Financial management flashcard

ASSIGN BUSTER

Of Healthcare . Kyle Peacock Date: Executive Summery As the world of technology continues on its evolving trend, and healthcare continues to be a major topic of discussion in Washington, many organizations are struggling with how to better prepare for the inevitable. The changes that will soon affect everyone in healthcare have many managers and CEO scratching their heads in an attempt to solve and to minimize the impact these new regulations will soon have on them.

More and more organizations are looking for better ways to maximize their OTTOMH line, while at the same time provide cost cutting measures to upper management. In the long run these future steps will ensure that these organizations will profit more, while doing more for less. One strategic endeavor that is taken hold in the medical community is the idea of Earn Value Analysis. This idea stems from a simple premise to break up a large organization into strategic parts and allowing them to function independently of each other.

While this idea may seem far-fetched, it has proven quite useful and successful in other industries. The question is will it ark in the Healthcare industry. The following paper will attempt to answer this very question. Introduction History is a chronological record of events that have come to pass. For many of us the study of history and how individuals managed to live their lives in the old days has become unimaginable, especially in today’s technologically advanced society.

It’s comical to witness the younger generation display a sense of awe at events that you and I experienced as normal everyday events, such things

as turning the television channels manually, or making a phone call by using a pay phone, or even writing a utter too love one and waiting up too couple of weeks for a response. These insignificant events may not mean much to the new generations, but it meaner a lot to those of us that experienced it. These changes have taught us that technology used for the right purposes can make your life easier and to some degree much freer.

These changes not only occurred in the technologies we see today, but in much more minute way. Ways that to for the average individual would most likely have gone unnoticed. These advances not only have taken place in technology but in other areas well. One significant change that has occurred in the last several decades is he way the economic choices have made a more significant impact on our lives. It seems that with the economic uncertainty of today, Americans are more in tune with what is going on around them.

Every society large or small develops a process for organizing and coordinating the choices regarding production, distribution, and consumption of goods and services. These choices are intertwined into every fabric of our existence and any change or disruption in the process leads to instability within the society. Not only these choices affect how we live our lives, but the implications have far reaching effects. After World War II, the world’s economic tentacles began a far reaching endeavor.

Countries around the word began to evaluate the value of doing more business with closer neighbors and thus their economic link began to grow. Today, the effect of those relationships is evident. As some countries are

being forced into bankruptcy because of miss-management or political abuses, its partner’s race against time to bail them out thereby increasing the economic link among those countries. It is clear that today; we no longer are self- reliable. According to the Bureau of Labor Statistic prices for U. S. Imports declined y 0. Per cent in May, the drop is linked to the drop in fuel and unfelt prices. This shows that as the prices in fuel fluctuate, so does the cost of importing the goods that you and takes for granted today. As the world economy changes, it affects everyone in one way or another. This inter connection is forcing companies to develop innovative ways at production and distributions which allows them to maintain that needed market edge to survive in a very competitive and dynamic economic world. So why study economic and its impact on society. According to Reynolds (2010) there are three fundamental reasons.

First, as an academic discipline there is a desire to understand, describe and explain the world in which we live. Secondly, there is the human need to predict and control economic process and their outcomes. Finally, the method selected to describe, explain and predict economic process shapes the perception and values that individual in society hold about those processes. As the industrial revolution took hold many began to develop fascinating methods for these predictions and today many scholars and business minded individual thrive in this field.

According to Reynolds (2010) the economic system has two main functions in all societies. First, it is to contribute to the wellbeing of the individual and to promote the operation of society. Secondly, it is to allocate and ration limited resources among competing uses and among the members of

society. It is the first function that many in the health care industry concentrate their efforts on. Among the many innovations that have come around over the years, one stands out, Earn Value Analysis or Earn Value Added as some individuals call it.

This concept was first introduced to the American contracting community through the Department of Defense and NASA in 1963. By 1967 the DOD had refined the system and established he Cost/Schedule Control System Criteria, which has helped standardized the contract requirements for reporting cost and schedule performance on major contracts. This system has been implemented successfully for over 30 years and has set the standards for all major government contracts. Some have been so impressed by this new innovative way of performance appraisal that countries such as Australia, Canada, and Sweden have begun similar EVA criteria.

Earn Value Analysis As each company struggles to maintain a leading edge in the market, managers find themselves under great pressure from shareholders to deliver an increase company alee and a better financial performance. For many managers gaining a higher shareholder wealth is the driving force of Just about any company, the greater the wealth, the greater the incentive to perform better. As managers struggle to gain that edge and increase performance, many try different paths to the same objective. One of those paths has not been around too long. Earn Value Analysis (EVA) is a form of performance measure.

This system has been used extensively in the construction industry. In the past managers would compare results based on planned to actual results.

This method gave managers and indication on whether a project was running on time, but they could easily overspend based on the plans. With EVA, this problem was solved as it “ integrates cost, schedule and scope and can be used to forecast future performance and project completion dates” (Enhancer, 2002). In a way EVA could be considered an early warning system that will allow managers to anticipate problems and help them mitigate issues before they happen.

According to Enhancer (2002), with this ability to forecast potential problems managers can create risk mitigation plans based on actual cost, schedule and progress of the work. In order to understand better what EVA is all about we first have to understand a few terms that will make this process a lot easier to follow. According to Enhancer (2002), these three terms are Budgeted Cost of Work Schedule or Planned Value (UP); Budgeted Cost of Work Performed or Earned Value (EVE), and Actual Cost of Work Performed or Actual Cost (AC).

The UP is defined as “ the sum budgets for all packages scheduled to be accomplished within a given period” (Enhancer, 2002), EVE is defined as “ the sum of budgets for completed work packages and completed portions of open cages” (Enhancer, 2002), AC on the other hand is defined as “ the actual cost incurred in accomplishing the work performed within a given time period. AC is only recorded for the work performed to date against tasks for which AC is also reported” (Enhancer, 2002). Why are these terms so important? These terms are part of the core of EVA.

These three quantities can help figure out the total program budget. It can also help determine schedules and cost performance, while at the same time helps to estimate the cost at project completion. By allocating the information, companies Coo’s are better preparing to incorporate changes that will in he long run benefit the companies by placing it in a better position within the market place. This position gives the company the leading edge needed to survive and earn the much needed profits, thereby increasing the wealth of the company and providing its shareholders the much needed investment returns.

EVA in Health Care The Health Care industry in the United States accounts for 17. 4 percent of the total GAP, which is almost two and half times more than most developed nations, such as France, United Kingdom, Sweden. According to the Organization for Economic Co- Operation and Development (COED), the United States spends more money per arson on Health Care than most rich countries, such as Sweden. If we as a country spend so much more per person, then where does the money go? In order to understand and track this money it is necessary that we break down our health care system into its main components.

The U. S health care system can be divided into in- patient care, out-patient care, pharmaceuticals, public health, and administration. According to the statistics disclosed by the COED, 163% of expenditure in the US is spending on Hospitals/Nursing homes. 238% is spent on ambulatory such as physicians, specialist, dentists, etc. 152% is spent on pharmaceuticals and medical odds, and 274% on public health and administration. These numbers represent how much more the US spends per category compared to other

countries. These numbers are staggering and it appears that at this point there is no relief in sight.

So why are we spending so much more. Some of the reason these expenditures appear to be so much more is because the cost of health care in the United States is so much more as compared to other countries. Secondly, the US appears to “ provide more doctor’s appointments, more surgery, more drugs, more diagnostic tests, longer stays in hospital than any other country’ (COED, 2011). Thirdly it could be a combination of the first two reasons. Not only is the U. S. Spending billions on health care, it is also facing other challenges, such as a dangerously shortages of nurses. According to Dos Santos and Oliver (2005) by the year 2020 the U.

S. Will have an estimated 600, 000 less nurses. Another issue that faces many facilities is the aging population, which demands a better quality of care at a lower cost. As the U. S. Health care system continues to spend billions in management and improvements, the demand for change has raised a national awareness that will not go away. This industry has for the most part undergone a change which demands competitiveness and innovations. This demand is focused on the continued quality of care while at the same time saving dollars from an industry that seemed to be out of control.

This innovation could be in the form of EVA. Hospitals usually tie about “ 35% of their budgets in inventory and in the required labor to manage it. ” (Dos Santos et al, 2005). The amounts of money spend on running a facility increases incrementally almost on a yearly basis. These facilities for the

most part pass their expenses on to the patients in the form of higher prices. This is where EVA should come into effect and help hospitals break away from the old traditional budgeting functions. Let us take for example a typical Emergency department at a local hospital.

The cost of running such a facility is staggering. Most of the patients seen in an emergency department are usually not that sick that requires emergency critical care. For the most part a good sample of these individuals are people who are not covered by insurance and they understand that a visit to the emergency room will guarantee them the care they need, as Re's are required by law to take patients in that complain of any issues hat may be life threatening. According to Kookier (2012) the number of ERR visits has risen sharply to about 120 million per year.

These visits are mostly by the uninsured and those that have a lack of access to primary care. As the changes in the law become effective in less than a year, the shortages of primary care providers will become evident and that meaner that people will resort to ERR visits for their every need. One other factor that seems to affect the increases in ERR visit is the shortages of primary care providers, which currently stands at about " 1 50, 000" (Kookier, 2012). At this rate it is estimated that by the year 2020 that number will increase to an additional " 50, 000" (Kookier, 2012).

Nationwide there are approximately 4, 600 Errs and these numbers seem to on the decline. They are overcrowded and slow and the staff is under paid and overworked, but the issue here is a symptom of a much deeper sociological problem. So what do we do to solve this issue and yet still

provide quality emergency care? Under the Earned Value Analysis, the best option is to break up this system and allow it to move away from the traditional way of providing this type of care. Move away from the hospitals. This will serve several purposes and help alleviate the substantial cost that most hospitals incur in these facilities.

The nation as a whole has already began the process, and here in San Antonio Texas, the process is already in full swing. Whether this process will be successful or not only time will tell. These standalone facilities provide many of the same benefits that a regular ERR would provide, with some added benefits to patients, such as no wait time, at least not as long. “ Stand alone emergency rooms are like an ERR whereby you are greeted by a receptionist or medical Technician. And, then you are taken back to an examination room where a nurse and doctor take over the care.

It is convenient and extremely efficient as there essentially no wait time at all” (Kookier, 2012). These facilities are fully staff 2417 and they have onsite all the bells and whistles needed to make a diagnosis. As the patient need to be admitted to a hospital patients will go directly to the main hospital where they will be ready and waiting for them. According to Kookier about 20% of patients admitted to a hospital come through the ERR, but typically only about 4-5% of those really need to be admitted. “ the rest is part of the fragmented care in the U. S that can be characterized as a defensive medicine approach” (Kookier, 2012).

This defensive approach is one of the many ills that are affecting our health care system today. The fast growing standalone ERR centers are providing

convenience and ease of overcrowding in nearby hospital Errs. This is also providing a financial incentive to hospital Re’s as they are able to cut cost by employing less staff and keeping fewer supplies. Another positive outcome of this new innovative way of providing emergency care is competition. As more and more hospitals diminish their onsite Re’s and open standalone facilities the competition becomes better for patients as the cost decreases.

A good example of this is the competition between an Urgent Care Facility and Stand Alone ERR. These two facilities provide about the same services as primary care would except they do so on a walk in basis. Some of the differences between these two are urgent care have limited ours, standalone Re’s are open 2417. Standalone Re’s can administered lifesaving drugs and intravenous treatment, while urgent care can only provide oral and some intramuscular education on occasion. Standalone Errs that need to admit patients will go directly to the floor.

For urgent care they will be refer to the local hospital ERR, thereby causing the patient an even greater expense. Standalone centers can avoid unnecessary hospital admissions, while urgent care centers must funnel patients through the same overcrowded hospital ERR that admits 20% of their patients. Another major difference is the re-imbruement issue. Standalone facilities do charge more, but that is because these centers have sophisticated equipment on site. For example an urgent care center will normally charge $138. 0 for an urgent visit, but in standalone facility the same visit will cost the patient $316. 0. One other major difference between the two is the use of ambulances. For the most part ambulance services do not take patients to stand alone ERR facilities, they prefer to transfer

patients too regular hospital ERR. According to Kookier, (2012) the reason could be because of lack of education as to the capabilities of the facility. It also could stem from fear that if the patient needs more care than what the stand alone can provide, the patient will have to be transfer again. Although this may be true, the laity is that according to the CDC 85% of patients that visit the ERR don’t come by ambulance.

As this idea of standalone Errs take hold, many law makers are still skeptical on the final implications this will have on the nation as a whole. These facilities will need to be staffed and that will cause money, lots of money. Breaking up these facilities will for sure ease the overcrowding issues at hospital based Errs, and the cost of supplies and staffing will definitely dropped, but the question will still remain, will this be enough to bring down the cost of health care in this country? An example of a successful facility comes from New York.

In 2010 the first standalone ERR facility was open and through a collaborated relationship with Beth Israel Hospital this facility has thrived. Not only they have provided the need care but most importantly with less unnecessary admissions the cost savings to the New York health care industry has been estimated at $16-20 million dollars. Conclusion Earned Valued Analysis has been extremely successful in the regular business industry, but the question we have to address here is this the right path to take to help improve the current health care system in this country.

The idea of breaking up and industry into smaller components to generate saving and improve profits, while at the same time providing the same

quality care remains to be seen. This is only a small piece of a giant pie and all the pieces must work together in order to make this work. There is no question that in order to address this problem we need to come together as a nations and take a hard look at what we are doing and where we are going. Standalone facilities is Just one of many different steps that we should take in order to help reform and improve our health care system.