured by index scores locating hospitals relative to a frontier derived from a stochastic production function). As left-hand variable for the stochastic frontier models was used the number of patient days, as right-hand variables served the number (in full-time equivalents) of clinicians, nurses and other employees. The study was based on data for 2700 hospitals in the period 1997-2001. The results showed that those hospitals with high IT-investment improved efficiency relative to the rest of the sector. The efficiency gains came in particular from improved utilization of clinicians.

Further studies that are not central for this study investigated the influence of ICT adoption on patient safety (Parente et al. 2009) or the impact of health information technology on hospital demand (Barrette et al. 2011).

On the whole, as also Buntin et al. (2011) in their survey wrote, existing literature shows predominantly positive results of ICT use on hospital performance. These effects are mostly small and, for many authors, the modest magnitude of these effects indicate that even if ICT in hospitals contain a great potential, the efficient utilization of them takes time. A comparison of the outcomes of most studies is complicated by the fact that quite varying measures of ICT, measures of hospital performance and differing modeling approaches are used.

We know only two studies that deal with the effects of ICT use in European hospitals. Stroetmann (2007b) investigated the economic impact of ten European eHealth applications by conducting a cost-benefit analysis of the ten ICT applications in different European countries. All ten cases showed a positive economic impact. The average time needed for total benefits to exceed total costs was five years. Further, European Commission (2007) contains a short descriptive analysis of the results of the 2006 Survey for hospitals, where also the data for this study come from.

## **2.4 Research hypotheses**

Based on the previous section we can formulate two research hypotheses concerning the impact of ICT on process and product innovation in hospitals, respectively. ICT can lead to significant innovations in the processes of the main hospital's functions, such as patient care, administration, clinics, pharmacies, laboratories, etc. In particular, it can drive improvements, simplifications and standardization of them by enabling the automatic execution of some of their tasks, transformations of some others or changes of their sequence (e.g., allowing previously serial tasks to be executed in parallel), or even eliminating some tasks (e.g., making some check tasks unnecessary) (Bresnahan et al. 2002). Also, some healthcare-specific applications (e.g., CPOE, medical images archiving and transmission) and also some general ones (e.g., ERP) can improve integration and coordination between different

departments (e.g., the former between clinics and laboratories the former, or the latter between financial departments and clinics), lead to the establishment of new horizontal processes and introduce new work organization and practices (Lee et al. 2012). Furthermore, such applications will result in the collection and integration of large quantities of data, the analysis of which might reveal significant weaknesses and problems of existing processes (e.g., through the calculation of appropriate analytics), resulting finally in innovative changes of them. Also, the development of ICT systems, which are interoperable with the ones of cooperating organizations (e.g., other hospitals or health centers, suppliers, etc.), can lead to significant innovations in the processes of cooperation and transaction with them (Loukis and Charalabidis 2013). For the above reasons we expect that ICT will have a positive impact on process innovation in hospitals. So our first research hypothesis is:

*Hypothesis 1:* ICT has a positive impact on process innovation in hospitals.

Furthermore, according to innovation literature the exchange and combination of data and knowledge between various functional domains of an organization, and also with other organizations (from the same sector and from other sectors), are of critical importance for product innovation (see, e.g., Nerkar and Paruchuri 2005; Castellaci 2008; Zeng et al. 2010). So the exchange of data between different functions and departments of a hospital that are enabled by various healthcare-specific applications (e.g., CPOE, medical images archiving and transmission) and also general ones (e.g. ERP), is expected to have a positive impact on product innovation, as it will promote the exchange of information and knowledge and the generation of innovative ideas concerning the introduction of various pharmaceutical, therapeutic or biomedical novelties, and also will enable the cost-efficient implementation of them. Also, the development of ICT systems that are interoperable with the ones of cooperating organizations, such as other hospitals or health centers, suppliers, etc., will facilitate the exchange of data and knowledge, so it will be another important source of such innovative ideas, and a strong facilitator of their implementation. The use of CRM systems allows collecting valuable data about patients' needs, which can also lead to important product innovations. In general, ICT can enable the development of new products, and also higher levels of variety and personalization of existing ones, which would not be operationally and economically feasible without ICT. For the above reasons we expect that ICT will have a positive impact on product innovation in hospitals. So our second research hypothesis is:

*Hypothesis 2:* ICT has a positive impact on product innovation in hospitals.

The relationship between innovation and firm performance is a topic that has been extensively researched in economics (see Crepont et al. 1998 for a seminal paper with a prominent influence on subsequent studies; Mohnen and Hall 2013 for survey of the respective empirical literature). Most studies find a positive effect of innovation on firm performance, which is usually measured by some productivity measure (labour productivity or total factor

productivity). Productivity measures based on value added (revenues minus intermediate inputs) of production are not the appropriate measures of hospital performance. Usually, measures such as the “quality of patient care” (based, e.g., on indicators of patient mortality, medical complication cases and readmission rates) or the “efficiency of hospital processes” (based, e.g., on the “number patient days in hospital”) are used for this purpose. In analogy to existing empirical literature on the relationship between innovation and performance in general we assume that product and/or process innovation in the sense discussed in section 2.1 would affect positively measures of hospital performance. In particular we expect that product innovation (e.g., pharmaceutical and biomedical and technical novelties, novel surgical and therapeutic procedures, etc.) will lead to higher quality of patient care and higher revenue. Also, we expect that process innovation (e.g., better processes of horizontal integration of departments) will lead to improvements in the quality of patient care and the efficiency of the processes, and through them to revenue increase.

In this study we do not dispose of data on performance measures but only information on the *performance impact* of ICT. Thus, our hypotheses with respect to performance refer to the possible influence of innovation as mediating factor that could reinforce the impact of ICT. The idea of complementarity between innovation and ICT as to economic performance has been investigated in many empirical studies and has been mostly confirmed (e.g., Hempell et al. 2004 for German and Dutch service firms; Gretton et al. 2003 for Australian firms). For Italian manufacturing firms the empirical evidence is mixed: Hall et al. 2012 found no complementarity between ICT and R&D as to productivity; Biagi and Parisi 2012 found complementarity between ICT and particularly organizational innovations with respect to for Italian manufacturing firms. As a consequence, the respective hypothesis is:

*Hypothesis 3: Innovation has a positive impact on ICT-enabled hospital performance.*

### **3. Data**

The data come from the e-Business Survey 2006 of the European Union. The survey covered all members of the European Union at that time (EU-25) plus Norway and Turkey, and ten sectors, among them healthcare (hospitals). It was based on a questionnaire that contained in ten modules questions on ICT infrastructure, ICT expenditure, e-collaboration, e-standards and interoperability issues, general characteristics of the surveyed entities, such as number of employees, employee formal qualification, year of foundation, as well as measures of innovation and economic performance. Interviews were carried out in March and April 2006, using computer-aided telephone interview (CATI) technology. The decision-maker in the entity targeted by the survey was normally the person responsible for ICT within the hospital/enterprise. Alternatively, particularly in small hospitals, the managing director was interviewed. The survey included only hospitals/enterprises that used computers. The sample

drawn was a random sample of hospitals from the respective sector population in each of the countries considered, with the objective of fulfilling minimum strata with respect to size class per country-sector cell. The response rate, i.e. the number of completed interviews divided by the net sample of contacts established with eligible hospitals/enterprises, was typically about 15-20%, with, however, big differences in some of the countries. For this study we used the subset for hospitals that contained information for 18 countries (see Table 1).<sup>6</sup> From the originally 932 observations (about 5% of all European hospitals) we excluded hospitals with less than 10 employees in order to allow for some minimum size that implies a wider spectrum of activities (see Table 1 for the composition of the dataset). Due to missing values for some variables the dataset that was used for the econometric estimates contained 678 observations. Table A.1 in the Appendix shows some descriptive statistics for the observations used in the empirical work, while Table A.2 shows the correlation among the model variables.

About 70% of all hospitals in our sample are general hospitals that have several medical departments, 30% specialized ones (e.g., pediatric clinics). As to owner status, about 42% of them are public hospitals, about 43% private profit-oriented hospitals and only 13% non-profit private ones. About 28% are large hospitals with 500 employees and more. Only 16% are small clinics or regional medical stations with 10 to 49 employees. As to available beds, only 10% of all hospitals have more 250 and more beds, 42% less than 100 beds.

Table 2 presents information on the frequency of various ICT applications used in European hospitals. Seven of them are hospital-specific and refer to administrative, medical and patient-specific services. Some of them are quite widespread (Patient Administration System (80.8%), Pharmacy Management System (58.8%) and Medical Records Management (67.4%)), but most others are used only by a rather small share of hospitals (e.g., Electronic Transmission of Prescriptions (20.7%)). Five other applications are of more general use and are found in many enterprises of the business sector. One of them is widely used also in hospitals (Intranet (61.1%)).<sup>7</sup>

#### **4. Model specification**

As dependent variables for the innovation equations we use two binary variables, one for product and a second one for process innovation (see Table 3 for the definition of the variables). As performance variables we use three measures that are based on assessments of the hospitals themselves of the impact of ICT use on (a) revenue growth; (b) the efficiency of

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<sup>6</sup> For a short descriptive analysis of the results of the 2006 Survey for hospitals see European Commission (2007).

<sup>7</sup> We refrain here from investigating also ICT-based financial services because almost all European hospitals dispose of such ICT applications since many years (see European Commission 2007).

hospital processes;<sup>8</sup> and (c) the quality of patient care.<sup>9</sup> These three measures cover important aspects of hospital performance and two of them are hospital-specific. Since we do not dispose of ‘objective’ quantitative measures of hospital performance, we utilize the abovementioned available ‘subjective’ ones in order to extract a pattern of factors, particularly of ICT-related factors, that are closely associated with ICT-enabled performance. This will allow us to identify which dimensions/factors, particular applications of ICT, are responsible for the impact of ICT on performance that is reported by the hospitals, and also to test our research hypothesis 3 concerning the impact of innovation on it.

As explanatory variables we use for both categories of dependent variables (innovation, ICT-enabled performance) two groups of measures: ICT-related variables and controls for several general characteristics of hospitals that might be relevant for innovation or the performance dimensions that were taken into consideration in this study (see Table 3 for the definition of the variables).<sup>10</sup>

The first group, which is the more important one, consists of a series of ICT-related variables that cover a wide spectrum of elements of the ICT infrastructure of a hospital.

The variables ‘ICT-personnel’, ‘ICT-invest’ and ‘ICT-budget’ capture various aspects of the resource endowment in ICT. The variables ‘E-business’ and ‘website’ refer to ICT supporting the external communication of the hospital.

Eight further variables denote the use of important ICT applications that support internal functions. Some of them are specific to health sector, namely ‘Patient Administration System’ (ICT\_appl1); ‘Picture Archiving Systems’ (PACS) (ICT\_appl2); ‘Pharmacy Management System’ (ICT\_appl3); ‘Computerized Physician Order Entry’ (CPOE) (ICT\_appl4) and ‘Medical Records Management System’ (ICT\_appl6); some others are of more general use (across departments) such as ‘Intranet’ (ICT\_appl5); ‘Enterprise Resource Planning System’ (ERP) (ICT\_appl7) and ‘Customer Relationship Management’ (CRM) (ICT\_appl8). The survey provided information also for four further applications, both sector-specific and general ones: ‘Radiology Information Systems’ (RIS); ‘Knowledge Management software’;

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<sup>8</sup>The efficiency can be measured, e.g., by the relationship between the number of patient days in hospital and indicators of ICT use (see, e.g., Atkinson and Cockerill 2006).

<sup>9</sup>The quality of health care can be measured, e.g., by patient mortality, medical complication cases and readmission rates (see, e.g., Agha 2012).

<sup>10</sup> In terms of economic concepts, the innovation equations should also include some measures of demand for hospital services and appropriability (of innovation returns) (see, e.g., Arvanitis 2008 for the service sector). We do not dispose of such measures but the risk of omitted variable bias is small because for public and non-profit hospitals, i.e. for the largest part of European hospitals, demand and protection from imitation of competitors are not important drivers of innovation, or at least not so important as in private enterprises. Further, the performance equations should contain in terms of augmented production (productivity) functions a measure of physical capital. No such measure could be found in our data with the exception of the number of beds that has been used as a proxy for hospital capital in the empirical literature (see, e.g. Atkinson and Cockerill 2006). We tested this variable in our models and found no significant correlation with any of our performance variables. Because of the relatively high correlation of this variable with firm size ( $r=0.64$ ) we refrained from keeping it in our model. Thus, firm size, which is included in our models, seems to control to some extent also for physical capital.

‘Electronic Transmission of Prescriptions’ and ‘Supply Change Management’ (SCM). Dummy variables for these four further applications were tested in all five models and found to be statistically insignificant. For this reason they were not further pursued in our study. But it is relevant information with respect to the factors that influence innovation and/or performance in hospitals to know which type of ICT-applications yields significant effects, and which does not, in our innovation equation and performance equations, respectively.

Finally, we also included measures of interoperability of hospital’s ICT-systems. Interoperability is quite important for the efficient use of ICT and the maximization of benefits from it (Charalabidis and Loukis 2013), as it allows the easy and low cost exchange of data and business documents with suppliers, other hospitals and health centers, etc. We exploited information on the use of ‘XML-based standards’ (i.e. ‘horizontal’ standards that can be used for exchanging data and business documents with organizations of any sector, so they are not customized to the needs of any particular sector), and ‘Health Level 7 standard’ (i.e. ‘vertical’ standards that can be used for exchanging data within the healthcare sector, so they are customized to the needs of this sector - see [www.hl7.org](http://www.hl7.org)).

The controls included variables for the (ICT-driven) competition conditions among hospitals, the type of hospital (general or specialized), the ownership status (public, non-profit, private), the hospital age, the size of the hospital and the country to which a hospital belongs.

We specified and estimated econometrically five equations: one for product innovation, one for process innovation and three equations for the three different dimensions of hospital performance that are taken into consideration in this study. All five equations included the above-mentioned right-hand variables, the performance equations included in addition the two innovation measures.

## **5. Results**

### *5.1 Econometric issues*

Activities directed to product innovation and those aiming at process innovation are closely related (see, e.g., Athey and Schmutzler 1995 for a theoretical justification of this close complementary relationship; Kraft 1990; and Rouvinen 2002 for empirical evidence). In order to take this interdependence into account we estimated a bivariate probit model for the binary variables INNOPD and INNOPC.

Due to the cross-section character of our data, both the left-hand and the right-hand variables refer to the same time period. As a consequence, our estimates of both the innovation and the performance equations have to be seen primarily as an extensive analysis of the correlations between the determinants (that are considered as structural characteristics that change only slowly over time) and the innovation and performance indicators, respectively. Nevertheless,



some robust regularities come out, which if interpreted in view of our hypotheses presented in section 2 could possibly indicate the direction of causal links.

However, as a control of the robustness of our results with respect to the relationship between innovation and performance we tested endogeneity of the variables INNOPD and INNOPC in the three performance equations by applying the procedure by Rivers and Vuong (1988). Instrument equations were estimated separately for each of the two innovation variables. The instrument choice was based on 3 criteria: significant correlation to the instrumented variables, insignificant correlation to the dependent variables and insignificant correlation to the error term of the performance equation. The residuals (predicted instrumented variables minus original variables) of the first stage instrument equations were inserted in the innovation equation as additional right-hand variables. Bootstrapping was used to correct the standard errors of the estimated parameters. If the coefficient of the residuals was statistically significant (at the 10%-test level), we have assumed that endogeneity is a problem and consequently based our inference on instrumented variables; also in this case standard errors were estimated by bootstrapping. In cases in which the coefficient of the residual was not statistically significant, we have assumed exogeneity of the innovation variables and the estimates were based on the original variables. On the whole, we tested 6 estimates (two different right-hand variables for three performance indicators). Only the residual for INNOPD in the PERF3-equation was statistically significant (hint for endogeneity of INNOPD). In this case we inserted instead of the original variable the predicted value of INNOPD in the PERF3-equation.<sup>11</sup>

All right-hand variables in our model are dummy variables, so that we can compare directly the relative magnitude of the various effects without the calculation of marginal effects as it is usually done.

## *5.2 Innovation equations*

Table 4 shows the bivariate probit estimates for the two innovation equations. The overall picture that emerges from our estimates is that ICT-related factors are closely related with the innovation performance of European hospitals. However, there are also some differences between product and process innovations. The high correlation between the two innovation equations ( $\rho=0.530$  in Table 4) seems to justify the application of multivariate probit as the appropriate econometric method in order to take into account the interdependence between these two forms of innovation.

The further expansion of the ICT-infrastructure through additional investment in hardware, software or networks shows a significantly positive effect on the propensity of both product

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<sup>11</sup> The detailed results are available upon request.

and process innovation (ICT\_investment). The increase of the effective ICT-budget (ICT\_budget), which is used not only for ICT investment but also for ICT operating expenses, appears to have a positive effect, particularly on process innovation that mostly requires larger ICT operating expenses than product innovation.

The impact of ICT-infrastructure on innovation is not directly associated with the employment of ICT specialists (ICT\_personnel). This is not in agreement with previous empirical literature based on datasets for manufacturing and service firms, which conclude that the employment of ICT personnel increases considerably the positive effects of ICT infrastructures on innovation (e.g., Arvanitis et al. 2013b). Presumably, the ICT personnel of hospitals focuses mainly on the efficient operation of their ICT-infrastructures, and not on exploring novel ways of exploiting them for promoting product or process innovation, which in this sector requires mainly extensive medical knowledge and expertise.

The existence of a website is not important for innovation, but external links mostly for e-collaboration, exchange of information and on-line sourcing seem to be relevant for both forms of innovation (E\_business).

The use of four out of the twelve examined ICT-applications is positively correlated with either product or process innovation or with both of them. The two hospital-specific applications PACS (Picture Archiving and Communication System) and CPOE (Computerized Physician Order Entry) are relevant for both types of innovation. Both these applications allow the exchange and combination of data and knowledge between personnel of different functions/departments of the hospital, which is according to the literature of critical importance for product innovation (see, e.g., Nerkar and Paruchuri 2005); also, they enable a better horizontal cooperation and coordination between different functions/departments, so they drive innovations in processes. In particular, CPOE enables physicians' orders for various examinations to be automatically transmitted electronically – through hospital's internal network – to the corresponding hospital laboratories; this on one hand eliminates previous lengthy, problematic (e.g., because of faults and losses) and inefficient paper-based processes followed for this purpose, and on the other hand allows a better planning of laboratories' work and resources exploitation. CPOE also enables the results of these examinations to be transmitted back to the physicians electronically, and possibly stored in patient's electronic medical record as well, so that the appropriate medical actions can be taken much quicker than before; these lead finally to higher efficiency and effectiveness. Similarly, PACS allows the pictures (images) produced from various medical examinations to be centrally archived and linked with patient's electronic medical record, so they are directly accessible by clinics and physicians throughout the hospital, in order to be exploited to the largest possible extent for supporting medical decisions (e.g. concerning patient's optimal therapy); this also results in higher efficiency and effectiveness.

From the two applications of general use, ERP (Enterprise Resource Planning System) is important for process innovation, and CRM (Customer Relationship Management) for product innovation, quite in accordance with the specific application fields of these ICT-technologies. Both hospital-specific applications provide economical storage of and convenient access to information by hospital personnel of various different skill levels and specializations, functions and departments, which – as mentioned above - promotes innovation (Nerkar and Paruchuri 2005). ERP systems serve to organize and manage different fields of activities, which provides a basis for organizational innovation that is quite important for hospitals. They enable a better horizontal cooperation and coordination mainly between administrative functions-departments, so they drive innovations in these administrative processes. Finally, CRM systems enable the collection of valuable data about patients' needs, and also help organize the relations to patients, thus providing a starting point for improvements in patient services (product innovation).

We would expect that the use of e-knowledge management software would contribute to innovation, but testing of this variable showed that this was not the case. It is not further astonishing that applications serving primarily administrative and managerial purposes such as Patient Administration systems, Pharmacy Management systems and Electronic Transmission of Prescriptions (see Table 2), which were also tested as right-hand variables, do not contribute to innovation performance. It is also not surprising that SCM (Supply Change Management system) was not significantly correlated with product or process innovation (also tested as right-hand variable), because the logistics of material inputs and intermediate products is not so important for a hospital as, e.g., for the production organization of an enterprise.

Another interesting finding is that the establishment of interoperability of hospitals' ICT systems with those of cooperating organizations through the adoption of interoperability standards, has positive effects on innovation. This interoperability facilitates the exchange of data and knowledge with other organizations, which according to the literature promotes innovation (e.g., Nerkar and Paruchuri 2005; Castellaci 2008; Zeng et al. 2010). The adoption of the 'vertical' health sector HL7 standards seems to have the strongest positive effects on both product and process innovation, while the adoption of the 'horizontal' XML-based standards has weaker effects only on process innovation. An explanation for this difference is presumably that HL7 standards are specific and customized for the health sector, so they cover most of the documents (both administrative and clinical) that need to be exchanged between a hospital and other organizations from this sector (e.g., other hospitals or health centers, vendors of specialised medical equipment and supplies), and include all required elements/field of them (Loukis and Charalabidis 2013); in particular, they provide messaging and document standards for exchanging various types of clinical information (covering most medical specialities) and administrative information (<https://www.hl7.org/implementation>

//standards/). In this sense, they enable a ‘deep’ interoperability and extensive exchange of highly detailed both clinical and administrative data and knowledge with the organizations that are most important for innovation, and this has a strong positive impact on innovation performance. On the contrary, XML-based standards are horizontal, so they enable a more ‘shallow’ interoperability and less extensive and detailed exchange of only administrative data and knowledge (but not at all clinical), however with more organizations (from all sectors); this results in a weaker impact on innovation performance, which is limited to process innovation only.

R&D activities provide inputs for innovations. The existence of such activities is as expected positively correlated with both types of innovation, but the respective coefficient is statistically significant only in the process innovation equation. This indicates that hospital’s R&D focuses on processes innovation, while product innovation is probably mainly a task of its individual clinical department, as it requires specialized medical knowledge and expertise.

Also our (ICT-specific) competition variable correlates positively with both types of innovation, in accordance with similar findings in empirical innovation studies (see Cohen (2010) for a survey of this literature).

A further interesting finding is that the size of hospitals as measured by the number of employees does not show any effect on innovation. This is contrary to results of similar studies for industries of business services, in which mostly a significant (mostly positive) correlation of firm size and some innovation indicator is found (see, e.g., Arvanitis (2008)). Therefore scale does not seem to be particularly important for innovation in hospitals.

Finally, also a series of general hospital characteristics (general or specialized; owner status; hospital age) that serve as controls do not seem to have any influence on innovation performance.

Finally, since all our ICT-related independent variables are binary (yes/no, in the same scale 0/1), we can use their coefficients in the two models for comparing their effects on product and process innovation. From the product innovation model (second column of Table 3) we remark that there are six ICT-related factors that have a positive effects on it. The adoption of a general strategy of further expanding the ICT-infrastructure of the hospital by increasing investment in hardware, software or networks has the strongest effect (coefficient 0.538) on product innovation, followed by the use of CRM, the adoption of HL7 standards, and the use of CPOE; lower is the innovation impact of e-business and PACS use. From the process innovation model (third column of Table 3) we remark that there is a different and wider group of eight ICT-related factors that have positive effects on process innovation. The focused strategy of using CPOE systems has the strongest effect (coefficient 0.378) on process innovation, followed by the general strategy of expansion of hospital’s ICT-infrastructure by increasing ICT investment, and the focused strategies of using ERP, PACS

and e-business applications; lower are the effects of XML-based standards adoption, the general strategy of higher ICT budgets and the adoption of HL7 standards.

### 5.3 Performance equations

Table 5 shows the models estimated for the three performance variables. There are significant differences between the estimates. Most of them refer to different effects of the 12 specific ICT applications taken into consideration in this study.

One first important result refers to the role of innovation. (ICT-enabled) revenue growth correlates positively with both product and process innovation. This indicates that revenue growth generated by ICT applications could be reinforced through the introduction of new or improved services (perhaps themselves enabled by IT), for example in the field of patient care, and increase the attractiveness of a hospital for additional patients. Parallel to this, the increase of efficiency in the hospital processes due, for example, to the introduction of new organizational modes would also contribute to (ICT-enabled) revenue growth. The effects of innovation on revenue growth can be considered in the light of the results in Table 4 also as *indirect* effects of ICT on revenue growth beyond the direct effects in Table 5 to be discussed in the next paragraphs. This is substantiated also by the way we endogenized the innovation variables using the specification in Table 4. The other two performance measures PERF2 and PERF3 are cost- and quality-oriented, so that is understandable that they are significantly correlated only with the measure for process innovation.

Based on the results for the various ICT-oriented variables emerges a pattern of the specific ICT elements that correlate with each of the three measures of ICT-enabled performance used in this study. We interpret these specific ICT elements as the ones that enable the respective performance effects. The use of Website is the only element of the ICT-infrastructure that seems to be important for all three performance variables. This indicates that though hospitals' websites are not important for their innovation activity (see previous section 5.2), they contribute positively to hospitals' revenue, processes efficiency and quality of patient care (increasing the impact of hospital's ICT on these important performance dimensions). For PERF2 (efficiency of hospital services) besides process innovation and R&D practically all elements of ICT infrastructure (variables ICT\_personnel; ICT\_investment; E-business) show a significantly positive effect. On the contrary, for PERF1 (revenue growth) relevant is only a strategy of general increase of ICT budget, while for PERF3 (quality of patient care) only ICT personnel seems relevant (as for the quality of patient care it is important to have high levels of maintenance of all elements of ICT infrastructures and applications, and also a high level of exploitation of even their most sophisticated capabilities, which require specialized ICT personnel).

The use of PACS seems to enhance both the revenue and the efficiency of hospital processes (see also Barrette et al. 2011 for a positive effect of PACS use on a hospital's market share). Revenue growth is further positively correlated with the use of Medical Records Management and CRM, while efficiency is positively correlated with the use of intranet and Pharmacy Management System. The only application that appears to correlate positively with PERF3 (quality of patient care) is Medical Records Management. Agha (2012) found only partly evidence for a positive impact of ICT on the quality of patient healthcare in USA hospitals five years after the adoption of the ICT applications that were taken into consideration in this study. Also McCullough et al. (2011) found only partially evidence of positive effects of Medical Records Management and CPOE on certain patient outcomes (four common, high mortality illness conditions).

As compared with the findings for the innovation variables, the use of CPOE and ERP seems to be of no relevance for all three performance variables (though it is for innovation), partly contrary, partly in accordance to existing USA empirical literature (McCullough et al. 2010; 2011). Finally, four applications that were tested as right-hand variables in all five estimated equations showed no significant effects at all: Radiology Information Systems (RIS), Electronic Transmission of Prescriptions, E-Knowledge Management Software and Supply Change Management System (SCM). For some of them the reason for not showing any effect may be that their use until now has not yet exploited their potential (e.g., RIS), or that their use is not widespread because they are not necessary for hospital operation (e.g., SCM).

Interoperability of hospitals' information systems is relevant only for cost- and quality-oriented performance measures (PERF2 and PERF3) but not for revenue growth (PERF1).

The existence of R&D activities is important only for PERF2, but not important for PERF1 and PERF3 (which indicates that R&D focuses mainly on processes efficiency, in agreement with the findings presented in the previous section 5.2), while ICT\_competition shows a positive effect only for revenue growth (PERF1). There are some size effects but they are not monotonic in the one or other direction, so that no patterns with some regularity are discernible. Finally, we found that private hospitals do better than public hospitals in terms of exploiting their information systems for increasing efficiency of processes, and also do better than non-profit hospitals in terms of exploiting their information systems for quality of patient health care (see Lee et al. 2011 for a similar effect in the USA hospitals). General hospitals seem to be better than specialized hospitals in terms of information systems exploitation for increasing revenue growth. No effect could be found for hospital age.

## **6. Summary and conclusions**

We specified and estimated econometrically five equations: one for product innovation, one for process innovation and three equations for three different dimensions of (ICT-enabled)

hospital performance that are taken into consideration in this study. All five equations included various ICT-related variables reflecting ICT infrastructure and a series of important ICT applications, some of them hospital-specific, some other of general business use, and also ICT personnel as right-hand variables, while the performance equations included in addition the two innovation measures.

All three research hypotheses referring to positive effects of ICT on hospital innovation, as well as the effects of the latter on three measures of ICT-enabled performance (revenue growth, efficiency of hospital processes, quality of patient care) are confirmed. In addition to ICT, innovation also correlates positively with the (ICT-enabled) performance measures, and as a consequence, (a) innovation seems to reinforce the ICT impact on performance and (b) ICT shows not only direct but also indirect positive effects, via innovation, on hospital performance. There are also interesting findings with respect to the (differing) effectiveness of 12 important ICT applications, among them some that were extensively investigated in USA studies (PACS, CPOE and Medical Records Management).

In particular, we have identified four types of applications that have positive impact either on product or on process innovation or on both of them, which however are not widely used. Two of them are healthcare-specific, Picture Archiving and Communication Systems (PACS) and Computerized Physician Order Entry (CPOE), both showing positive effects on product and on process innovation. The other two are more general: ERP having positive impact on process innovation and CRM, having positive impact on product innovation. On the contrary, we have found that some other applications that support primarily administrative and managerial tasks of a single department, such as Patient Administration and Pharmacy Management systems, do not contribute to innovation performance. Also our results indicate that the use of e-business applications by hospitals has positive impact on both product and process innovation. This type of application shares with the abovementioned CRM one another important feature: they enable the exchange and combination of data and knowledge with hospital's external environment, which according to previous innovation literature also promotes innovation.

Furthermore, it has been concluded that establishment of interoperability of hospitals' ICT systems with those of other cooperating organizations through the adoption of interoperability standards, has positive effects on innovation.

Finally, we have identified six types of applications that have positive impact on some of the performance measures, most of them being applications that support primarily administrative and managerial tasks. Only two of them are among the ones having positive impact on innovation, while the other four do not contribute to innovation. This indicates that in the hospital context there are some ICT applications contributing directly to performance (we can call them 'performance applications'), some other applications having positive impact on innovation (and through it indirect impact on performance) (we can call them 'innovation

applications'), and some others impacting positively both performance (directly) and innovation (we can call them 'dual applications').

A further important result refers to the role of innovation. (ICT-enabled) revenue growth correlates positively with both product and process innovation. Therefore revenue growth generated by ICT applications could be reinforced through the introduction of new or improved services (perhaps themselves enabled by IT), for example in the field of patient care, and increase the attractiveness of a hospital for additional patients. Parallel to this, the increase of efficiency in the hospital processes due, for example, to the introduction of new organizational modes would also contribute to (ICT-enabled) revenue growth.

Our findings have interesting implications for research and practice. With respect to future research on the impact of ICT on innovation and (ICT-enabled) performance (in the health sector and in other sectors as well) our findings indicate that it should not view ICT as a single entity, but should on the contrary discriminate between various aspects of it, such as different types of ICT applications and interoperability standards, which might have quite different effects. Our study provides a framework in this direction. With respect to hospital management, in order to increase the effect of ICT on innovation it is recommended to adopt on one hand a general strategy of further expanding the ICT-infrastructure through sufficient ICT investment, and on the other hand to use some particular types of ICT applications, which enable and facilitate the exchange of data and knowledge between different functions/departments of the hospital, and also with the external environment. Also, hospitals should adopt appropriate vertical health sector interoperability standards providing 'deep' interoperability with most of their possible 'innovation partners'. However, the above applications and standards will not lead alone to more innovation, as human factors will play an important role for this; so hospital management should proceed to 'complementary actions' in this direction, such as creation of an 'innovation-friendly' atmosphere and provision of strong incentives for this. However, hospital management should be aware that the ICT applications that drive innovation, are in general different from the ones contributing directly to performance, and only a few ICT applications are 'dual' promoting both. This should be taken into account for formulating their strategic ICT plans, so that they are 'balanced', including all these types of ICT applications, in proportions reflecting their overall strategies.

Of course there are also drawbacks in our study. The study is a cross-section analysis and uses rather crude measures of quality of patient healthcare or of efficiency of processes. Moreover, no information on the time of adoption of various ICT elements is available. Thus, our estimates of the positive correlations of ICT use with the left-hand measures of innovation and performance can be considered as rather lower bounds of the respective effects. This is because for some hospitals that have adopted these technologies recently there has not elapsed enough time to be able to fully exploit the potential of the new technologies.



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TABLES:

Table 1: European hospitals: composition of the dataset by country, size class, specialization and ownership status

|  | N   | Percentage |
|--|-----|------------|
| <i>Country</i>                         |     |            |
| Belgium                                | 20  | 2.7        |
| Czech Republic                         | 49  | 6.6        |
| Germany                                | 96  | 12.9       |
| Greece                                 | 16  | 2.2        |
| Spain                                  | 30  | 4.0        |
| France                                 | 76  | 10.2       |
| Italy                                  | 36  | 4.9        |
| Latvia                                 | 48  | 6.5        |
| Lithuania                              | 37  | 5.0        |
| Hungary                                | 47  | 6.3        |
| Netherlands                            | 6   | 0.8        |
| Poland                                 | 90  | 12.1       |
| Portugal                               | 46  | 6.2        |
| Finland                                | 32  | 4.3        |
| Sweden                                 | 10  | 1.4        |
| United Kingdom                         | 31  | 4.2        |
| Turkey                                 | 64  | 8.6        |
| Norway                                 | 9   | 1.2        |
| <i>Firm size (number of employees)</i> |     |            |
| 10 – 49 employees                      | 120 | 16.2       |
| 50 – 99 employees                      | 91  | 12.3       |
| 100 – 199 employees                    | 138 | 18.6       |
| 200 – 499 employees                    | 183 | 24.5       |
| 500 – 999 employees                    | 95  | 12.8       |
| 1000 employees and more                | 116 | 15.6       |
| <i>Specialization</i>                  |     |            |
| General                                | 520 | 70.0       |
| Specialized                            | 223 | 30.0       |
| <i>Ownership status (*)</i>            |     |            |
| Public                                 | 317 | 42.7       |
| Non-profit                             | 97  | 13.1       |
| Private                                | 318 | 42.8       |
| <i>Total</i>                           | 743 | 100        |

(\*): 11 missing values.

Table 2: Frequency of various ICT applications used in European hospitals

| ICT applications  | N   | Percentage |
|---|-----|------------|
| <i>Hospital-specific:</i>                                       |     |            |
| Patient Administration System                                   | 600 | 80.8       |
| Radiology Information Systems (RIS)                             | 317 | 42.7       |
| Picture Archiving Systems (PACS) and medical image transmission | 246 | 33.1       |
| Pharmacy Management System                                      | 437 | 58.8       |
| Electronic Transmission of Prescriptions                        | 154 | 20.7       |
| Computerized Physician Order Entry (CPOE)                       | 250 | 33.7       |
| Medical Records Management                                      | 501 | 67.4       |
| <i>General:</i>   |     |            |
| Intranet  | 454 | 61.1       |
| E-Knowledge Management Software                                 | 158 | 21.3       |
| Enterprise Resource Planning System (ERP)                       | 224 | 30.2       |
| Supply Change Management System (SCM)                           | 139 | 18.7       |
| Customer Relationship Management (CRM)                          | 82  | 11.0       |

Table 3: Definition of the variables

| Variables                 | Definition   |
|---------------------------|--|
| INNOPD                    | Introduction of new or substantially improved products or services in the past 12 months; yes/no   |
| INNOPC                    | Introduction of new or substantially improved internal processes in the past 12 months: yes/no   |
| PERF1                     | Positive revenue growth due to ICT use: yes/no   |
| PERF2                     | Positive influence of ICT use on the efficiency of hospital processes: yes/no  |
| PERF3                     | Positive influence of ICT use on the quality of patient care: yes/no   |
| R&D                       | Employees conducting research and development: yes/no  |
| ICT_personnel             | Employment of ICT practitioners yes/no   |
| ICT_investment            | Investment in ICT (for new hardware, software or networks) in the past 12 months   |
| ICT_budget                | Increase of ICT budget in the past 12months yes/no   |
| Website                   | Website on the internet: yes/no  |
| E-business                | E-business is a significant part of the way a hospital operates: yes/no  |
| ICT_appl1                 | Use of Patient Administration System: yes/no   |
| ICT_appl2                 | Use of Picture Archiving Systems (PACS) and medical image transmission: yes/no   |
| ICT_appl3                 | Use of Pharmacy Management System; yes/no  |
| ICT_appl4                 | Use of Computerized Physician Order Entry (CPOE); yes/no   |
| ICT_appl5                 | Use of Intranet: yes/no  |
| ICT_appl6                 | Use of Medical Records Management: yes/no  |
| ICT_appl7                 | Use of Enterprise Resource Planning System (ERP): yes/no   |
| ICT_appl8                 | Use of Customer Relationship Management (CRM): yes/no  |
| ICT_interoper1            | Use of XML-based standards (such as ebXML, RosettaNet, UBL): yes/no  |
| ICT_interoper2            | Use of Health Level 7 standard: yes/no   |
| ICT_competition           | Increase of competition in the health sector due to ICT: yes/no  |
| General hospital          | General hospital: yes/no; reference: specialized hospital  |
| Public hospital           | Public hospital: yes/no; reference: private hospital   |
| Non-profit hospital       | Non-profit hospital; reference: private hospital   |
| Founded after 1981        | Founded before 1981: yes/no  |
| Dummies for hospital size | Dummies for 5 size classes (number of employes); reference: 10 to 49 employees   |
| Country dummies           | Belgium, Czech Republic, Germany, Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, Netherlands, Poland, Portugal, Finland, Sweden, Turkey, Norway |



Table 4: Effects of ICT on innovation; multivariate probit estimates

|                         | INNOLD              | INNOPI              |
|-------------------------|---------------------|---------------------|
| R&D                     | 0.199<br>(0.128)    | 0.202*<br>(0.124)   |
| ICT_personnel           | 0.081<br>(0.121)    | 0.116<br>(0.123)    |
| ICT_investment          | 0.538***<br>(0.153) | 0.304*<br>(0.160)   |
| ICT-budget              | 0.091<br>(0.118)    | 0.272**<br>(0.118)  |
| Website                 | 0.040<br>(0.144)    | 0.061<br>(0.147)    |
| E-business              | 0.235*<br>(0.126)   | 0.292**<br>(0.137)  |
| ICT_appl2               | 0.222*<br>(0.125)   | 0.303**<br>(0.130)  |
| ICT_appl4               | 0.355***<br>(0.131) | 0.378***<br>(0.133) |
| ICT_appl7               | 0.068<br>(0.129)    | 0.307***<br>(0.127) |
| ICT_appl8               | 0.489***<br>(0.175) | 0.029<br>(0.178)    |
| ICT_interoper1          | -0.010<br>(0.141)   | 0.282**<br>(0.140)  |
| ICT_interoper2          | 0.388**<br>(0.161)  | 0.253*<br>(0.153)   |
| ICT_competition         | 0.266**<br>(0.118)  | 0.357***<br>(0.119) |
| General hospital        | 0.203<br>(0.132)    | -0.180<br>(0.132)   |
| Public hospital         | -0.186<br>(0.166)   | -0.045<br>(0.162)   |
| Non-profit hospital     | -0.021<br>(0.197)   | -0.082<br>(0.186)   |
| Founded after 1981      | -0.102<br>(0.126)   | -0.058<br>(0.128)   |
| 50 – 99 employees       | 0.070<br>(0.213)    | 0.072<br>(0.206)    |
| 100 – 199 employees     | -0.038<br>(0.204)   | 0.119<br>(0.197)    |
| 200 – 499 employees     | 0.007<br>(0.210)    | -0.082<br>(0.208)   |
| 500 – 999 employees     | -0.008<br>(0.253)   | -0.094<br>(0.248)   |
| 1000 employees and more | -0.024<br>(0.261)   | -0.147<br>(0.262)   |

| Country dummies           | Yes                  | Yes                  |
|---------------------------|----------------------|----------------------|
| Const.                    | -1.704***<br>(0.359) | -1.381***<br>(0.345) |
| N                         | 678                  |                      |
| Wald chi2                 | 324.9***             |                      |
| Rho                       | 0.530                |                      |
| Wald chi2 test of rho = 0 | 66.4***              |                      |

*Note:* Heteroskedasticity-robust standard errors in brackets; \*\*\*, \*\*, \* denote statistical significance at the 1, 5 and 10% test level, resp.; reference 'general hospital': 'specialized hospital'; reference 'public' and non-profit': 'private'; reference hospital size: 10 -49 employees.

Table 5: Effects of ICT on performance measures; probit estimates

|                     | PERF1               | PERF2               | PERF3               |
|---------------------|---------------------|---------------------|---------------------|
| INNOPD              | 0.281**<br>(0.128)  | -0.125<br>(0.143)   | -0.003<br>(0.143)   |
| INNOPC              | 0.371***<br>(0.126) | 0.329***<br>(0.132) | 0.293**<br>(0.134)  |
| R&D                 | 0.042<br>(0.123)    | 0.340**<br>(0.141)  | 0.05<br>(0.142)     |
| ICT_personnel       | 0.114<br>(0.122)    | 0.464***<br>(0.127) | 0.357***<br>(0.133) |
| ICT_investment      | 0.153<br>(0.158)    | 0.321**<br>(0.154)  | 0.089<br>(0.148)    |
| ICT-budget          | 0.270**<br>(0.117)  | 0.116<br>(0.128)    | 0.126<br>(0.130)    |
| Website             | 0.408***<br>(0.145) | 0.350**<br>(0.146)  | 0.319**<br>(0.152)  |
| E-business          | -0.051<br>(0.141)   | 0.269*<br>(0.160)   | 0.031<br>(0.159)    |
| ICT_appl1           |                     |                     | 0.321**<br>(0.163)  |
| ICT_appl2           | 0.222*<br>(0.132)   | 0.247*<br>(0.148)   |                     |
| ICT_appl3           |                     | 0.237*<br>(0.142)   |                     |
| ICT_appl5           |                     | 0.247**<br>(0.125)  |                     |
| ICT_appl6           | 0.236*<br>(0.125)   |                     | 0.307**<br>(0.133)  |
| ICT_appl8           | 0.276*<br>(0.166)   |                     |                     |
| ICT_interoper1      |                     | 0.479**<br>(0.222)  | 0.378*<br>(0.214)   |
| IKCT_interoper2     |                     | 0.392**<br>(0.172)  |                     |
| ICT_competition     | 0.293***<br>(0.118) | 0.153<br>(0.124)    | 0.128<br>(0.127)    |
| General hospital    | 0.330**<br>(0.132)  | 0.068<br>(0.138)    | -0.083<br>(0.142)   |
| Public hospital     | -0.195<br>(0.169)   | -0.345**<br>(0.176) | -0.282<br>(0.184)   |
| Non-profit hospital | -0.230<br>(0.203)   | -0.312<br>(0.211)   | -0.395*<br>(0.214)  |
| Founded after 1981  | -0.129<br>(0.125)   | 0.134<br>(0.131)    | -0.135<br>(0.142)   |
| 50 – 99 employees   | 0.714***<br>(0.218) | 0.193<br>(0.214)    | 0.363*<br>(0.217)   |

|                         |                      |                      |                     |
|-------------------------|----------------------|----------------------|---------------------|
| 100 – 199 employees     | 0.211<br>(0.201)     | 0.191<br>(0.218)     | 0.357*<br>(0.206)   |
| 200 – 499 employees     | 0.587***<br>(0.201)  | 0.280<br>(0.224)     | 0.833***<br>(0.209) |
| 500 – 999 employees     | 0.532**<br>(0.234)   | 0.268<br>(0.268)     | 1.004***<br>(0.209) |
| 1000 employees and more | 0.515**<br>(0.242)   | 0.078<br>(0.280)     | 0.562**<br>(0.268)  |
| Country dummies         | Yes                  | Yes                  | Yes                 |
| Const.                  | -2.095***<br>(0.362) | -1.260***<br>(0.352) | -0.870**<br>(0.367) |
| N                       | 678                  | 678                  | 678                 |
| Pseudo R2               | 0.203                | 0.247                | 0.182               |
| Wald chi2               | 167.1***             | 180.4***             | 123.5***            |

*Note:* Heteroskedasticity-robust standard errors in brackets; \*\*\*, \*\*, \* denote statistical significance at the 1, 5 and 10% test level, resp.; reference ‘general hospital’: ‘specialized hospital’; reference ‘public’ and non-profit’: ‘private’; reference hospital size: 10 -49 employees.

APPENDIX:

Table A.1: Descriptive statistics of the model variables (N=678)

| Variables           | Mean  | Standard Error |
|---------------------|-------|----------------|
| INNOPD              | 0.425 | 0.019          |
| INNOPC              | 0.479 | 0.019          |
| PERF1               | 0.406 | 0.019          |
| PERF2               | 0.684 | 0.018          |
| PERF3               | 0.767 | 0.016          |
| R&D                 | 0.440 | 0.019          |
| ICT_personnel       | 0.500 | 0.019          |
| ICT_investment      | 0.822 | 0.015          |
| ICT_budget          | 0.378 | 0.019          |
| Website             | 0.757 | 0.016          |
| E-business          | 0.248 | 0.017          |
| ICT_appl1           | 0.804 | 0.015          |
| ICT_appl2           | 0.329 | 0.018          |
| ICT_appl3           | 0.587 | 0.019          |
| ICT_appl4           | 0.333 | 0.018          |
| ICT_appl5           | 0.609 | 0.019          |
| ICT_appl6           | 0.673 | 0.018          |
| ICT_appl7           | 0.301 | 0.018          |
| ICT_appl8           | 0.115 | 0.012          |
| ICT_interoper1      | 0.230 | 0.016          |
| ICT_interoper2      | 0.237 | 0.016          |
| ICT_competition     | 0.547 | 0.019          |
| General hospital    | 0.700 | 0.017          |
| Public hospital     | 0.412 | 0.019          |
| Non-profit hospital | 0.134 | 0.013          |
| Founded after 1981  | 0.597 | 0.019          |

Table A.2: Correlation matrix

|                       | ICT_ person<br>-nel | ICT_inve-<br>stment | ICT_<br>budget | E-<br>busi-<br>Ness | Web-<br>Site | ICT_<br>appl1 | ICT_<br>appl2 | ICT_<br>appl3 | ICT-<br>app4 | ICT_<br>Inter<br>per1 | ICT_<br>Inter<br>per2 | R&D    | ICT_<br>Com-<br>peti-<br>tion | Gene-<br>ralhos-<br>pi-tal | Public<br>hospi-<br>tal | Non-<br>Profit<br>hospi-<br>tal | Foun-<br>ded<br>1981 | INNO-<br>PD |
|-----------------------|---------------------|---------------------|----------------|---------------------|--------------|---------------|---------------|---------------|--------------|-----------------------|-----------------------|--------|-------------------------------|----------------------------|-------------------------|---------------------------------|----------------------|-------------|
| ICT_personnel         | 1.000               |                     |                |                     |              |               |               |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_investment        | 0.250               | 1.000               |                |                     |              |               |               |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_budget            | 0.037               | 0.133               | 1.000          |                     |              |               |               |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| E-business            | 0.103               | 0.045               | 0.067          | 1.000               |              |               |               |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| Website               | 0.113               | 0.176               | 0.023          | 0.079               | 1.000        |               |               |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_app1              | 0.179               | 0.089               | -0.001         | 0.085               | 0.148        | 1.000         |               |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_app2              | 0.056               | 0.076               | 0.043          | 0.022               | 0.153        | 0.204         | 1.000         |               |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_app3              | 0.090               | 0.029               | -0.013         | 0.033               | 0.005        | 0.171         | 0.225         | 1.000         |              |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_app4              | 0.111               | 0.047               | 0.053          | 0.029               | 0.129        | 0.013         | 0.108         | 0.066         | 1.000        |                       |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_interoper1        | 0.189               | 0.081               | 0.000          | 0.043               | 0.139        | 0.184         | 0.015         | 0.054         | 0.143        | 1.000                 |                       |        |                               |                            |                         |                                 |                      |             |
| ICT_interoper2        | 0.267               | 0.142               | 0.059          | 0.129               | 0.220        | 0.273         | 0.025         | 0.087         | 0.092        | 0.239                 | 1.000                 |        |                               |                            |                         |                                 |                      |             |
| R&D                   | 0.137               | 0.017               | 0.052          | 0.056               | 0.066        | 0.120         | 0.074         | -0.004        | 0.072        | 0.095                 | 0.037                 | 1.000  |                               |                            |                         |                                 |                      |             |
| ICT_competition       | 0.145               | 0.102               | 0.116          | 0.076               | 0.106        | 0.120         | 0.132         | 0.022         | 0.012        | 0.054                 | 0.027                 | 0.209  | 1.000                         |                            |                         |                                 |                      |             |
| General hospital      | 0.103               | 0.044               | 0.071          | 0.052               | -0.009       | 0.121         | 0.127         | 0.084         | -0.003       | 0.056                 | 0.030                 | 0.010  | 0.063                         | 1.000                      |                         |                                 |                      |             |
| Public hospital       | 0.123               | 0.053               | -0.015         | -0.029              | 0.057        | 0.065         | -0.006        | -0.006        | 0.009        | 0.170                 | 0.055                 | 0.063  | 0.032                         | 0.142                      | 1.000                   |                                 |                      |             |
| Non-profit hospital   | 0.004               | -0.031              | 0.006          | 0.075               | 0.022        | 0.028         | -0.021        | -0.023        | -0.047       | -0.010                | 0.106                 | 0.000  | 0.019                         | -0.003                     | -0.329                  | 1.000                           |                      |             |
| Founded after<br>1981 | 0.087               | 0.081               | -0.049         | 0.081               | 0.031        | 0.031         | -0.045        | 0.047         | 0.023        | 0.042                 | 0.190                 | -0.121 | -0.052                        | 0.125                      | 0.173                   | 0.076                           | 1.000                |             |
| INNOPD                | 0.155               | 0.175               | 0.131          | 0.067               | 0.077        | 0.173         | 0.203         | 0.041         | 0.186        | 0.105                 | 0.074                 | 0.177  | 0.218                         | 0.140                      | 0.076                   | -0.006                          | -0.067               | 1.000       |
| INNOPC                | 0.162               | 0.193               | 0.136          | 0.140               | 0.125        | 0.208         | 0.205         | 0.149         | 0.070        | 0.128                 | 0.165                 | 0.102  | 0.226                         | 0.024                      | -0.064                  | 0.029                           | 0.005                | 0.418       |