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**Authors**

Kim-Huong Nguyen  
Tim Coelli

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**School of Economics**  
**University of Queensland**  
**St. Lucia, Qld. 4072**  
**Australia**

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# Quantifying the effects of modelling choices on hospital efficiency measures: A meta-regression analysis

Kim-Huong Nguyen \*  
Tim Coelli

School of Economics  
The University of Queensland  
St. Lucia 4072 Australia

## Abstract

It has often been argued that the results of efficiency analyses in health care are influenced by the modelling choices made by the researchers involved. In this paper we use meta-regression analysis in an attempt to quantify the degree to which modelling factors influence efficiency estimates. The data set is derived from 253 estimated models reported in 95 empirical analyses of hospital efficiency in the 22-year period from 1987 to 2008. A meta-regression model is used to investigate the degree to which differences in mean efficiency estimates can be explained by factors such as: sample size; dimension (number of variables); parametric versus non-parametric method; returns to scale (RTS) assumptions; functional form; error distributional form; input versus output orientation; cost versus technical efficiency measure; and cross-sectional versus panel data. Sample size, dimension and RTS are found to have statistically significant effects at the 1% level. Sample size has a negative (and diminishing) effect on efficiency; dimension has a positive (and diminishing) effect; while the imposition of constant returns to scale has a negative effect. These results can be used in improving the policy relevance of the empirical results produced by hospital efficiency studies.

**Keywords:** Meta regression, efficiency, productivity, stochastic frontier analysis, data envelopment analysis.

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\*Corresponding author k.nguyen2@uq.edu.au

# 1 Introduction

In recent years, applied academic research into health sector efficiency has expanded substantially. Over 80% of publications have appeared in the last decade. The most likely reasons for this growth are an increasing demand for efficiency studies as an input for the decision making process and lower barriers to entry in this research field (Hollingsworth & Street, 2006). The demand for efficiency analyses is primarily due to a desire for better informed government policy decisions (e.g., assessing the effects of deregulation, mergers, and market structure on industry inefficiency) and also to help improve managerial performance (e.g., by identifying best and worst performers). Barriers to entry have fallen as a consequence of increased collection of computerised hospital data records and the wider availability of software packages that incorporate efficiency measurement methods (e.g., FRONTIER, LIMDEP and STATA for parametric models and DEAP, DEA-Solver and DEA-Frontier for non-parametric methods).

Although the quality of efficient analyses has been significantly improved, controversy has surrounded the merits of different estimation strategies and methods, their impacts (both in direction and magnitude) on the efficiency estimates obtained. For policy-oriented studies that make use of efficiency estimates (such as those on health resource allocation), the reliability of results is the main concern. Health care providers expect the analysis will help reveal the factors that influence their performance so that appropriate adjustments can be made to achieve the best practice. Public agencies and policy makers look for reliable guidance in formulating policies, especially when it comes to the search for the primary causes of inefficiency and improvement potentials. However, many empirical studies in the hospital efficiency literature have shown that the choice of methods and model specifications can affect the estimated efficiency scores (see for example, Valdmanis, 1992; Grosskopf & Valdmanis, 1993; Magnussen, 1996; Parkin & Hollingsworth, 1997; Smith, 1997; Webster et al., 1998; Chirikos & Sear, 2000; Folland & Hofler, 2001; Jacobs, 2001; Hofmarcher et al., 2002; Gannon, 2005).

Several systematic reviews of health efficiency studies have been conducted over the last few years (Worthington, 2000; Hollingsworth, 2003; Worthington, 2004; Erlandsen, 2008; Hollingsworth & Peacock, 2008; Rosko & Mutter, 2008). They offer extensive overviews of the literature and some in-depth discussion on the reliability issue. However, it is noteworthy that no previous research has attempted to quantify the degree to which methodological differences influence the diversity of results in this literature, using techniques such as meta-analysis.

Meta-analysis is a statistical method used to integrate the findings from a significantly large collection of empirical studies. It can help an analyst to investigate the relationship between a study's features (research questions, analytical method etc), and its outcomes. Because it analyses the results from a group of studies, the problem of low statistical power in studies with small sample sizes is partly resolved, allowing more accurate data analysis conclusions. It has been a useful tool in health-related research bodies that investigate the strength of relationship between variables, the relative impact of independent variables, both direction and size of the effect, and the overall effectiveness of interventions. The

quality of a meta-analysis depends crucially on the quality of the systematic review of the relevant literature, on which it is based. A good meta-analysis usually aims for a complete (or relatively wide) coverage of relevant studies, detecting the presence of heterogeneity and employing sensitivity analysis to test the robustness of the main findings in those studies.

In clinical research, meta-analysis is most often used to assess the clinical effectiveness of health care interventions by combining data from several randomised controlled trials (on new methods of treatment or different health care practices). In the pharmaceutical industry, it has been widely used to summarize the results of drug development programmes. It is recognised that the technique provides a useful means of summarizing the overall medical effectiveness of a drug application and of analysing less frequent outcomes in an overall safety evaluation. The attractiveness of the meta-analysis approach in health-related research is largely due to the greater emphasis on evidence-based medicine and the need for reliable summaries of the vast volume of clinical research (Whitehead, 2002).

In the field of economics, meta-analysis has been increasingly applied to a range of literatures, involving both microeconomic and macroeconomic issues (see reviews by Brouwer et al., 1999; Florax et al., 2002). Usually known under the form of meta-regression analysis (MRA), these studies cover various topics, such as growth empirics and macroeconomic policies (de Mooij & Ederveen, 2001; Nijkamp & Poot, 2003; Abreu, et al., 2005; Doucouliagos & Paldam, 2005, 2006); the valuation of natural conservation and resources (Boyle, et al., 1994; Loomis & White, 1996; Brouwer, et al., 1999; Cavlovic, et al., 2000); the impact of public goods (Button & Rietveld, 2000; Croson & Marks, 2000), the labour market and wages (Card & Krueger, 1995; Doucouliagos, 1995, 1997; Fuller & Hester, 1998; Groot & van den Brink, 2000); and consumer behaviour (Espey, 1998; Espey & Thilmany, 2000; Espey & Kaufman, 2000; Dalhuisen, et al., 2001). Although vastly different in topics, the meta-regression analyses in these studies usually takes the form of a simple linear equation, in which the regressor set features characteristics of the primary studies, such as countries/regions, the types of data used, time frame of the analysis, relevant economic variables as well as analytical methods employed, to examine the direction and size of the relationship between some macro or micro economic phenomena. By combining many small studies in a meta-regression, small but important effects that otherwise might not have been detected in a single study can be picked up and reduce the possibility of a type II error - where there seems to be no statistically significant relationship between variables, when in reality such a relationship exists (Pang & Song, 1999).

Beside its strength, it is recognised that meta-analysis also has its own limitations. It might aggregate and generalise over the differences in primary research, especially when the literature coverage is not highly focused. It can also sometimes ignore qualitative variations between studies. This problem is usually overcome by extensive systematic reviews whereby lower quality studies are removed, and careful handling of qualitative variations through coding those features into the meta-data. Another concern over the quality of meta-analysis is publication bias. Valid conclusions might not be drawn from a meta-analysis if only significant findings are published (DeCoster, 2004). Last but not least, like any other quantitative analyses, the value and validity of the results of a meta-analysis are critically dependent upon the data available, i.e. the quality of the literature (Drummond, et al.,

1997; Pang & Song, 1999).

Given its features, meta-analysis appears to be an ideal tool for examining our research issue, i.e. the impacts of methodological choices on hospital efficiency estimates. In addition, the analysis in this paper has the advantage of having a reasonably large number of research on a focused topic (hospital efficiency only); published in internationally recognised journals; and it unlikely to be unduly influenced by researcher biases because efficiency estimates do not necessarily require statistically significant findings.

It should be noted that, to our knowledge, this is the first application of meta-regression analysis to health care efficiency. However, this technique has been previously applied to efficiency studies in two other industries, namely agriculture and urban transport. Thiam et al. (2001) analysed 32 studies (51 models) in developing country crop farming (rice, maize, etc); Brons et al. (2005) analysed 33 studies in urban transport (buses, ferries, trams, metros, etc.), and Bravo-Ureta et al. (2007) analysed 167 studies (569 models) in agriculture (rice, wheat, vegetables, dairy, pigs and so on in many different countries). Our study is a valuable contribution in that it is the first to study health care and that it looks at a relatively large data set (253 models from 95 studies) where the production units use a much more uniform technology (relative to these other studies that consider a much broader range of production activities).

The aim of this paper is twofold: first, to provide an overview of the literature on hospital efficiency and relevant efficiency estimation methods and second, to examine the effect of modelling choices on efficiency estimates in the hospital efficiency literature. To this end, some key concepts of efficiency analysis and different frontier methodologies will be introduced, followed by a discussion of various choices of estimation techniques, model specification and variables included in an efficiency analysis. The empirical part of this paper consists of a statistical summary of the literature as well as a meta-regression analysis in order to identify the key factors that influence efficiency estimates.

To construct a data set for the meta-analysis, the literature search was conducted through various databases with key words of “efficiency”, “productivity”, “hospital”, “health center”, “data envelopment analysis”, “stochastic frontier”, “production function” and “cost function”, which helped us identify more than 220 publications on health care/hospital efficiency. The final meta-data set consists of 95 studies, from 1987-2008. Since many studies utilise different methods, and/or use more than one dataset, and/or apply several models to the same dataset, 253 cases were extracted from these 95 studies. The meta-regression analysis is then performed on the meta-data set.

The rest of the paper is organised into six sections. Section 2 discusses the efficiency concept and estimation methods, followed by a briefing on existing hospital efficiency reviews in section 3. Section 4 discusses the expected relationships between efficiency estimates and modelling choices. Section 5 describes the data collection process and presents some summary statistics, followed by section 6 where the meta-regression analysis is performed in order to identify the influence of modelling choices upon efficiency scores. Finally, Section 7 contains some concluding comments.

## 2 Overview of efficiency measurement and frontier estimation methods

Efficiency is a term widely used in economics, referring to how well a system or unit of production is performing in using resources to produce outputs given available technology. An efficient unit employs the best possible use of economic resources in its production <sup>1</sup>. Relevant efficiency concepts within this literature include technical, scale, allocative and economic efficiencies.

Economic efficiency (or overall efficiency) refers to the extent to which objectives are achieved in relation to the economic resources used (Jacobs, et al., 2006). It consists of technical efficiency and allocative efficiency components. Technical efficiency (TE) refers to the use of productive resources in the most technologically efficient manner. It is a measure of the ability of a production unit to avoid waste by producing as much output as input usage will allow, or using as little input as output level will allow. Within the context of the health care sector, technical efficiency refers to the relationship between resources used (capital, labour, materials and equipment) and health care outputs (number of treated patients, inpatient days, outpatient cases, surgical episodes of care, etc.). Allocative efficiency (AE) reflects the ability of a production unit to use inputs in optimal proportions or choosing the optimal bundle of outputs to produce, given their respective prices. Allocative efficiency can be estimated when price information is available and a behavioural objective assumption, such as cost minimisation or revenue/profit maximisation is appropriate (Coelli, et al., 2005).

The idea of measuring efficiency of a production unit dates back to at least the 1950s. Technical efficiency was defined by Koopmans (1951) as the capacity of the firm to maximise outputs given inputs. In 1957, Farrell extended the work of Koopmans to a method to measure technical (in)efficiency (Farrell, 1957). This involves a comparison of actual performance with optimal performance located on the production frontier - the boundary of the technological possibility set (or one of its value duals, such as cost, revenue and profit frontiers). In practice, a production frontier is generally unknown and therefore, subsequent research has focused on the best way to identify the frontier of the production possibility set and the efficiencies implied by the estimated frontier.

Technical efficiency measures are derived from the deviation of an observed data point from the constructed frontier. For input-oriented TE, a score of unity indicates that no contraction of inputs is feasible, for the level of output. This measure is usually used when targeted outputs are to be achieved and necessary inputs minimised. Output-oriented efficiency measurement is a straightforward variation of input-oriented approach, i.e. the proportionate expansion of output for a given level of inputs. This is often used when the production units face input (resource) constraints, i.e. they need to maximise the output level given the level of inputs allocated to them.

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<sup>1</sup>There are two distinct efficiency concepts, static and dynamic efficiencies. Efficiency in this literature is the static efficiency concept, in contrast to dynamic efficiency, which refers to the ability of economic agents to learn and adapt their activities to latent or emerging opportunities in production technology and changes of consumption preference.

Some efficiency concepts are illustrated in Figure 1. In Figure 1(a) we depict the case of a one input ( $X$ ), one output ( $Y$ ) production technology. The variable returns to scale (VRS) frontier defines the upper boundary of the production set. Production unit C is not efficient because it operates below the VRS frontier. Units A and B are efficient because they operate on the VRS frontier. In this simple two-dimensional example, the constant returns to scale (CRS) frontier is defined by the steepest ray from the origin which touches some part of the VRS frontier (and in cases involving more than two dimensions this will be depicted by a cone). Unit A is scale efficient while unit B is not because of its lower productivity (i.e., the slope of the  $OB$  ray is less than the  $OA$  ray). For unit C, output-oriented technical efficiency is measured as the ratio of  $CA/AX_C$  while input-oriented technical efficiency equals  $BY_C/CY_C$ .

Figure 1(b) provides a two input example, where the isoquant depicts the inner boundary of the production set for a particular level of output. Units A and B are both technically efficient while C is not. The slope of the iso-cost line ( $MM'$ ), which reflects the relative prices of the two inputs, is at a tangent to the isoquant at point A. Thus unit A is producing the given output at minimum cost. It is both technically efficient and allocatively efficient, and hence is cost efficient. Unit B, however, is not allocatively efficient because it lies on a higher iso-cost line. It could reduce its cost of production by changing its mix of inputs.

#### INSERT FIGURE 1

Since efficiency is inherently unobservable, its estimation must be derived indirectly after taking into account relevant phenomena, usually relationship between outputs, inputs, their prices and the behavioural objectives of the production units of interest. There have been many analytical tools developed to achieve that goal, which can be roughly grouped into two main categories: parametric and non-parametric methods. Although both are consistent with the efficiency concept developed earlier, they are based on slightly different methodological foundations. For instance, data envelopment analysis (DEA) is a non-parametric method that uses linear programming techniques to derive efficiency estimates. Several parametric methods are based on the econometric estimation of the frontier, which involves a variety of estimation strategies, including corrected ordinary least squares, feasible generalised least squares and maximum likelihood. Within each empirical framework, a series of modelling decisions must be made, and there is no widely accepted methodology for guiding such decisions (Smith & Street, 2005).

Data envelopment analysis was first introduced in the work of Farrell (1957) and developed further by other authors like Charnes et al. (1978); Fare et al. (1983); Banker et al. (1984). DEA is a piecewise-linear convex hull approach to frontier estimation. It envelops all observations in order to identify an empirical frontier that is used to evaluate the performance of production units represented by those observations. It only requires the specification of an objective (e.g., input/cost minimisation or output/revenue maximisation), not functional form or efficiency distribution, to determine the frontier and efficiency estimates. The DEA approach accommodates both input and output oriented efficiency

measures. It also allows the calculation of scale efficiency when the returns-to-scale assumption is appropriate, and allocative efficiency whenever price information (of inputs or outputs) is available. Arguably, DEA's most attractive feature is its non-parametric nature. This enables it to avoid confounding the effects of misspecification of the functional form (of both technology and inefficiency) with those of inefficiency (Fried, et al., 2008). The deterministic nature of DEA, i.e. failure to distinguish the effects of data noise from those of inefficiency, is the main criticism of using this method in efficiency studies.

The parametric approach involves modelling the production frontier using various econometric techniques. Its most popular representative is stochastic frontier analysis (SFA). Its main advantage over its non-parametric counterpart lies in its stochastic nature, which enables it to distinguish between the effects of noise from those of inefficiency, thereby providing the basis for statistical inference (Fried, et al., 2008). However, this is achieved at the cost of being more restrictive in parameterisation (of both technology and inefficiency), as compared to DEA.

Being a parametric method, SFA imposes a technology structure through specifying a functional form, of which the Cobb-Douglas and translog functions are the two most widely used. The translog function provides a second order approximation to an arbitrary functional form. It typically involves estimation of many more parameters than the number of variables in the regressor set because of the squared and cross-product terms. The Cobb-Douglas function imposes more structural restrictions on the production technology but involves fewer parameters to be estimated. The challenge is confronting the inevitable trade-off between parsimonious but inflexible parameterisations, and flexible parameterisations which consume many degrees of freedom. In many cases where the parsimony alternative has been chosen, the use of an overly restrictive functional form results into a confounding inefficiency with specification error. This offsets its advantage of being able to distinguish noise from inefficiency, compared to the non-parametric method (Lovell, 1996).

SFA distinguishes itself from other econometric models by partitioning the stochastic error term into two components: the systematic random error accounting for statistical noise and the inefficiency component. The latter term is assumed to follow some particular distributions, of which the most frequently used are half-normal, truncated normal, exponential and gamma distributions. Different distributions could potentially give rise to different efficiency estimates and the extent to which the efficiency scores and their ranking are sensitive to distributions is not well documented in the literature. However, empirical studies where different distributional assumptions are used for comparison show that both the rankings and the efficiency score are generally quite similar across distributions (for instance, Fujii & Ohta, 1999; Rosko, 1999; Fujii, 2001; Street, 2003). Therefore, the choice of distribution is sometimes a matter of computational convenience, i.e. some software packages facilitate some particular distributions (for example, both FRONTIER4.1 and STATA supports half and truncated normal distributions, while the latter accommodates also exponential distribution. LIMDEP is capable of these three plus the gamma distribution).

SFA has gained increasing popularity since it can accommodate various research questions, such as to compare producers' relative efficiencies, productivity changes over time



and especially to examine effects of management and environmental factors on inefficiencies, which cannot be done through a one stage analysis using a non-parametric approach.

### 3 Health care and hospital efficiency literature

Frontier methods for efficiency measurement have been applied to many different types of health care institutions, including nursing homes, hospitals, health districts/regions, and physician practices. Parametric methods have gained popularity in recent years while non-parametric methods have long been the dominant tool in this body of literature. A majority of studies utilise efficiency estimates to shed light on policy issues such as ownership and organisation structure (Burgess & Wilson, 1996; White & Ozcan, 1996; Chang, 1998; ?; McKay, et al., 2002; Chang, et al., 2004; Dervaux, et al., 2004; Ferrier & Valdmanis, 2004; Barbetta, et al., 2007; Lee, et al., 2008), financing and reimbursement (Chern & Wan, 2000; Sommersguter-Reichmann, 2000; Biorn, et al., 2003; Liu & Mills, 2005; Kontodimopoulos, et al., 2006; Aletras, et al., 2007), competition and market structure (Dalmau-Matarrodona & Puig-Junoy, 1998; Puig-Junoy, 2000; Rosko, 2001b; Carey, 2003; Grosskopf, et al., 2004; Bates, et al., 2006; Ferrari, 2006a). Several studies focus on comparison between efficiency estimates obtained by different frontier techniques (Linna & Hakkinen, 1998; Linna, 1998; Linna & Hakkinen, 1999; Lopez-Casanovas & Saez, 1999; Chirikos & Sear, 2000; Jacobs, 2001; Gannon, 2005; Barbetta, et al., 2007) or cross-country analysis of efficiency (Mobley & Magnussen, 1998; Dervaux, et al., 2004; Steinmann, et al., 2004; Linna, et al., 2006).

There have been several systematic reviews of efficiency measurement in the health care sector such as those by Worthington (2000); Hollingsworth (2003); Worthington (2004); Erlandsen (2008); Hollingsworth & Peacock (2008); Rosko & Mutter (2008). While Erlandsen (2008)'s focus is at the macro-level, on the possibility of comparing health care efficiency across countries, Rosko & Mutter (2008) provided a review of stochastic frontier applications on US hospitals only, accompanied by an empirical application to demonstrate the process of making modelling choices. The more general reviews includes those by Hollingsworth (2003); Worthington (2004) and Hollingsworth & Peacock (2008). They provide some statistics on the growth of this research body and some discussion of the reliability of efficiency estimates, upon which relevant policy decisions were drawn.

The Hollingsworth & Peacock (2008)'s study - the updated version of Hollingsworth (2003) - is a comprehensive review of 188 published studies from 1983 to 2005, covering efficiency measurement applications of not only hospitals but also nursing homes, physicians, hospital wards/departments and health management organisations. It provides a good overall picture of how frontier methods have been applied in health care sector. About half of the reviewed studies are in the hospitals sector, reflecting its central role in the health care system and the availability of data (Jacobs, et al., 2006). More than 80% of the studies made use of DEA methods in various forms, either DEA alone to estimate and compare efficiency scores, or DEA followed by econometric regressions (of which the Tobit model is the most widely used) to investigate the determinants of efficiency scores, or DEA-based Malmquist Productivity Index to examine productivity growth, or DEA accompanied by other methods for sensitivity analysis. The popularity of DEA is primarily the consequence of being relatively easier to use compared to parametric methods and its flexibility when dealing

with multiple input and output production process like health care. However, the use of the parametric method has become more widespread recently, thanks to new methodological developments, mainly in inefficiency specifications, the ability to accommodate multiple outputs and inputs using distance functions, and the availability of software to facilitate the analysis.

The Worthington (2004)'s review focuses on 38 selected studies to examine the sensitivity of efficiency estimates produced by different analytical methods and model specifications . It discusses theoretical and analytical foundations of parametric and non-parametric methods, their strengths and empirical problems in measuring efficiency of the health care sector. It also examines the analytical steps needed to conduct an empirical study, starting with the selection of analytical method to model specifications, including choice of outputs and inputs, the interpretation of results and then presenting findings and policy recommendations. Direct policy recommendations based on efficiency estimates, especially those on budget controls or pricing health care services, are criticised. The argument comes from the belief that there exist general problems of omitted variables, unmeasured outputs and inputs as well as the imposition of strong and non-testable assumptions in all efficiency measurement methods.

## 4 Modelling choices and efficiency estimates

The influence of modelling choice on efficiency estimates is widely acknowledged in the efficiency literature. Although most studies do not have a choice in either the sample size or variables used due to data availability, the decision on analytical methods and model specifications, to larger extent, can be controlled to accommodate the research questions. Hence, there are good reasons for examining alternative model specifications and their results to ensure the reliability of the estimation. This is especially important for studies with a policy design focus, as other health economists have pointed out in earlier studies (for instance, Newhouse, 1994; Parkin & Hollingsworth, 1997; Folland & Hofler, 2001; Jacobs, 2001; Street & Jacobs, 2002; Chen, et al., 2005). If the estimates are to inform decision makers on funding or capacity utilisation, then incorrectly labelled inefficient hospitals might receive less funding resource or need to trim their production. If post evaluation of a health care policy on hospital behaviours is the issue in concern, a biased estimation of efficiency would be misleading to assess the true policy impacts.

The first major decision in modelling production technology relates to output and input choices. Inputs and outputs should be relevant and sufficient to capture the production process. In practice, problems with variable choice come under the form of imperfect measure of inputs and/or outputs, incorrect aggregation and omitted variables <sup>2</sup>. Although studies far too often do not have choice over quality of input and output data, it is worth emphasising that findings based on rudimentary measures of inputs and outputs should be

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<sup>2</sup>Inclusion of irrelevant variables is also another issue. However, in the hospital efficiency literature, it is far more often that a frontier model fails to capture all aspects of the health care service production than inclusion an extraneous variable, mainly because of data deficiency. Further more, it is suggested that exclusion of relevant variables is likely to be more damaging to frontier models than inclusion of irrelevant variables (Smith 1997).

interpreted with caution. Omitted variables and aggregation in many situations is mainly attributed to different research questions or data availability, while in other cases is due to modelling choice. Its existence usually distorts findings.

In the hospital efficiency literature, the generic problem is the variation in definitions and quality of input and output measures due to their multi-dimensionality. Ideally, the output of hospitals should be the incremental health improvement of the patient after receiving hospital treatments, which can theoretically be measured by the difference between health status with-treatment and that without-treatment. However, this output measure is usually unavailable and hospital efficiency studies have generally been using activities as the proxy for outputs. Activities often take the form of surgical procedures, inpatient episodes of care, emergency cases, and outpatient consultation sections. It is recognised that reliance on activities to measure performance of hospital may not be problematic when there is good research evidence that activities are in fact leading to health improvement or there is no difference between organisations in activity implementation (i.e. effectiveness of treatment). When this is not the case, activity counts may become less reliable as output measures of health care production (Jacobs, et al., 2006).

The input side of hospital efficiency analysis is usually considered less problematic than the output side. Hospital activities consume labour, medical and non-medical goods and capital (in the form of beds, infrastructure and medical equipment). Labour inputs usually come in categories of doctors, general practitioners, specialists, nurses, diagnosis and allied health professionals, carers and so on. There are also administrative and operational staff who take the role of management and maintaining the capital stock. Similar to other service industries, labour accounts for a large part of the health service production. Non labour inputs such as medical goods, non-medical goods, materials and capital are usually measured by cost. Capital as an input in efficiency analysis, in principal, is defined as the capital consumed in the current period of analysis. However, measuring capital is challenging, partly because of the difficulty involved in first measuring the stock of existing infrastructure and equipment, and partly due to problems in attributing capital use to any particular period (Jacobs, et al., 2006).

Imperfect (and sometimes non-existent) measures of inputs and outputs of hospital production means that often a study faces the problem of omitted variables and/or aggregation bias. Common missing input variables are measures of capital stock and material inputs. Hence, the majority of studies utilise “number of beds” as the proxy for capital although this is far from ideal. On the output side, it is teaching and research variables that are often omitted. Bias created by an omitted variable is illustrated in Figure 2(a). It shows that the list of efficient and inefficient hospitals can alter significantly when one major variable is omitted. Assuming the production process involves two inputs  $X_1$  and  $X_2$ , in the first diagram, unit A and C are identified as fully efficient (on the isoquants), while B is not. If  $X_2$  is omitted, mapping those units on  $X_1$  space produces quite different conclusions. Unit C becomes inefficient and the worst performer. Mean efficiency in this case would be much lower than in the case where  $X_2$  is not omitted.

The second issue concerns aggregation of variables. Constraints on degrees of freedom

and zero-values in some variables (not missing data) usually lead to aggregation of variables. In most studies, the two main labour categories of doctors and nurses are produced by aggregating many sub-categories of very different skill levels, ranging from junior trainees to specialists or directors of nursing, with or without weights. Aggregation of administrative and domestic staff, or of allied health and health professional staff, is also a common practice. On the output side, episodes and procedures in health care usually differ from one patient to the other, and aggregation is generally required to reduce the number of outputs. Since the development of case-mix systems that take into account the differences in resources consumption for various types of treatments, studies have been using case-mix information to aggregate outputs, often from more than several hundred output categories into one or two outputs. Many other analyses, most of which are early studies and studies using data from developing countries, use raw counts (or unweighted aggregation) of total number of inpatient and outpatient occasion of services. This can lead to biased results when particular health care units provide more or less complicated case-mix services.

Figure 2(b) provides an illustration of an input aggregation problem. The technology is represented by the convex isoquant. Linear aggregation of the two inputs is represented by the 45 degree straight line, where the two input variables (e.g., administrative and domestic staff) are allocated equal weights. Under a convex isoquant, A and D are identified as fully efficient, while a linear isoquant suggests all four production units are labelled as inefficient. In this instance, the aggregation is likely to lead to an underestimate of the mean level of technical efficiency for these firms. While it is expected that inappropriate aggregation creates biases in efficiency measurement, this might be less problematic than missing variables as outputs and inputs are still captured (to some degree) in the production model <sup>3</sup>.

The question is then whether it is possible to predict the direction of impact on the average efficiency score by the inclusion or exclusion of a variable? Technically, the inclusion of another variable in the estimated model will increase dimensions of the frontier. Our illustrative examples in Figure 2 suggest that this may produce higher mean efficiency scores. The magnitude of this effect, however, depends on the omitted variable's correlations with included variables. For instance, if the extra variable is an input and it is highly correlated to other input variables, omission of the variable is unlikely to significantly affect the results. On the other hand, if it is not strongly correlated then the impact on mean efficiencies can be notable. One example in the hospital efficiency literature is the study by Rosko & Chilingerian (1999). They added case-mix variables to a basic translog function and found the basic translog case yielded lower efficiency scores compared to the one with case-mix variables. In fact, the potential impact of dimensionality on efficiency scores was discussed in Nunamaker (1985) where the author found that variable set expansion, either through adding new variables or disaggregating existing variables, should produce an upward trend in mean efficiency scores. Other studies by Tauer (2001); Fre, et al. (2004); Barnum & Gleason (2005) also confirmed that aggregation of many outputs into fewer or one output introduces a downward bias on efficiency estimates, and the more outputs are aggregated, the greater the bias that may be expected.

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<sup>3</sup>Note that the omitted variable example in Figure 2(a) can also be viewed as a special case of an aggregation problem, where one of the weights is zero. One should also emphasize that the effects of aggregation can be reduced by selecting appropriate weights (e.g., wage levels) and/or by using non-linear aggregation methods, such as the Fisher index number formula in the place of a simple linear aggregation formula.

## INSERT FIGURE 2

The opposite effect is generally observed for sample size. As illustrated in Figure 3, the increase of sample size will either push the production frontier up when new observations - points A - form part of the new frontier, as in Figure 3(a), or does not change the frontier at all when new observations - points C and D - lie entirely under the existing frontier, as in Figure 3(b). When the new observations form part of the new frontier, then the units that were once identified as efficient under the old frontier may now be identified as inefficient. When a new observation does not affect the position of the frontier (because it is either on or below the existing frontier) then it does not change the status of already identified efficient and inefficient units. Thus, on average, increasing the sample size is unlikely to result in an increase in mean efficiency scores<sup>4</sup>. This observation is also recorded (Zhang & Bartels, 1998), who found the negative correlation between the estimated mean efficiency and the number of firms in the industry. When the sample is relatively small, the mean efficiency decreases quickly as number of observations increases. When sample sizes are large, the mean efficiency shows little change. Above a threshold, a mean efficiency seems to tend to be fairly constant.

## INSERT FIGURE 3

The second main modelling choice relates to the decision between parametric and non parametric approaches. Ideally, this choice should be based on the understanding of the production technology. It also depends on the analyst's preference on the trade-off between some level of measurement error and bias created by potentially incorrect parameterisation of the production technology. In production, measurement errors can come from the nature of the production process or during the sampling procedure. Data gathered from standardised manufacturing industries tend to have less measurement errors than those from multiple-output service industries. Measurement and sampling errors may have serious consequences in the non-parametric framework since no underlying error structure is specified. On the other hand, inappropriate choice of functional form in the parametric framework, both in the technology and the inefficiency distribution, will confound inefficiency with effects of misspecification (Lovell, 1996).

Several studies in the hospital efficiency literature have investigated the influence of estimation methods on efficiency predictions through testing for correlations between efficiency estimates (for examples, Linna & Hakkinen, 1998; Linna, 1998; Webster, et al., 1998; Linna & Hakkinen, 1999; Lopez-Casanovas & Saez, 1999; Chirikos & Sear, 2000; Jacobs, 2001; Gannon, 2005; Barbetta, et al., 2007). It was observed that, even though the correlations between parametric-based and non-parametric-based efficiency estimates are generally quite high, they are usually lower than correlations between efficiency scores produced by the same method but different model specifications (Jacobs, 2001). Gannon (2005) found

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<sup>4</sup>Note that if the newly included data points are mostly quite efficient, but they do not shift the frontier, then it is possible that the mean efficiency level can increase, but this is less common.

lower efficiency scores when using the parametric method, suggesting that non-parametric efficiency measures (in this case DEA) might not control for other factors such as the type of production process or other environmental factors. However, when it comes to determining the sources of inefficiency, both methods appear to lead to the same findings.

Arguably, one could expect that non-parametric approach yields lower efficiency scores compared to the stochastic frontier method. Since the former is deterministic, all deviations from the frontier are considered inefficiency while the latter allows for noise. This effectively increases the efficiency scores predicted by the parametric method. However, this need not be the case since non-parametric methods can produce a frontier enveloping all the data points whilst SFA fits a hypothetical frontier that may allow some data points to lie above it. Hence, it is not clear which method is more likely to produce higher mean efficiency scores. This issue is illustrated in Figure 4. Under the non-parametric frontier, production units A, C, E and F (holding up the frontier) are fully efficient. Under the parametric frontier, adjustment for the noise component can reveal different efficient units. In particular, noise adjusted C and E are C' and E', respectively, and they are inefficient, while the reverse applies for D. Units A and F are still identified as fully efficient.

#### INSERT FIGURE 4

The next choice in frontier modelling relates to orientation. Choice of output/input orientation is usually driven by the objective of production units under relevant production and management constraints. For instance, hospitals under an expenditure cap scheme tend to maximise output, while hospitals receiving reimbursement based on units of treatment appear to conserve cost. If maximising output (or outcome) is considered a relevant objective of a hospital, then an output orientation (output oriented DEA frontier or stochastic production frontier or output distance function) may be warranted. Alternatively, if the hospital is believed to be minimising inputs or cost, then stochastic cost frontier, input oriented DEA frontier or input distance function may be selected.

In practice, the majority of parametric studies prefer a cost function because hospitals are multiple-output production units and cost function can accommodate multiple outputs. The underlying assumption of a cost function (and input orientation) is that of cost (input) minimising behaviour of hospitals. The assumption is defensible from the viewpoint of hospital managers who are constantly under the pressure of meeting a budget requirement. However, this assumption has received much criticism, especially from medical professionals who often argue that their objective is not minimising cost but improving lives through prevention and treatment of diseases. A number of authors argue that analysis and policy recommendations based on a one-sided cost angle, such as attempts to control expenditure or reward/punish on the basis of cost efficiency without accompanying incentives at the level of medical staff-patient relation will lead to bad medical practice, queues and resentment (e.g., Harris, 1977).

Orientation has a certain effect on the efficiency as illustrated in Figure 5. If the sample in the analysis contains mainly small and few large hospitals, it is expected that most

hospitals are operating in the increasing returns to scale region, and thus an input orientation approach would produce a higher efficiency level for small hospitals, and consequently, higher mean efficiency. The reverse applies to samples with mainly large hospitals. A sample with a balanced mix of hospital size is likely to generate similar mean efficiency score under either output or input orientations. It is noted that this issue only applies for VRS frontier. In the CRS circumstance, output and input orientations produce identical technical efficiency (Coelli, et al., 2005).

## INSERT FIGURE 5

In the hospital efficiency literature, only a few studies apply both input and output oriented approaches to the same dataset since the hospital's objective function usually needs to be specified in advance. Those who apply both approaches have their focus on sensitivity analysis of efficiency scores. Burgess & Wilson (1995, 1996) used both input and output oriented non-parametric approaches and found that the later produces slightly higher efficiency scores<sup>5</sup>. Webster et al. (1998) estimated both production and cost frontier for Australian private hospitals, and Chirikos & Sear (2000) calculated efficiencies using output-oriented DEA and stochastic cost frontier and tested for efficiency correlations.

Another modelling consideration involves selecting an appropriate model structure, including functional form, returns-to-scale and efficiency distribution. Selection of functional form and distributional assumption is applicable only to parametric methods while returns-to-scale is an issue under both parametric and non-parametric approaches. CRS can be imposed in DEA models by removing the constraint that the lambda weights sum to one, and in parametric models by imposing coefficient restrictions.

Return to scale relates to whether production units are of the optimal size or not. This is one of the popular research questions in efficiency analysis. Some production technologies possess the property of constant returns to scale and the production size does not matter. Others (and the majority) do not. This brings to attention the question of how returns to scale should be modelled. CRS assumption is appropriate when all hospitals are operating at the optimal scale (i.e. productivity is scale dependent). However, imperfect competition, government regulations, valid social objectives, financial and labour constraints may cause the hospital to be not operating at the optimal scale (Coelli, et al., 2005). In this circumstance, if we impose CRS in the model, efficiency estimates will be significantly biased. This bias is generally more serious than in the case where VRS is assumed for a CRS technology. This is graphically explained in Figure 6. The left hand side diagram shows a technology that would yield similar efficiency estimates under CRS and VRS as the distance difference from each data point to either CRS or VRS is very small. The right hand side is the opposite story, imposing CRS will vastly underestimate efficiency. Moreover, Smith (1997) suggested that inappropriate use of returns to scale assumption is particular

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<sup>5</sup>In Burgess & Wilson (1995), mean input oriented efficiency was 0.8395 and its output oriented counterpart was 0.8725. Their sample (of 1480 hospitals in the US) contains mostly large hospitals, indicated by the average number of bed (weighted by scope of services) ranging from 1800 to 7000. They repeated this exercise with another larger sample of 2246 large hospitals, and arrived to a similar result (Burgess & Wilson, 1996).

damaging when the sample size is small.

## INSERT FIGURE 6

A variety of functional forms have been tried in the hospital efficiency applications. They include linear, quadratic, cubic, Leontief, Cobb-Douglas and translog (with or without ad hoc restrictions on certain parameters), as well as their hybrids, i.e. inclusion of some variables to control for hospital heterogeneity. Among those, the Cobb-Douglas and translog functions are the most widely used. The translog function - a second order Taylor series expansion approximating some true but unknown generalised log function - has the flexibility advantage over its main rival, the Cobb-Douglas, for not assuming constant input elasticities and returns to scale for all hospitals by not restricting the squared terms and cross products to be zero. However, it consumes many more degrees of freedom <sup>6</sup>, thus can only be handled well with large sample sizes. Some studies estimated both Cobb Douglas and translog functions and conducted statistical tests to choose the appropriate model (for examples, Chirikos, 1998a,b; Webster, et al., 1998; Lopez-Casnovas & Saez, 1999; Chirikos & Sear, 2000; Folland & Hofer, 2001; Rosko, 2001a). Some other studies employed different coefficient restriction strategies to mitigate the problem of multi-collinearity and large degree of freedom caused by the translog form (for instance, Chirikos, 1998a,b; Carey, 2003, and more).

Another decision on the model structure relates to the assumption on the efficiency distribution. The literature has reported half normal, truncated, exponential and gamma distributions, of which the first two are widely used, followed by the exponential distribution. Many studies use more than one distribution to compare efficiency scores or to test for the appropriateness using likelihood ratio tests (Chirikos, 1998b; Linna & Hakkinen, 1998; Webster, et al., 1998; Fujii & Ohta, 1999; Rosko, 1999; Yong & Harris, 1999; Fujii, 2001; Street & Jacobs, 2002; Street, 2003). This exercise is straight forward for truncated and half normal distributions as the latter is a special case of the former. A common conclusion is that the estimated efficiencies obtained using different distributional assumptions are highly correlated, despite their variation in magnitude. Hence, hospital ranking based on those estimated efficiency scores is usually quite consistent.

The various assumptions discussed above are expected to have different effects on predicted efficiency. While efficiency estimates appear to be quite robust when it comes to distributional assumption, they can be highly sensitive to functional form, including assumptions on returns to scale. A higher order and more flexible functional form is expected to fit the data more tightly, hence producing higher efficiency estimates; while the CRS assumption consistently generates lower efficiencies. This is illustrated in Figure 7. In the first diagram, production unit B is the only efficient hospital if the CRS assumption is imposed while units A, E, G and B are all efficient under VRS. As efficiency is measured as the distance to the frontier, the VRS model will consistently predict higher efficiencies than the

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<sup>6</sup>If we are to estimate a translog function with  $m$  outputs,  $n$  input, and  $q$  control variables (all interaction terms between outputs and input included), then the number of slope coefficients to be estimated is  $\left[ \frac{(n+m)^2 + 3(n+m)}{2} + q \right]$ .



CRS model. The second diagram illustrates different possible shapes of the frontier under various functional forms. Higher order functional form tends to fit the data more tightly, thus on average producing higher efficiencies.

Studies in the literature appear to be consistent with those predictions. Chirikos (1998b) reported that mean efficiency estimates were higher when he switched from Cobb-Douglas to translog model; irrespective of the assumption about the inefficiency term. Webster et al. (1998) obtained identical efficiencies using both functional forms for the production function, higher cost efficiencies when translog functions were used, irrespective of variable definitions (16% inefficiency for Cobb-Douglas and 4% for translog). Folland & Hoffer (2001) reported that Cobb-Douglas and translog functions yield mean efficiencies of 12.7% and 10.1%, respectively.

INSERT FIGURE 7

In summary, the hospital efficiency literature has seen various applications of both parametric and non-parametric methods. Stochastic frontier regression, stochastic distance function and corrected ordinary least squares are representatives of the parametric approach. As for the non-parametric method, most studies employ DEA. Although parametric and non-parametric are different estimation strategies, they share a common limitation: their results are generally sensitive to underlying assumptions and the data used. Non-parametric methods like DEA are more sensitive to extreme data points whereas parametric methods like SFA or distance function produces efficiency estimates that vary by the functional form and distributional assumption imposed. As the choice of variables significantly influences efficiency estimates, comparisons across studies without taking into account these modelling factor should be taken with caution. Scattered in the efficiency literature are various discussions on individual issues such as the likely effect of sample size or dimension or functional form on computed efficiencies. However, we were unable to identify any study where all such matters were put together, and the magnitude and direction of their impacts on efficiency are quantified. In the next sections, we take the discussion a step further by using the meta-regression method to analyse the effect of modelling choice on efficiency estimates.

We conclude this session with a summary of expected effects of methodological choice on estimated mean efficiency, as shown in Table 1.

INSERT TABLE 1

## 5 Data and methodology

The literature search was conducted through the main economic research database (ECON-LIT), Web of Science, PubMed, and Google search using relevant keywords, followed by an exhaustive search within the references lists of relevant papers. Each paper was then

carefully reviewed to determine its suitability, research questions, units of analysis, country/region in question, data years, analytical methods, model specifications, analytical results, validity and robustness of techniques, findings and policy implications. Since the review's focus is on efficiency of hospitals and meta-analysis requires fairly homogeneous study objects, we removed the studies that do not focus on hospital efficiencies. The short list contains 95 empirical analyses of hospital efficiency. Key data and main findings were then recorded in the meta-dataset. The final data set consists of data that records the characteristics of 253 original models. Appendix A contains a description of the search process by which we derive this dataset, and a list of the studies that make up this dataset.

Short-listed studies appeared in various types of journals (around 40 different journals). However, these sources can be grouped into five main categories. Studies appear in health economics journals, including *Health Economics* and *Journal of Health Economics*. Health and medical related journals have published a large number of hospital efficiency studies, of which thirty-six are included in the meta-analysis. This might reflect the interest of the medical and health professional on efficiency issues, especially for policy design purposes. Hospital efficiency research also fits the publication criteria of various *Economics* and *Management* journals, with the former published 22% and the latter 20% of the studies in concern. Six papers appear in other journals, including those with mathematic orientation and general interest. Four papers included in the meta-study are unpublished working papers.

Of all countries analysed, the US has the highest number of studies, accounting for 40%, followed by European OECD countries (close to 38%). Five studies involved other non-US OECD countries (Japan, Taiwan and Australia). Research on hospital efficiency of other countries, mainly developing countries, accounts for 17% of all studies and most of them were published in recent years (from 2004-2007). The reason for such a distribution is the availability of data. Most OECD countries have quite advanced information systems for health care management and data is generally made available for analysts. In developing countries, data deficiency, especially at the firm level, is often due to both incomplete information systems and a well documented lack of transparency.

## INSERT FIGURE 8

In the meta-regression, the dependent variable is the mean efficiency score. Two thirds of the studies reported mean efficiency while the rest reported either groups' mean efficiencies or individual hospital efficiencies (Bitran & Valor-Sabatier, 1987; Grosskopf & Valdmanis, 1993; Lynch & Ozcan, 1994; Burgess & Wilson, 1995; Chang, 1998; O'Neil, 1998; Al-Shammari, 1999; Lopez-Casnovas & Saez, 1999; Sommersguter-Reichmann, 2000; Athanassopoulos & Gounaris, 2001; Osei, et al., 2005; Ramanathan, 2005; Renner, et al., 2005; Zere, et al., 2006; Arocena & Garcia-Prado, 2007; Goncalves, et al., 2007; Hajiali-afzali, et al., 2007; Masiye, 2007). The latter appeared on studies using small sample sizes (around 30 observations) and mean efficiency can be calculated by taking the average of reported efficiency scores. The former is a typical reporting style of studies that focused on comparing efficiencies of different hospital groups, such as by location, ownership type and/or year. Mean efficiency scores are then obtained by taking weighted average of groups'

mean efficiencies with the weights being the group sizes.

Many studies reported all technical, scale, allocative and cost efficiencies, of which cost and technical efficiency are somewhat comparable. Several non-parametric studies estimated cost efficiency using total cost as a single input variable, rather than using input quantities and input prices in the standard manner. Although the total cost efficiency scores obtained are not strictly equivalent to those obtained using the standard method, they are identical when all hospitals face the same input price vector. It is assumed here that the primary studies using the total cost efficiency have made this assumption to ensure the comparability of cost efficiency estimates <sup>7</sup>. In order to capture the difference between cost and technical efficiencies, a cost-efficiency dummy (*COST – EFF*) was included in the meta-data.

Exogenous variables included in the meta-regression were chosen based on approaches and model specifications in the primary studies. They include total number of variables included in the frontier model (including inputs, outputs and control variables), sample size, dummy variables to capture the type of data used (cross-section versus pooled panel data), analytical approaches (parametric versus non-parametric), orientation (input versus output), and model specifications (functional form and efficiency distributions).

The number of variables contains all inputs, outputs and control variables included in the model. Their squared terms and cross products were excluded because they represent the choice of functional form. Explanatory variables used to explain efficiency (in the one-stage or two-stage estimation approaches) were not included in the count because they do not alter the dimensions of the production space. Most studies incorporate around 6 to 9 input and output variables plus several control variables (apply only for parametric studies). Some notable exceptions include Bitran & Valor-Sabatier (1987); Jacobs (2001) with 15 output variables and Jacobs (2001) with 17, Maniadakis et al. (1999) using 8 input variables; Ferrier & Valdmanis (1996); Frech & Mobley (2000); Fujii (2001) taking into account more than 10 environmental factors.

Sample size is generally the number of individual hospitals included in the primary study. However, many studies estimate frontier models using panel data in a cross-sectional fashion, i.e. they pool the panel to construct one frontier, instead of estimating a separate frontier for each year. For those cases, sample size is the total number of observations, usually equal to number of individual hospitals multiplied by the number of years for balanced panel. Less than 20% of the studies applied frontier techniques on a sample of more than 500 hospitals (as shown in Figure 9). A third of them are studies that use pooled panel instead of cross sectional data, including the study that has the largest sample, close to 4800 observations (Deily, et al., 2000). It is expected that a pooled panel sample has less variation than a cross sectional sample. One hospital will be observed more than once, and thus variation from year to year is expected to be smaller than variation between different hospitals. This can potentially produce higher average efficiency scores. At the other

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<sup>7</sup>This assumption might be more defensible than considering cost efficiency as technical efficiency. If we consider this efficiency as TE, then a (very strong) assumption is made, that allocative efficiency is unity, i.e. all firms use optimal mix of inputs, which is unlikely to be the case.

end of the distribution, around 12% of the studies have a sample size of no more than 30 hospitals (Chang, 1998; O’Neil, 1998; Al-Shammari, 1999; Sommersguter-Reichmann, 2000; Osei, et al., 2005; Ramanathan, 2005; Zere, et al., 2006; Arocena & Garcia-Prado, 2007; Goncalves, et al., 2007; Masiye, 2007; Kirigia, et al., 2008).

#### INSERT FIGURE 9

Among the two main approaches used in the primary studies, the parametric approach accounts for close to 25%. Twenty-six (around 45% of all parametric studies) use first order functional forms, including Cobb Douglas or some types of linear function. The rest use second order functional forms, including translog or translog with some coefficient restrictions, and cubic. They usually operate on large samples, (average sample size of 1560), compared to those studies using Cobb-Douglas or linear form (average sample size of 507). This might be due to the fact that translog function consumes a large number of degrees of freedom and hence requires a larger sample to achieve robust estimation. More than half of the parametric studies assume a half normal distribution for the efficiency terms; 35% apply a truncated distribution and the rest use an exponential distribution.

For papers using a non-parametric approach, the main choices involve orientation and returns to scale assumptions. The distribution of studies using constant and variable returns to scale is quite even, with the former accounting for 43% and the latter 57%. A large number of studies have chosen the input orientation based on the argument that hospitals (especially public hospitals) cannot choose their level of output, which depends on demand for health services. Hospitals then try to conserve inputs, which makes input (or cost) minimisation a reasonable assumption for DEA estimation. Recently, some countries have changed their method of financing health service providers: instead of payment based on cost history or per diem, reimbursement for hospitals are based on output volume and sector average cost with a cap (global budget). The assumption of maximising output level, given the amount of health resources available, has been chosen in some studies to reflect this change.

Eleven variables are specified to capture the model options discussed above. Apart from the two variables of sample size and number of observations, all other regressors are dummies that explain different methodological choices. The base case for the model is a cross-sectional, parametric, output orientation, using a first order functional form with an efficiency term following a half-normal distribution. Detailed variable descriptions are presented in Table 2.

#### INSERT TABLE 2

Table 3 contains some descriptive statistics. The average efficiency score from all studies is 84.1, with the highest being 98.9 and lowest 52. Interestingly, these come from the same study that uses different input and output variables and model specifications (Kibambe & Kocht, 2007). This is a striking example of how the choice of models and variables can

significantly alter efficiency estimates, which leads one to the question the degree to which policy should be influenced by this type of performance indicator. Amongst all reported cases, 82 estimated cost efficiency, of which a large proportion drew some conclusions about the possibility of cost saving or reimbursement for hospitals based on cost efficiency (for examples Puig-Junoy, 2000; Sahin & Ozcan, 2000; Fujii, 2001; Giokas, 2001; Zere, et al., 2001; Kirigia, et al., 2004; Harrison & Ogniewski, 2005; Osei, et al., 2005; Renner, et al., 2005; Masiye, 2007; Lee, et al., 2008).

### INSERT TABLE 3

The choice of functional form is driven by the possible impacts of the two continuous variables, dimension and sample size. Dimension is expected to have a positive impact on efficiency estimates while sample size is the opposite. Their effects are likely to be non-linear and diminishing when the dimension and the sample size increase. Two functional forms that appear to suit this expectation are quadratic and linear-log models. The specifications are as follows:

The quadratic function:

$$\begin{aligned}
 EFF = & \alpha_0 + \alpha_1 (COST - EFF) + \alpha_2 (PANEL) + \alpha_3 (SIZE) + \frac{1}{2}\alpha_{33} (SIZE^2) \\
 & + \alpha_4 (DIMENSION) + \frac{1}{2}\alpha_{44} (DIMENSION^2) + \alpha_5 (NON - PARA) \\
 & + \alpha_6 (INPUT - ORT) + \alpha_7 (CRS) + \alpha_8 (2ND - ORDER) \\
 & + \alpha_9 (TRUNCATED) + \alpha_{10} (EXPONENTIAL) + \varepsilon.
 \end{aligned} \tag{1}$$

The linear-log function:

$$\begin{aligned}
 EFF = & \alpha_0 + \alpha_1 (COST - EFF) + \alpha_2 (PANEL) + \alpha_3 \ln (SIZE) \\
 & + \alpha_4 \ln (DIMENSION) + \alpha_5 (NON - PARA) + \alpha_6 (INPUT - ORT) \\
 & + \alpha_7 (CRS) + \alpha_8 (2ND - ORDER) \\
 & + \alpha_9 (TRUNCATED) + \alpha_{10} (EXPONENTIAL) + \varepsilon.
 \end{aligned} \tag{2}$$

In both cases,  $\varepsilon$  is the statistical noise, assumed to be identically and independently distributed,  $\varepsilon \sim N[0, \sigma^2]$ . Arguably, the quadratic function might not be the ideal candidate. For dimension, we require the function to have a non negative derivative throughout the domain. Unfortunately, the quadratic function with a maximum does not fulfill this requirement, as shown in the marginal effect of dimension on efficiency estimates:

$$\frac{\partial EFF}{\partial DIMENSION} = \alpha_3 + \alpha_{33} DIMENSION. \tag{3}$$

In order to have the positive and diminishing marginal impact on efficiency estimates, the expected sign for  $\alpha_3$  is positive and  $\alpha_{33}$  is negative. As dimension increases, the marginal effect will eventually become negative. By symmetry, the same problem is encountered with sample size.

The linear-log function does not have the same problem. The marginal effect of dimension on efficiency estimates is expressed as:

$$\frac{\partial EFF}{\partial DIMENSION} = \alpha_3 \frac{1}{DIMENSION}. \quad (4)$$

And the marginal effect of sample size on efficiency is:

$$\frac{\partial EFF}{\partial SIZE} = \alpha_4 \frac{1}{SIZE}. \quad (5)$$

When dimension increases, a positive  $\alpha_3$  will ensure the marginal effect approaching zero but not turning negative. The opposite happens to size; a negative value of  $\alpha_4$  allows the marginal effect of size on efficiency to approach zero from below as size increases.

## 6 Results and discussion

Both models were estimated using ordinary least squares regression. It is not necessary to use Tobit or limited dependent variable procedures, which are usually used when the dependent variable is bounded. There is no mean efficiency of 0 or 1 (or 100 in the percentage scale) in the meta-data and thus, Tobit estimates are exactly identical to its OLS counterparts. Table 4 contains the econometric results for two estimated models. Most estimated coefficients have expected signs, although some are not significant at 10% level or better.

INSERT TABLE 4

The J-test was conducted to help us choose between the two models. This is used for testing the specification of a non-linear regression model against the evidence provided by a non-nested alternative hypothesis (MacKinnon, et al., 1983). The procedure involves two steps: (i) estimate each model and save their predictions, (ii) each prediction is included as a regressor in the competing models. A significant coefficient of the prediction indicates the model, in which the prediction is included, is not correctly specified. If the prediction of model A is significant in model B, while the converse is insignificant then model A is preferred over model B, and vice versa. However, if the predictions of both models are either insignificant or significant in the other model, then neither of them is preferred. The t-ratio of the quadratic functions prediction in the linear-log models is 2.25 while that of the linear-logs function prediction in the quadratic model is 3.69. Both predictions are

significant at the 5% level although if 1% level is used, the linear-log model is preferred.

Between the two models, the linear-log appears to fit the data better than the quadratic as indicated by R-squared and adjusted R-squared. Additionally, it suits the expectation of diminishing and asymptotic-to-zero marginal effects of dimension and sample size while the quadratic function does not have this property. Therefore, the linear-log is judged to be superior to the quadratic function. The discussion of results will be based on the linear log estimation.

The estimated coefficient for *SIZE*, capturing the effect of sample size on mean efficiency, is negative while that for *DIMENSION*, the variable that represents the influence of number of variables on efficiency, is positive. They are both significant at 1% level and in line with expectations. The negative sign of the coefficient for *SIZE* indicates that, everything else being equal, increasing the number of observations will yield a lower mean efficiency score. The marginal effect of *SIZE* is only -0.025, when evaluated at the sample median sample size of 131. However, at smaller sample sizes the marginal effect is larger. For example, a sample size of 30, yields a marginal effect of -0.111, suggesting that the addition of an extra 9 observations could lead to a reduction in mean efficiency of one percentage point.

The effect of *DIMENSION* on average efficiency score is more substantial. The marginal effect is 0.733, when evaluated at the sample median of 9 variables. However, as the number of variables decreases the marginal effect is larger. For example, a value of 3 yields a marginal effect of 2.198, suggesting that the addition of an extra variable could lead to an increase in mean efficiency of more than two percentage points. These larger effects at low values of *SIZE* and *DIM* are evident in Figure 10, where predicted mean efficiencies are plotted for various values of these variables, and in Figure 11 where marginal effects are plotted.

INSERT FIGURE 10

As show in the Figure 11, it is quite clear that as the number of variables included in the model increases, the average efficiency predictions drop quite quickly when the model size is fairly small. Inclusion of an extra variable into a model with more than 10 observations does not alter the average efficiency score very much. Zhang & Bartels (1998) also arrived at the similar conclusion on the sample size effect. They observed that when sample size was large, the mean technical efficiency shows little change and the mean efficiency seems to tend to be constant after a threshold. Therefore, correcting for sample size has a major impact on the assessment of average efficiencies of an industry (Zhang & Bartels, 1998). The opposite effect is observed for sample size.

INSERT FIGURE 11

The coefficient of the *COST – EFF* variable is expected to be negative, since cost efficiency is usually lower than technical efficiency, other things being equal, due to the fact

that allocative inefficiency is also captured. A technically efficient hospital is not necessary allocatively efficient because it might use the wrong mix of inputs given their prices, thus its cost may be larger than it should be. The estimated coefficient is -0.69 and statistically insignificant, suggesting that this effect is small in these data.

As expected, the coefficient for *PANEL* variable returns a positive sign, suggesting the use of pooled panel tends to produce higher average efficiency scores, of around 4 percentage points. A possible explanation for this is that a hospital is observed more than once in a pooled panel, and thus variation from year to year is expected to be smaller than variation between different hospitals when cross sectional is used. This can potentially produce higher average efficiency scores.

From the discussion in part 4, it is expected that returns to scale (*CRS*) and functional form (*2ND – ORDER*) have predictable effects on efficiency score, other things being equal. Imposing *CRS* on the model tends to reduce efficiencies; while a higher order and more flexible functional form can predict higher efficiencies because it fits the data more tightly. However, the direction of the effect on efficiencies of the other model specification variables, such as approaches (*NON – PARA*), orientation (*INPUT – ORT*) and distribution assumption (*TRUNCATED* and *EXPONENTIAL*) is not unambiguous.

Estimated coefficient for the variable *CRS* displays a negative and significant effect on mean efficiency score. The magnitude of the *CRS* coefficient implies that choosing a *CRS* technology instead of *VRS* will reduce the mean efficiency estimate by around 4 percentage points.

Whereas the expected effect of the *CRS* assumption on efficiency estimates is supported by the estimated model, the other results are less conclusive. The positive sign on the functional form (*2ND – ORDER*) coefficient is as expected. However, it is not statistically significant. This result might be the consequence of the inclusion of restricted translog functions into the “second order functional form category. When a subset of the second order terms in the translog function are restricted to be zero, the flexibility advantage partly disappears, and hence it can behave in a similar manner to a first order function. Interestingly, Bravo-Ureta et al. (2007)’s meta-analysis of farming industry also found that the relationship between functional form and mean efficiency is inconclusive.

The variable that captures the difference that non-parametric methods make on efficiency estimate compared to their parametric counterparts has a coefficient with negative sign but also is not statistically significant. This suggests that there is not enough evidence to say that studies using parametric method generally yield higher efficiency scores. The meta-analysis in urban public transport by Brons et al. (2005) also arrives to the same conclusion. It appears that the added flexibility of *DEA* and the noise component in *SFA* are cancelling each other out in our analysis.

Similarly, the estimated coefficient for *INPUT – ORT* variable displays a positive sign but is not statistically significant. This might indicate that samples used by the primary studies included in the meta-analysis are characterised by roughly the same number of hos-



pitals in the increasing (small) and decreasing (large) returns to scale regions.

The three distributions used in hospital efficiency studies are captured by two dummy variables: *TRUNCATED* and *EXPONENTIAL*; the half normal distribution is the base case. Their positive coefficients suggest that models using either truncated or exponential distributions, on average, yield higher efficiency score than those using the half normal distribution, and with the magnitude of 2.7 and 4.5 percentage points, respectively. We expect that this is a consequence of the fact that the center of mass of the exponential distribution is located near zero. However, neither of the two coefficients is statistically significant at the 10% level or better.

## Policy usage

Now, we demonstrate how the meta-regression results can be used to improve comparisons of hospital performance in different countries or states/regions, or to correct for potential biases due to sample size and/or variable choice. It can also be useful in comparing different studies results in order to generalise impacts of various policy decisions on efficiency of the hospital industry. It is noted that comparing the performance of hospital industries in different countries does not imply the industry of higher mean efficiency is (absolutely) more efficient than the others that have lower efficiency scores, except when hospitals of these countries are pooled as one sample in the analysis. It only indicates that within the hospital industry of the country, individual hospitals are, on average, closer to that country's frontier (Zhang & Bartels, 1998).

In their comparative study of Finnish and Norwegian hospitals, Linna et al. (2006) measured cost efficiencies by the non-parametric DEA approach. Two separate frontiers were estimated to predict within-country efficiencies. The studies applied two sets of costs, one adjusted for exchange rate differences and the other adjusted for input prices. Their argument is that cross-country differences in health care prices are not necessarily consistent with differences in general prices, hence input prices can be used to equalise the cost differences. The mean efficiencies indicates that the two hospital industries have almost equivalent levels of mean efficiency; both had mean VRS efficiencies of 92 and mean CRS efficiencies were 83 and 86 for Finnish and Norwegian hospitals, respectively.

From the technical point of view, this comparison might not be totally convincing because the efficiency estimations were based on different sample sizes. Our meta-regression results suggest that countries with a larger sample of hospitals tend to have higher mean efficiency. We can use our results in Table 4 to adjust these estimates for the differences in modelling attributes. For instance, we can choose the base case at the median as the benchmark, and produce predicted mean efficiencies as follows:

$$\begin{aligned}
EFF^{predicted} = EFF^{reported} = & \alpha_1 (COST - EFF) + \alpha_2 (PANEL) \\
& + \alpha_3 (\ln SIZE - \ln 131) + \alpha_4 (\ln DIMENSION - \ln 9) \\
& + \alpha_5 (NON - PARA) + \alpha_6 (INPUT - ORT) \\
& + \alpha_7 (CRS) + \alpha_8 (2ND - ORDER) \\
& + \alpha_9 (TRUNCATED) + \alpha_{10} (EXPONENTIAL). \quad (6)
\end{aligned}$$

Here 131 and 9 are the values of size and dimension of the median; variables *SIZE*, *DIMENSION* and all dummies takes their values from the reported model specification. For instance, Linna et al. (2006) uses a DEA input oriented model with five variables (four outputs and one input). Hence, *DIMENSION* takes a value of 5, *SIZE* is 51 for Norway and 47 for Finland, *COST - EFF*, *NON - PARA* and *INPUT - ORT* dummies are 1, *PANEL*, *2ND - ORDER*, *TRUNCATED* and *EXPONENTIAL* are all 0. Table 5 presented the reported efficiencies from the study and their respective adjusted scores using the estimated coefficients of the linear-log model. The predicted efficiencies for both countries changed quite significantly. Overall, Finnish hospitals performed slightly better with respect to technical efficiency (90.88 vs. 90.61) but are less scale efficient than their Norwegian counterparts (85.94 vs. 89.21) <sup>8</sup>.

#### INSERT TABLE 5

Taking another example in which the authors evaluated hospital performance using case-mix adjusted outputs (Grosskopf & Valdmanis, 1993). This is one of the first papers in the hospital literature using casemix to take into account differences in severity and patients characteristics. The sample includes hospitals from the states of New York (49 hospitals) and California (59 hospitals). They found that New York hospitals, on average, are 6.9% more technically efficient than California hospitals but less scale efficient. After adjustment, the mean technical efficiencies of both New York and California hospitals are now slightly higher than the reported under both models while the effect of scale inefficiency is larger in both states. The adjusted result also implies that hospitals in New York are 7.5% more efficient than those in California (see Table 6).

#### INSERT TABLE 6

We can further look at the differences between estimated efficiencies from primary studies and the predicted efficiencies by our model through the change in rankings of different hospital sectors based on these two sets of efficiencies. Across the whole sample, around 40% do not change their ranking substantially while close to 9% have changed the estimated efficiency by more than 10%. Table 7 presents the ranking of some low, medium and high efficiency estimates in various studies, associated with their new ranking based on the predicted efficiencies using the linear-log model. It is observed that the ranking has changed

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<sup>8</sup>The differences are not large in this case because the sample sizes are quite similar.

quite significantly for many observations. Some bottom performers show up in the middle range while the performance of some top-rated observations appears to be less impressive. However, it is noted that the significant change in ranking appear to happen with observations in the middle ranked group rather than the lowest and highest groups. For instance, observation of rank 89th by the reported efficiency has its adjusted efficiency of 98.83%; that is 12.5% different compared to the reported score. Similarly, one of the lower ranked observations (number 138) jumps into the top-fifty (number 37) with a predicted efficiency change of 11%.

INSERT TABLE 7

We also compare developing versus developed countries in Table 8. The reported scores in the primary studies tell us that on average, hospitals in developing countries are much less efficient than those of the developed world, around 15.4% versus 9.5% inefficiency. The story changes with the adjusted efficiency predictions. The developing world is now not so far behind the developed countries, with less than one percent difference. We hypothesise that this large change is primarily a consequence of developing country studies having access to data sets with sample sizes that are smaller relative to developed country studies <sup>9</sup>.

INSERT TABLE 8

## 7 Conclusion

This paper performs a meta-regression analysis on the hospital efficiency literature, with the primary aim of explaining the influence of methodological choices on efficiency estimates. It is motivated by the recent discussions of the reliability of efficiency estimates with respect to choices of methods used and model specifications. The hospital industry is a large part of a health care sector that, on average, consumes around 8 to 9% of any countries' GDP <sup>10</sup>. A more efficient industry will be able to save more resources while still providing equivalent services. Efficiency analysis is a useful tool to analyse the industry, to identify managerial best practices, as well as to evaluate policies that potentially create positive performance changes. From a policy standpoint, more accurate efficiency estimates are crucial in guiding policy decisions. If policy decisions are to be guided by empirical analyses, it is essential that the results be robust to model specifications, or alternatively one needs to have methods for cross-checking and adjusting for biases that may exist.

The objective of this study was to explain the effects of methods and model specifications on efficiency estimates, and hopefully to provide some suggestions regarding how adjustments could be made for analytical results to be made more comparable. To achieve the objective set forth, the paper reviews published applications of efficiency measurement

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<sup>9</sup>However, as discussed earlier, we must emphasize that comparisons of mean efficiencies across countries (or across any groups) can be misleading unless a single reference frontier is used.

<sup>10</sup>Total expenditure on health as percentage of GDP, global average 2005; data by WHO, updated July 2008.

of hospitals and conducts a meta-analysis of 253 selected models from 95 publications. This study contributes to the hospital efficiency literature by taking the systematic analysis of the literature a further step, by pooling all studies together into a statistical analysis in order to examine the direction and magnitudes of the effects of modelling choices on mean efficiency scores.

The meta-regression results suggest that efficiency estimates from studies using parametric and non-parametric approaches, input and output orientations appear to be quite close to each other while variable returns to scale assumptions produces higher efficiency scores than constant returns to scale. The results also indicate that the CRS assumption can reduce the absolute value of efficiency estimates by four percent. The effects of other modelling choice on efficiency estimates, such as functional forms and the assumption on efficiency distribution, are estimated but are not found to be statistically significant at the 5% level. There is, however, statistically significant evidence to support the hypothesis that mean efficiency scores rise as the number of observations increases; while they fall as the number of variables used increases. This observation is more pronounced when the sample size and number of variables is small.

Various areas of future work remain. First, one aspect of model specification that is not captured in this study is the range of output and input variables used in the primary studies. There are as many input and output definitions as the number of studies included, and accounting for their heterogeneity is a sizable challenge. Second, we also have not yet included variables that reflect regions/countries or characteristics of the health care systems in the reported cases. Third, we could consider separating the number of variables measure (*DIMENSIONS*) into separate input, output and environmental variables measures; include dummies to capture differences from using DRG and/or quality-adjusted outputs, countries by living standard or health care system. Thus, it is clear that there are many interesting ways in which this work can be extended so as to address a variety of important questions.

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Table 1: **The expected impacts of modelling choices on estimated mean efficiency**

<b>Factors which push mean efficiency upwards</b>	<b>Factor with ambiguous impact on mean efficiency</b>	<b>Factors which push mean efficiency downwards</b>
Number of variables	Orientation	Sample size
Pooled panel data	Parametric/Non-parametric	Constant returns to scale
Second order functional form	Efficiency distribution	

Table 2: **Variable names and definitions**

	<b>Variable name</b>	<b>Variable definition</b>
<b>EFF</b>	Efficiency score	Reported average efficiency scores (on 0-100 scale)
<b>COST-EFF</b>	Cost efficiency dummy	This dummy captures the difference between cost and technical efficiency. It takes value of 1 if the observations are cost efficiency, 0 if technical efficiency.
<b>PANEL</b>	Pooled panel data	This variable is designed to capture the effect, if any, of using pooled panel data instead of cross sectional data in efficiency analysis. It takes value of 1 if pooled panel is used, 0 otherwise.
<b>SIZE</b>	Number of observations	Number of (hospital) observations included in the primary studies.
<b>DIMENSION</b>	Number of variables	Total number of outputs, inputs, input prices, and control variables included in the frontier model. This does not include control variables either the second stage of analysis.
<b>NON-PARA</b>	Method dummy	Dummy variable to capture the method used in efficiency analysis. It takes value of 0 if parametric approach is chosen, and 1 if non-parametric approach.
<b>INPUT-ORT</b>	Orientation dummy	This dummy takes value of 1 if input orientation (including cost function), 0 otherwise.
<b>CRS</b>	Returns to scale	Returns to scale can be variable or constant returns to scale. It takes value of 1 if constant returns to scale, 0 otherwise.
<b>2ND-ORDER</b>	Functional form	This takes value of 1 for the second order functional form, 0 otherwise.
<b>TRUNCATED</b>	Truncated distribution	This takes value of 1 if efficiency score is assumed truncated normal distribution.
<b>EXPONENTIAL</b>	Exponential distribution	This takes value of 1 if efficiency score is assumed exponential distribution.

Table 3: Descriptive statistics

Variable	Mean	Median	Std. Dev.	Min	Max
<b>EFF</b>	83.8289	86.1	9.4343	52	98.9
<b>COST-EFF</b>	0.3636	0	0.4820	0	1
<b>PANEL</b>	0.1383	0	0.3459	0	1
<b>SIZE</b>	464.3715	131	809.1523	15	4739
<b>DIMENSION</b>	9.0514	9	3.8018	3	23
<b>NON-PARA</b>	0.7154	1	0.4521	0	1
<b>INPUT-ORT</b>	0.8735	1	0.3330	0	1
<b>CRS</b>	0.3557	0	0.4797	0	1
<b>2ND-ORDER</b>	0.1462	0	0.3541	0	1
<b>TRUNCATED</b>	0.0909	0	0.2881	0	1
<b>EXPONENTIAL</b>	0.0356	0	0.1856	0	1



Table 4: **Estimated results**

<b>Linear-log</b>		<b>Quadratic</b>	
COST-EFF	-0.693797 (1.698731)	COST-EFF	-0.558482 (1.721792)
PANEL	3.965262** (1.756144)	PANEL	2.575849 (1.773979)
ln(SIZE)	-3.336676*** (0.5515723)	SIZE	-0.009742*** (0.002296)
		SIZE_SQ	0.000004*** (0.000001)
ln(DIMENSION)	6.594401*** (1.418766)	DIMENSION	3.042650*** (0.653337)
		DIMENSION_SQ	-0.254391*** (0.061573)
NON-PARA	-2.735875 (2.128559)	NON-PARA	-2.559747 (2.161424)
INPUT-ORT	2.769407 (1.801119)	INPUT-ORT	2.897314 (1.820180)
CRS	-3.776708*** (1.200323)	CRS	-3.679944*** (1.216605)
2ND-ORDER	1.69552 (2.303395)	2ND-ORDER	0.207161 (2.402458)
TRUNCATED	2.717017 (2.396168)	TRUNCATED	2.604963 (2.575207)
EXPONENTIAL	4.462415 (3.222226)	EXPONENTIAL	5.439465* (3.276001)
CONSTANT	86.6502*** (3.885375)	CONSTANT	71.490470*** (3.567707)
F-statistics	6.271594	F-statistics	4.846126
R-squared	0.205818	R-squared	0.195046
Adjusted R-squared	0.173000	Adjusted R-squared	0.154798

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

The base case is a parametric, first order production frontier with the efficiency term assumed to follow a half normal distribution.

Table 5: **Mean efficiencies Linna et al. (2006)**

	Sample size	Reported efficiency			Predicted efficiency		
		CRS	VRS	Scale effect	CRS	VRS	Scale effect
<b>Norway</b>	51	86.00	92.00	93.48	80.83	90.61	89.21
<b>Finland</b>	47	83.00	92.00	90.22	78.11	90.88	85.94

Table 6: Mean efficiencies Grosskopf & Valdmanis (1993)

	New York (N=49)				California (N=59)			
	Adjusted output (8 variables)		Unadjusted output (7 variables)		Adjusted output (8 variables)		Unadjusted output (7 variables)	
	VRS	CRS	VRS	CRS	VRS	CRS	VRS	CRS
<b>Reported efficiency</b>	93.00	86.00	92.00	88.00	87.00	85.00	86.00	86.00
<b>Implied scale efficiency</b>		92.47		95.65		97.70		100.00
<b>Predicted efficiency</b>	95.54	84.76	93.66	85.88	88.92	83.14	87.04	83.26
<b>Implied scale efficiency</b>		88.72		91.70		93.50		95.66

Note: The model with 8 variables includes 4 unadjusted outputs while the one with 7 variables includes 3 casemix adjusted outputs. Both of them have 4 input variables.

Table 7: Efficiency prediction and ranking

Old rank	Reported efficiency	Predicted efficiency	Difference	New rank
1	98.110	98.860	-0.750	3
2	97.800	98.757	-0.957	5
3	97.400	95.392	2.008	29
4	97.230	99.482	-2.252	2
5	96.650	99.868	-3.218	1
31	93.020	92.790	0.230	49
32	93.000	95.538	-2.538	26
33	93.000	91.652	1.348	57
34	92.990	90.732	2.258	65
35	92.700	93.076	-0.376	47
86	88.000	85.881	2.119	107
87	88.000	85.667	2.333	111
88	87.900	89.579	-1.679	72
89	87.890	98.825	-10.935	4
90	87.670	73.041	14.629	182
150	82.000	81.005	0.995	144
151	81.970	88.019	-6.049	86
152	81.830	86.557	-4.727	100
153	81.830	85.884	-4.054	106
154	81.710	79.216	2.494	156
237	60.000	54.074	5.926	237
238	58.100	53.052	5.048	238
239	56.800	44.299	12.501	241
240	54.000	48.512	5.488	239
241	52.000	47.121	4.879	240

Note: observations are ranked from most (rank = 1) to least efficient.

Table 8: Efficiency predictions for developing and developed countries

	Developing countries	Developed countries
Reported	84.66	90.42
Predicted	82.56	83.44

Figure 1: Illustration of frontier and efficiency measures

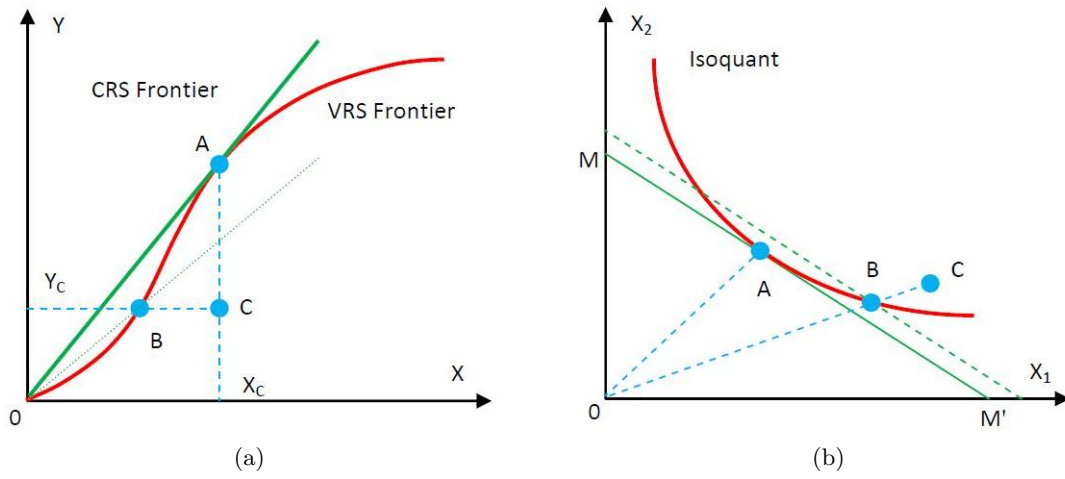


Figure 2: Illustration of the omission and aggregation problems

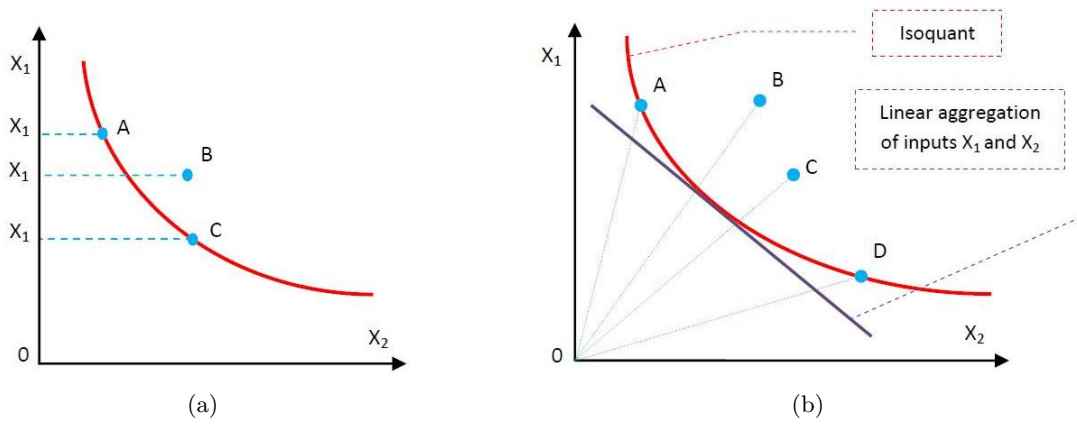


Figure 3: Illustration of increasing sample size

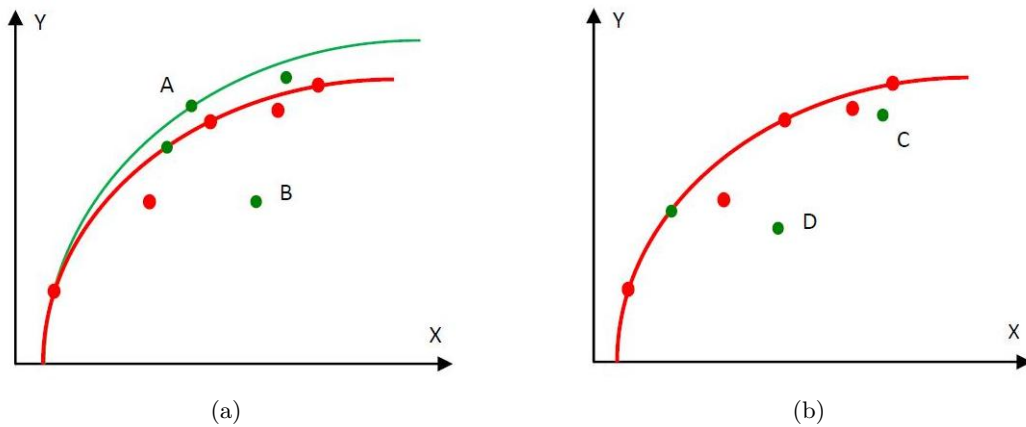


Figure 4: Illustration of parametric and non-parametric methods

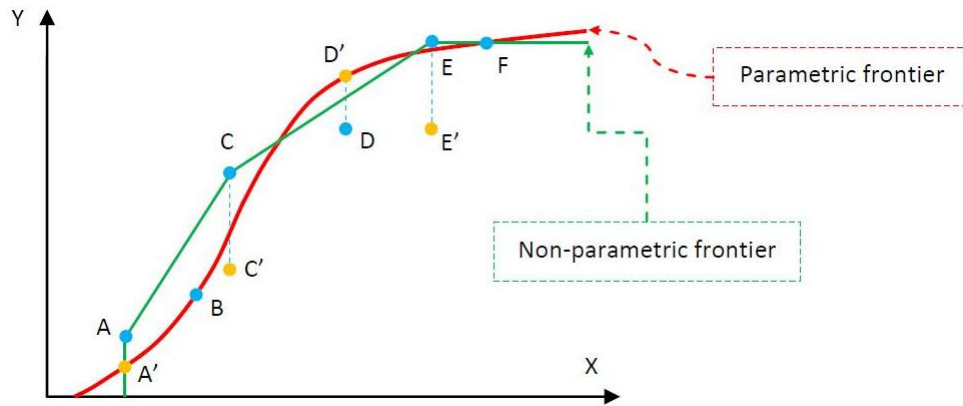


Figure 5: Illustration of efficiencies produced by output versus input orientations

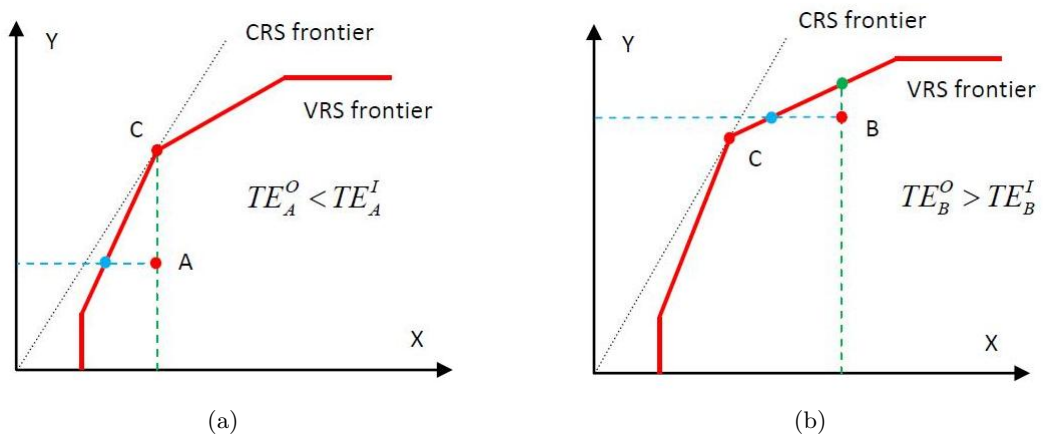


Figure 6: Illustration of efficiency estimates under CRS and VRS technologies

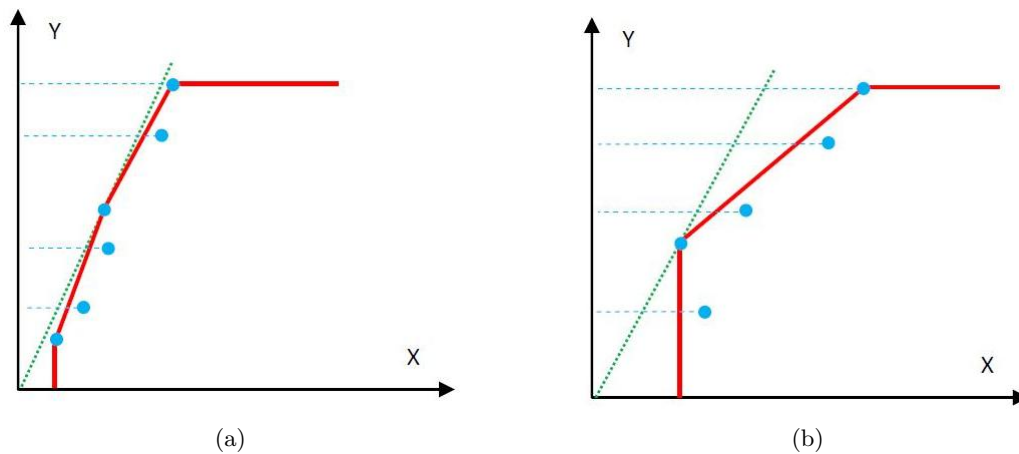


Figure 7: Illustration of effect of functional form and returns to scale on efficiency estimates

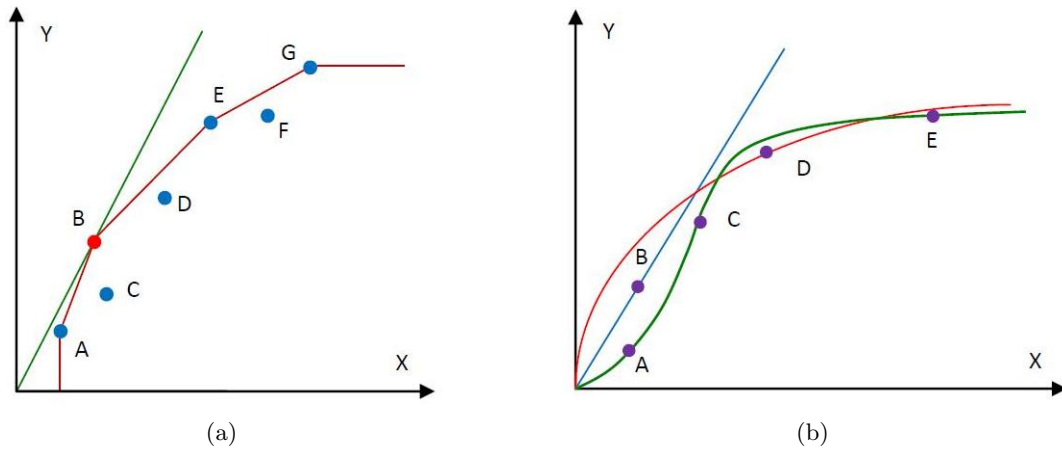


Figure 8: Distribution of studies by year and country

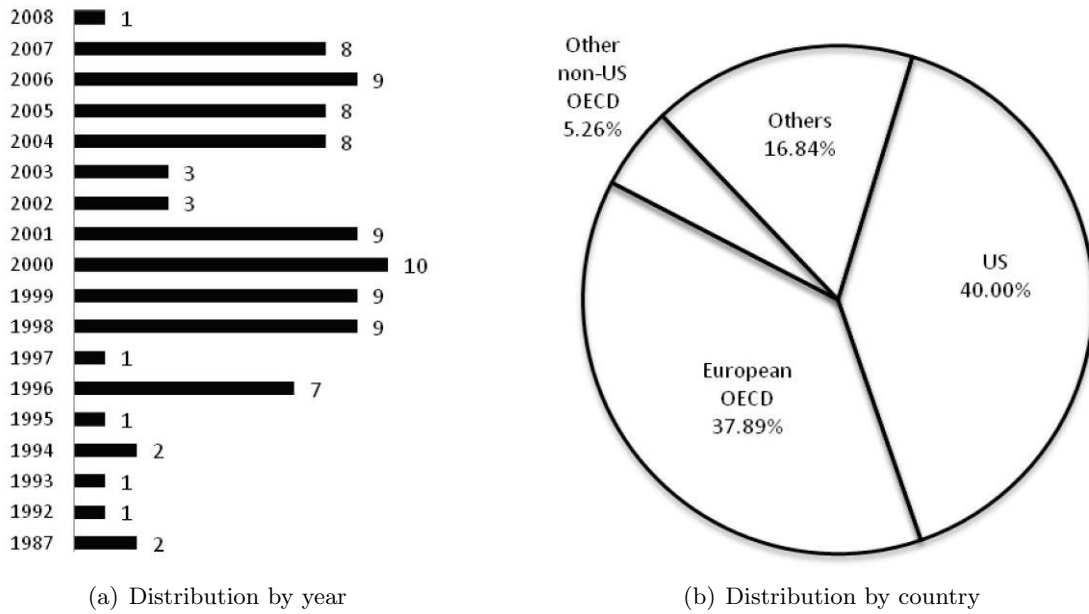


Figure 9: Sample size and number of variables

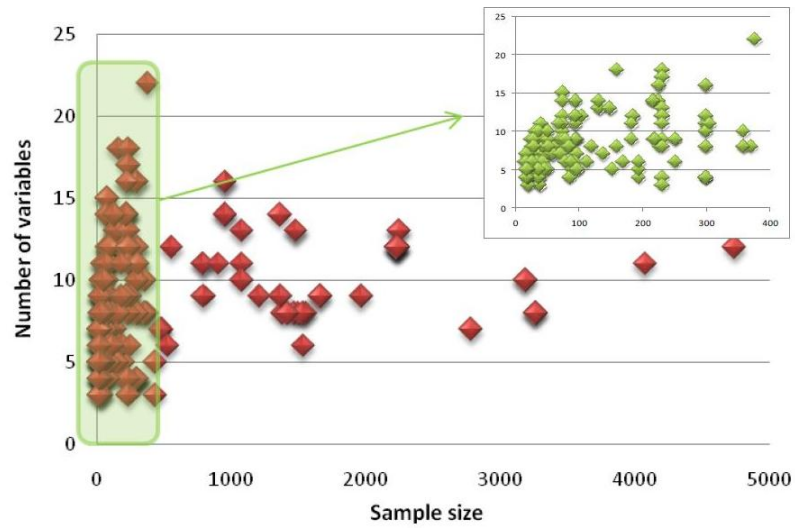
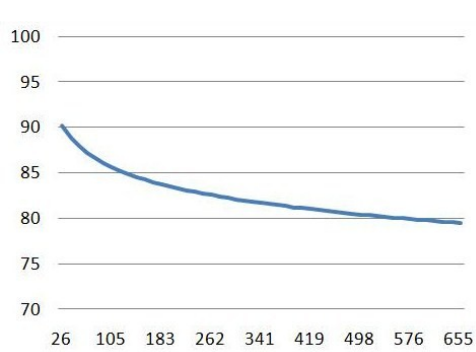
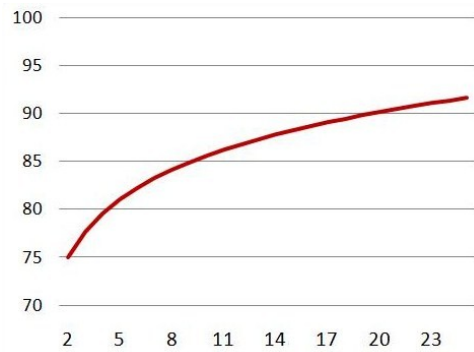


Figure 10: Predicted mean efficiencies at the median

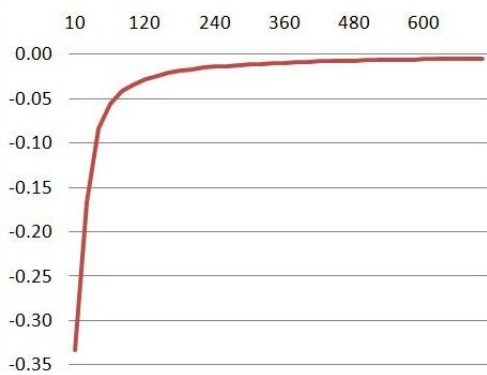


(a) Predicted efficiencies w.r.t sample size

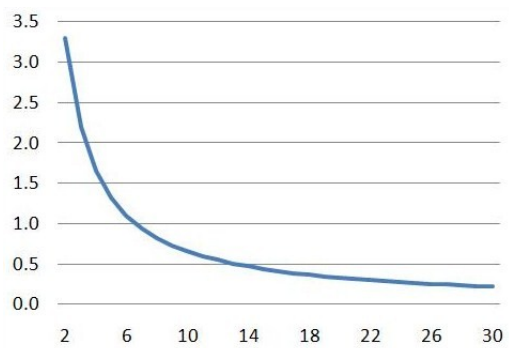


(b) Predicted efficiencies w.r.t dimension

Figure 11: Marginal effect of sample size and dimension on efficiency estimates



(a) Marginal effect of sample size



(b) Marginal effect of dimension

# Appendix A. Construction of the dataset

The meta-dataset was constructed based on a two-stage approach, a preliminary search, followed by systematic review and key data entry.

The preliminary search was as follows. First, relevant studies were identified via the main economic research database (ECONLIT), web of science (WOS) and PubMed, in which we used keyword searches such as "efficiency", "productivity", "hospital", "health care", "health centre", "data envelopment analysis", "stochastic frontier", "production frontier", and "cost frontier". Each relevant paper found via these three sources was then explored for references to other studies that might have been missed by the search or simply not covered in either ECONLIT or WOS or PubMed. These additional papers were then obtained from the respective journals or via standard web search engines (e.g. Google). This resulted in more than 220 primary studies, covering the period of 1983-2008. The majority are published papers in journals or chapters of books/reports. Some studies are working papers. Finally, efficiency studies on health care facilities other than hospitals (such as physicians, hospital departments/wards, nursing homes, and health districts) were removed from the list. This exercise filtered out more than 120 papers and the three-step preliminary search process was completed.

The second stage - systematic review - involves the critical appraisal of individual studies to identify the valid and applicable efficiency models. It is necessary because not all the models from the preliminary search papers could be included in the final meta-dataset because either information with respect to model specifications and/or estimation techniques was unavailable or not clearly explained. The first step was to include only studies in English that were available as of July, 2008. Each paper was then carefully reviewed to determine its research questions, country/region in question, data years, analytical methods, model specifications, analytical results, validity and robustness of techniques, findings and policy implications. We then included only those studies that supplied sufficient information on the model specification as well as estimated efficiency scores. Several hospital efficiency studies do not report estimated efficiencies as their main focus are factors that influence (in)efficiency level (see for examples, Hao & Pegels, 1994; Hollingsworth & Parkin, 1995; Morey, et al., 1995; Prior, 1996; Mobley & Magnussen, 1998; Gerdtham, et al., 1999b,a; Cremieux & Ouellette, 2001; Li & Rosenman, 2001; Brown, 2003). However, they account for less 10% of the preliminary search list. Many studies apply different approaches to the same hospital dataset (Linna & Hakkinen, 1998; Linna, 1998; Webster, et al., 1998; Lopez-Casanovas & Saez, 1999; Chirikos & Sear, 2000; Jacobs, 2001; Gannon, 2005; Barbetta, et al., 2007) or use different hospital data sets for comparison (Grosskopf & Valdmanis, 1993; Mobley & Magnussen, 1998; Dervaux, et al., 2004; Steinmann, et al., 2004; Linna, et al., 2006). The final data set was comprised of 253 observations from 95 papers, published from 1987 to 2008.



# Appendix B. List of studies included in the meta-regression analysis

No	Author	Country	Estimation method	Sample size	Input list	Output list	Control variables
1	Bitran & Valor-Sabatier (1987)	US	DEA output oriented	160	FTE, salary dollars, other cost	discharges by 15 MDCs	NA
2	Grosskopf & Valdmanis (1987)	US	DEA input oriented	82	acute care, intensive care, surgeries, ambulatory and emergency care	physicians, FTE non-physician labours, admission, net plant asset	NA
3	Valdmanis (1992)	US	DEA input oriented	41	physicians, nurses, FTE others, admissions, net plant assets	adult, paediatric, elderly	NA
4	Grosskopf & Valdmanis (1993)	US	DEA input oriented	49	physicians, non physician labours, net plant assets, casemix	acute care inpatient days, intensive care inpatient days, surgeries, ambulatory plus emergency services	NA
5	Lynch & Ozcan (1994)	US	DEA input oriented	1535	capital assets, labour, supplies	adjusted discharges, outpatient visits, training	NA
6	Ozcan & Bannick (1994)	US	DEA output oriented	372	supplies, beds, service mix, provider labour, nursing support labour, other support labour	inpatient days, outpatient visits	NA
7	Burgess & Wilson (1995)	US	Non-parametric Input and output distance functions	1480	Number of acute care hospital bed weighted by scope of service index, number of long term hospital bed, registered nurses FTE, licensed practical nurse FTE, other clinical labour FTE, nonclinical labour FTE, long term care labour FTE	acute care inpatient days, case mix weighted acute care inpatient discharges, long term care inpatient days, number of outpatient visits, ambulatory surgical procedures, inpatient surgical procedures	NA
8	Burgess & Wilson (1996)	US	Non-parametric Input and output distance functions	2246	Number of acute care hospital bed weighted by scope of service index, number of long term hospital bed, registered nurses FTE, licensed practical nurse FTE, other clinical labour FTE, nonclinical labour FTE, long term care labour FTE	acute care inpatient days, case mix weighted acute care inpatient discharges, long term care inpatient days, number of outpatient visits, ambulatory surgical procedures, inpatient surgical procedures	NA

9	Burgess & Wilson (1996)	US	DEA input oriented and cost	360	number of personnel, number of beds	Acute days, sub-acute days, intensive days, surgeries performed, discharges, outpatients	Quality, total patient days, occupancy rate, proportion of patients treated as outpatients, intensity of care, public or not, three states (as dummies)
10	Magnussen (1996)	Norway	DEA input oriented	138	Physicians and nurses, other personnel, beds	medical and surgical days, long term care days, outpatient visits	NA
11	Morey & Dittman (1996)	US	DEA input oriented	105	\$ of all nursing services consumed in the year, \$ for ancillary services, \$ of administrative and general services, number of intensive care beds, number of acute care beds, number of other beds, % of all patient days that are classified as requiring intensive care	Number of patient days for patients less than 14, number of patient days for patients from 14-65, number of patient days for patients over 65	NA
12	Vitaliano & Toren (1996)	US	Stochastic cost frontier, CD, exponential	219	total cost	patient days, emergency room visits, outpatient clinic visits, case mix index, tech index, occupancy rate	teaching hospitals
13	Lopez-Valcarcel & Baber Perez (1996)	Spain	DEA input oriented	225	Doctors, other staff, beds	medical inpatient days, surgical inpatient days, intensive care inpatient days, obstetric inpatient days, newborn inpatient days, paediatric inpatient days, ambulatory surgical procedures, operations with hospitalisation, upamix, admissions, techno	NA
14	White & Ozcan (1996)	US	DEA input oriented	170	size, labour, expenses, service complexity	adjusted discharges, outpatient visits	NA

15	Parkin & Hollingsworth (1997)	Scotland	DEA input oriented	75	average number of staffed beds, number of trained, learning and other nurses, number of professional, technical, admin, and clerical staff, junior and senior non nursing medical and dental staff, cost of drug supply, hospital's capital charge	medical acute discharges, surgical acute discharges, accident and emergency attendances, outpatient attendances, obstetrics and gynaecology discharges, other specialty discharges	NA
16	Chang (1998)	Taiwan	DEA input oriented	29	FTE physicians, FTE nurses and medical supporting personnel, FTE general and admin personnel	clinic visits (including regular and emergency), weighted patient days, gere, A and I, CHRO	NA
17	Chirikos (1998a)	US	Stochastic cost frontier, TL, half normal	558	Total cost	post admission patient days for which Medicare is primary payer, post admission patient days for which Medicaid is primary payer, post admission patient days for which payer is either Blue Cross, other private payer or self-pay patient, casemix weighted a	NA
18	Chirikos (1998b)	US	Stochastic cost frontier, TL, CD, half normal, exponential	2232	total cost	Case mix adjusted admission, post-admission patient days corresponding to three different payer groups, two outpatient indices	NA
19	Dalmau-Matarrodona & Puig-Junoy (1998)	Spain	DEA input oriented	94	FTE physician (including residents), nurses and equivalents, other non sanitary personnel, inpatient beds	Case mix adjusted discharged patients, inpatient days in acute and sub-acute, inpatient days in intensive, inpatient days in long term and other services, surgical interventions, hospital day care services, ambulatory visits, resident physicians	NA

20	Linna (1998)	Finland	DEA input oriented and cost, Stochastic cost function, linear, truncated	43	total cost	Emergency visits, outpatient visits, DRG inpatients, bed days (applied for inpatient episodes exceeding a certain cut off point), residents trained, on the job training nurses, research	NA
21	Mobley & Magnussen (1998)	Norway, US	DEA input oriented	228	FTE physicians and residents, FTE other labours, beds	Number of patient days in three age groups, number of outpatient visits, case mix index for patient 65+	Hospital types
22	O'Neil (1998)	US	DEA input oriented	27	technological services, beds, FTEs, supply (operational expenses excluding payroll, capital and depreciation)	Adjusted inpatient medical, adjusted inpatient surgical, adjusted outpatient, residents trained	NA
23	Webster et al. (1998)	Australia	DEA input oriented and cost, Stochastic production and cost frontiers, CD, translog, half normal, truncated	301	FTE professional medical offers, total contract value of VMO, nurses FTE, other staff FTE, beds, materials (non labour cost)	Acute care inpatient days, surgery inpatient days, non inpatient occasion of services, nursing home type inpatient days, accident/emergency	NA
24	Linna & Hakkinen (1998)	Finland	DEA input oriented and cost, Stochastic cost function, CD, half normal, exponential	48	total cost	Emergency visits, scheduled visits, admissions, bed days, residents, nurse education, student, research	NA
25	Al-Shammari (1999)	Jordan	DEA output oriented	15	bed days, physicians FT, health personnel)	Patient days, minor surgical operations, major surgical operations	NA
26	Athanassopoulos et al. (1999)	Greece	DEA input oriented	98	Doctors in general medicine, doctors in surgical, doctors in labs, management and nursing staff, hospital beds	Patients general medicine, patients surgical, lab tests, clinical examinations	NA

27	Fuji & Ohta (1999)	Japan	Stochastic cost frontier, TL, truncated	2781	total cost	total number of inpatients and outpatient per day, Ratio of inpatient/outpatient, number of examination/100 patients	dummies for emergency hospital and general type of hospital, nursing standard
28	Kerr et al. (1999)	Northern Ireland	DEA output oriented	33	Nurses, consultants, administration, ancillary, beds	Surgical, medical, obstetrics and gynaecology, accident and emergency	There are control variables but not specified
29	Linna & Hakkinen (1999)	Finland	DEA input oriented and cost, Stochastic cost frontier, linear, half normal	95	Average working hours of doctors, other employees, total cost of materials, equipment and other costs	Number of emergency visits, scheduled and follow up visits, DRG weighted number of total admission, number of bed days exceeding a cut off point, number of residents receiving 1 year training, total number of on the job training weeks of nurses, number of	NA
30	Maniadakis et al. (1999)	Scotland	Non-parametric Input distance function, Malmquist	75	Doctor, nurse, other personnel, bed, cubic meter, admission for stroke, fractured neck of femur, myocardial infraction	A&E attendances, adjusted inpatients, adjusted day cases, adjusted outpatients, standardises survivals after admission for stroke, fractured neck of femur, and myocardial infraction	NA
31	Rosko (1999)	US	Stochastic cost frontier, TL, truncated, half normal, exponential	3262	total cot	outpatient visits, inpatient discharges, post-admission days	case mix index, ER visit/total outpatient, dummy for hospitals are member of teaching hospitals, dummy for teaching hospital that are noth COTH member
32	Rosko & Chilingerian (1999)	US	Stochastic cost frontier, TL, half normal	195	total cost	inpatient discharge, outpatient visit	NA

33	Yong & Harris (1999)	Australia	Stochastic cost frontier, CD, half normal, exponential	35	total cost	weighted inliers equivalent separation (case mix adjusted), on campus medical clinical occasion of services, emergency/casualty occasion of services	teaching, A1 hospital
34	Chern & Wan (2000)	US	DEA input oriented	80	Beds, service complexity, non-physicians FTE, operating expenses (not including payroll, capital or depreciation)	Case mix adjusted discharges, outpatient visits	NA
35	Chirikos & Sear (2000)	US	DEA output oriented, Stochastic cost function, CD, TL, half normal	186	wage and salary for personnel engaged in inpatient care activities, wage and salary for personnel assigned to non patient care, other expenses, capital costs, adjusted depreciation charges for fixed and movable equipment, other non patient cost	case mix weighted admission, three post-admission patient days variables, test and procedures, level of activity in ambulatory centre	NA
36	Deily et al. (2000)	US	Stochastic cost frontier, TL, half normal	4739	total cost	admission, inpatient days, outpatient visits	hospital accreditation, number of FTE residents per bed, % intensive bed care, number of inpatient surgical operations per admission, % outpatient visits that are surgical, % outpatient visits that are emergency, index of high technology

37	Frech & Mobley (2000)	US	Stochastic cost frontier, CD, half normal	378	total cost, net plant property and equipment at beginning of period (measured by depreciation and amortisation), number of licensed physicians with admitted privileges	Total inpatient discharges in each of 6 payoff categories, number of outpatient visits, number of FTE interns and residents per staff bed (teaching output)	5 case mix indices, proportions of outpatient visits that are non-surgical, sub-acute, newborns, medical surgical acute care, intensive care, expenditure on charity care and donation, scope of service index, worker age index, income per capita in the hospi
38	Harris et al. (2000)	US	DEA input oriented	20	service mix, size, employees, operational expenses	adjusted discharges, outpatient visits	NA
39	Maniadakis & Thanassoulis (2000)	UK	DEA input oriented and cost, Malmquist	75	Doctors, nurses, other personnel, beds cubic metres per 100	A&E attendances, adjusted inpatient, adjusted day stays, adjusted outpatients	NA
40	Prior & Sol (2000)	Spain	DEA input oriented	132	health staff, other staff, bed, purchase of materials	medicine inpatient days, surgery inpatient days, obstetrics and gynaecology inpatient days, paediatric inpatient days, psychiatric inpatient days, long stay inpatients, intensive care inpatients, external visits	NA
41	Puig-Junoy (2000)	Spain	DEA input oriented	94	FTE physicians, FTE nurses and equivalents, FTE other non-salary personnel, inpatient beds	case-mix adjusted discharged patients, inpatient days in acute and sub-acute services, inpatient days in intensive care, inpatient days in long term care and other services, surgical interventions, ambulatory visits, resident physicians	NA
42	Sahin & Ozcan (2000)	Turkey	DEA input oriented	80	beds, specialists, GP, nurses, other allied professionals, revolving funds expenditure	outpatient visits, discharged patients, hospital mortality rate	NA
43	Sommersguter-Reichmann (2000)	Austria	DEA input oriented, Malmquist	22	FTE labour, beds, expenses for external medical services	Outpatient, number of credit points times a steering factor	NA

44	Athanassopoulos & Gounaris (2001)	Greece	DEA input oriented and cost	98	total cost (sum of one cost component with known prices and one with unknown prices)	medical patients, surgical patients, medical examinations, lab tests	NA
45	Folland & Hofer (2001)	US	Stochastic cost frontier, CD, TL, truncated	1661	Cost	general medical surgical, paediatrics, obstetrics/gynaecology, all other inpatient, (all measured by annual inpatient days), and outpatient visits	% board certified, reservation quality
46	Fujii (2001)	Japan	Stochastic cost frontier, cubic, truncated, half normal	955	Total cost	inpatients/day, outpatients/day, number of clinical examinations/100 patients	dummy for teaching, general, meeting some standard of nursing, standard of meal, standard of bed, inverse of bed occupancy rate, dummy for being subsidised, and urban
47	Giokas (2001)	Greece	DEA input oriented	91	Total cost	inpatient days medical, inpatient days surgical, outpatient visits, ancillary services (including anaesthesiology, lab, x-ray)	NA
48	Grosskopf et al. (2001)	US	Non-parametric Input distance function	792	beds, med staff, med residents and interns, registered nurses, licensed practical nurses, FTE other labours	patients, inpatient surgical, outpatient surgical, ER visits, outpatient visit	NA
49	Jacobs (2001)	UK	DEA input oriented and cost, Stochastic cost function, linear, half normal	232	Cost index	Episodes per spell, transfer per spell, transfer out per spell, emergency, finished consultant episodes, non primary outpatient attendance, emergency index, proportion under 15, proportion 60+, proportion of female, students, research, market force factor	NA



50	Rosko (2001a)	US	Stochastic cost frontier, TL, truncated	1498	Total cost	DRG weighted inpatient discharges, outpatient visits	dummy for being member of COTH, dummy for teaching hospitals not being a member of COTH, emergency/OPV, Outpatient surgeries/OPV, HMO enrolment/pop, Medicare discharges/total discharges, Medicaid discharges/total discharges, dummy for investor owned
51	Rosko (2001b)	US	Stochastic cost frontier, TL, half normal	1966	Total cost	inpatient discharges, outpatient visits, days in long term units	dummy for being member of COTH, dummy for teaching hospitals not being a member of COTH, medicare patient casemix index, emergency/OPV, Outpatient surgeries/OPV, HMO enrolment/pop, Medicare discharges/total discharges, Medicaid discharges/total discharges
52	Zere et al. (2001)	South Africa	DEA output oriented, Malmquist	86	beds, recurrent expenditure	outpatient visits, inpatient days	NA
53	Hofmarcher et al. (2002)	Austria	DEA input oriented	93	medical staff, para-medical staff, admin, beds	patient days, discharges	NA

54	McKay et al. (2002)	US	Stochastic cost frontier, TL, half normal	4075	Total cost	admission, inpatient days, outpatient visits	dummy for accredited hospitals, number of FTE residents per bed, % intensive care beds, number of inpatient surgical operations per admission, % outpatient visits that are surgical, % outpatient visits that are emergency, high tech index
55	Street & Jacobs (2002)	UK	Stochastic cost frontier, linear, half normal, truncated, exponential	217	Total cost	transfer to hospital per spell, transfer out of hospital per spell, emergency admission per spell, finished consultation episode inter-specialty transfer per spell, episode per spell,	non-primary outpatient attendances per inpatient spell, standardised index of unexpected emergency admission/total emergency admissions, HRG weight (casemix index), proportion of patient <math>\leq 15</math>, <math>\geq 60</math>, female, student whole time teaching equivalent per spell
56	Biorn et al. (2003)	Norway	DEA input oriented	432	FTE physicians, FTE other labours, medical expenses	inpatient services, outpatient services	NA
57	Carey (2003)	US	Stochastic cost frontier, hybrid TL, half normal	1209	Total cost, beds	adjusted admission, adjusted patient days	case mix, HMO, HHI, for profit, teaching, system

58	Street (2003)	UK	Stochastic cost frontier, linear, half normal, exponential	226	Total cost	case-mix adjusted inpatients, first outpatient attendances weighted by specialty, first addicent and emergency attendances, transfer into hospital per spell, transfer out of hospital per spell, emergency admission per spell, finished consultant episode int	non-primary outpatient attendances per inpatient spell, standardised index of unexpected emergency admission/total emergency admissions, proportion of patient less than 15, more than 60, female, student whole time teaching equivalent per spell, % of total revenue spent on
59	Bilodeau et al. (2004)	Canada	DEA input oriented	1359	hours and expenses on labour, expenditure on supplies, foods and meals prepared for patients, total expenditure of drugs, engery, and others categories; equipment, building and physicians	inpatient days, outpatient visits, lab exams performed for pay, laundry and cafeteria services, and teaching	NA
60	Chang et al. (2004)	Taiwan	DEA output oriented	483	patient beds, physicians, nurses, supporting medical personnel (including ancillary service personnel)	patient days, clinic or outpatient visits, surgical patients	NA
61	Grosskopf et al. (2004)	US	DEA input oriented	252	fully licensed and staffed beds, FTE physicians, FTE registered nurses, FTE licensed practice nurses, FTE medical residents, FTE other personnel	inpatients, inpatient and outpatient surgeries, outpatient visits	NA
62	Kirigia et al. (2004)	Keynia	DEA input oriented	32	clinical officers and nurses, physiotherapist and the like, lab technicians, admin staff, non-wage expenditure, beds	three groups of diseases treated and general outpatient visits	NA
63	Martinussen & Midttun (2004)	Norway	DEA input oriented	153	FTE physicians, other labours, beds	inpatient care, outpatient care	NA
64	Dervaux et al. (2004)	US and France	Non-parametric Input distance function	1080	beds, physicians, nurses, other labours	admissions, births, inpatient surgeries, outpatient surgeries, emergency visits, outpatient visits, medical interns	NA

65	Valdmanis et al. (2004)	Thailand	DEA output oriented	68	beds, doctors, nurses, other staff, allowance, drug expenses, other operating expenses	OP visits for non-poor, poor, IP weight for non-poor, poor	NA
66	Harrison et al. (2004)	US	DEA input oriented	525	operating expenses, FTE, services, beds	admissions, outpatient visits	NA
67	Renner et al. (2005)	Sierra Leone	DEA output oriented	37	Technical staff, sub-ordinate technical staff, materials and supplies, capital inputs	Antenatal and post natal care, babies delivered, nutrition/growth monitoring visits, family planning visits, under 5 immunised and pregnant women immunised, health education	NA
68	Chen et al. (2005)	US	DEA input oriented	89	general service cost, routine and special case cost, cumulative capital investment, ancillary service cost	routine care bed days, special care bed days	NA
69	Ramanathan (2005)	Oman	DEA output oriented	20	beds, doctors, others	outpatient visits, inpatients, major surgical procedures, minor surgical procedures	NA
70	Rosko & Proenca (2005)	US	Stochastic cost frontier, TL, truncated	1368	Total cost	adjusted inpatient discharges, outpatient visits, days in long-term visits, % emergency, % outpatient surgery	COTH member, teaching hospital
71	Harrison & Ogniewski (2005)	US	DEA input oriented	252	Operating expenses, FTEs, beds	inpatient days, surgical procedures, outpatient visits	NA
72	Liu & Mills (2005)	China	DEA output oriented	120	doctors, nurses, fixed assess value, hospital beds, supplies value	admissions, outpatient visits, surgical operations	NA
73	Gannon (2005)	Ireland	DEA input oriented	44	staff, beds, non-medical staff	DRG adjusted inpatients, outpatients, day cases	NA
74	Osei et al. (2005)	Ghana	DEA input oriented	17	Doctors/dentists, technical staff, subordinate staff, bed	Maternal and child health care visits, deliveries, inpatient discharges	NA
75	Bates et al. (2006)	US	DEA input oriented	306	FTE registered nurses, FTE licensed practical nurses, FTE other salaried personnel, beds, expenditures on materials, supplies, active physicians	inpatient days, emergency room outpatient visits, nonemergency room outpatient visits, surgeries, births	NA
76	Ferrari (2006b)	Scotland	DEA output oriented, Malmquist	53	total capital charges, medical staff FTE, nurses FTE, other staff FTE, beds	inpatient surgery, inpatient medical, inpatient other, outpatient day cases and day patients	NA

77	Kontodimopoulos et al. (2006)	Greece	DEA input oriented	17	doctors, nurses, beds	patient admissions, outpatients, preventive medicine services	NA
78	Linna et al. (2006)	Norway, Finland	DEA input oriented and cost	98	Cost	DRG weighted discharges, weighted day cares, outlier days, weighted outpatient visits	NA
79	Linna & Hakkinen (2006)	Finnish	Stochastic cost frontier, CD, half normal	48	Total cost, Variable cost, capital cost	DRG weighted discharges, outpatient visits, bed-days, teaching, research	emerg, dead, priceind, home, operative, non-operative
80	Prior (2006)	Spain	Non-parametric output distance function	29	physicians, other staff, beds, materials	acute inpatient days, long stay care, intensive, outpatient visits	NA
81	Rebba & Rizzi (2006)	Italia	DEA input oriented	85	physicians, nurses, other employees, hospital beds, acute care admissions (proxy for hospital demands)	DRG weighted inpatient cases, treatment days, emergency service cases	NA
82	Staat (2006)	Germany	DEA input oriented	160	per diem, beds	cases, reciprocal length of stay, casemix for medicine, surgery and fields of specialisations	NA
83	Yaisawarng & Burgress Jr (2006)	US	Stochastic cost frontier, log linear, half normal	131	total cost, avop bed, icu score	basic1, complex, nonvest1	3 access variables, urban, teaching, mental
84	Zere et al. (2006)	Namibia	DEA output oriented	30	recurrent expenditure, beds, nursing staff	outpatient visits, inpatient days	NA
85	Aletras et al. (2007)		DEA input oriented	51	physicians, other staff, beds	patient days, inpatient cases, surgeries, outpatient visits, average length of stay, occupancy rate, roemer index	NA
86	Arocena & Garcia-Prado (2007)	Costa Rica	Non-parametric Input distance function, Malmquist	113	physicians, nurses, beds, expenditure in goods and services	discharges, outpatient services (all adjusted for case-mix) (as good outputs)	NA
87	Goncalves et al. (2007)	Italia	Non-parametric output distance function	3186	Beds, beds for day hospital, physicians, nurses, teaching staff, other personnel	inpatient days, discharged patients, day hospital treatment, emergency room treatment	NA

88	Goncalves et al. (2007)	Brazil	DEA output oriented	27	mortality rate, mean length of stay in hospital	% of admission relating to three chapter of IDG with the greatest mortality rate, mean value paid through the hospital admission authority	NA
89	Hajialiafzali et al. (2007)	Iran	DEA input oriented	53	FTE medical doctors, FTE nurses, FTE other personnel, staffed beds	outpatient visits, emergency visits, medical interventions, ratio of major surgeries to total surgeries (for complexity)	NA
90	Kibambe & Kocht (2007)	South Africa	DEA input oriented	39	active beds, medical doctors and specialists, nurses	total admissions	NA
91	Masiye (2007)	Zambia	DEA input oriented	30	nonlabour cost, medical doctors, nurses and the like, admin and other staff	ambulatory care, inpatient MCH (no. of delivery), lab tests, xray and theatre operations	NA
92	Smet (2007)	Belgium	Stochastic cost frontier, TL, truncated	184	Total cost	admissions, patient days for 7 categories	university dummy, queuing indicator, occupancy rate, 2 dummies for regions
93	Friesner et al. (2008)	US	DEA input oriented and cost	1076	beds, area of hospital, number of paid hours per hospital	outpatient visits, Medicare inpatient days, Medicaid inpatient days, non-Medicare non-Medicaid inpatient days, Medicare casemix index, Medicaid casemix index, non-Medicare, Medicaid casemix index	NA
94	Kirigia et al. (2008)	Angola	DEA output oriented	28	Doctor nurses, Drugs other, beds	OPDANC visits, Patient admission	NA
95	Lee et al. (2008)	US	DEA input oriented	435	service complexity, hospital size (beds), amount of labour used, medical supply expenses	Casemix adjusted number of discharged, number of outpatient visits, number of FTE trainees	NA