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### DO FINANCIAL CONSTRAINTS SPUR INNOVATION?

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Health care is characterized by the frequent introduction of new technologies, drugs and treatment options and many of these new alternatives to existing treatments have the potential to improve health outcomes and shift spending (depending on the costs of the new alternatives). Therefore, it is important to understand the drivers of physicians updating their practice styles and adopting innovations.

In this research we propose, we will test a channel that may incentivize physicians to engage in search and potentially adopt new, beneficial practice styles. Specifically, we study how physicians respond to global budget capitation contracts, which are contracts that aim to incentivize physicians to become more price sensitive in their treatment behavior. Specifically, global budget capitation contracts are contracts between payers and providers and essentially offer these providers a fixed budget to care for the patients insured through the payer. If physicians exceed the budget, they are responsible for a portion of the overspending, while providers share in the savings if spending remains within budget. While some research has shown that global budget capitation contracts indeed make physicians more price sensitive, the search process that physicians are involved in to reduce costs remains a black box.

Using medical claims data that includes information on whether the claim is subject to a capitated contract, this study will assess whether a shift in financial constraints incentivizes physicians to experiment with new treatment options. The results from this study addresses a debate in health care research regarding the drivers of change in practice behaviors. The results should also be of interest for innovation scholars who study the precursors of idea generation.