

# HEALTHCARE OPERATIONS MANAGEMENT

### Summary

Many hospitals are being challenged with numerous complexities brought about by competition and endeavoring to be a comprehensive unit to all patients within and outside the hospital is increasingly an unviable strategy. In order for a hospital to effectively compete with focused and smaller competitors is to arrange themselves through a service line by either building, buying or leasing world class facilities in a selected few clinical areas(Ozcan & Linhart, 2017). This strategy will help the hospital to reap big on fiscal benefits while at the same time enhance their ability to serve the patients, stakeholders and the community in general. This service line strategy is no easy task as it requires a superior understanding of the competitive environment and hospital economics coupled with competent management for both strategic and not strategic service line.

### Introduction

Health care facilities management examines challenging key elements on whether to contract out patient care and quality management systems. Property development puts the focus on patient care but the management always ponders whether to ponder to buy build or lease space for a new orthopedic service line. This business plan outlines several factors to be considered before the hospital board can make a decision.

#### Advantages of building space for the new orthopedic service line

Building a new orthopedic service line permits a hospital to customize its space i.e. choose the right spot of imaging machines, inpatients, diagnostic, therapy, and outpatient(Hopp & Lovejoy, 2014). The hospital will, therefore, have full control on how the development of the

space is carried out ensuring that the orthopedic line is designed in line with whatever the hospital deems fit.

The hospital will also reap from a potential increase in the price of the space built in the coming years as the building value will in most cases grow as years go by. Therefore the cost will be lower in the long run when the building is viewed from a long-term perspective. Also, the building is also advantageous to the hospital in a situation whereby there is no adequate space for leasing or buying near the hospital. Building the orthopedic service line also makes it easier for the hospital to make expansion in future in case the hospital wants to make adjustments in future (Low & Rui, 2016).

#### Advantages of buying space for the new orthopedic service line

The hospital gets to enjoy the services of the orthopedic service line sooner rather than later than is the case with the building where they have to wait for construction to be completed. The hospital will thus gain the appreciation of the value of the building in the long run as it will own the property immediately and it will also enjoy tax advantages through writing off of the depreciation and mortgage interest if any against the tax liability. Also, the hospital can deduct off the maintenance, repairs, taxes and other related costs before taxation. Hospital improvements also come with depreciation tax advantages (Ozcan & Linhart, 2017).

It is also advantageous to buy a space as in the long run, the hospital will be able to buy off space as compared to lease payments which are paid for years to come. Another advantage is that the equity of the bought property/space increases with time in the same way the building and the land appreciate with time, thus improving on the hospital's balance sheet. Buying of space will

also save the hospital the hassle of dealing with landlords and their agents and the hospital can close or open the service line whenever it wants as ownership is great and empowering.

Purchasing a space does not come with ever increasing rent and the hospital can get a fixed rate of up to eighty percent on a mortgage loan if any thus preventing escalation of monthly payments. There is also the advantage of refinancing at a lower rate that reduces the overall cost and when the mortgage is fully repaid, the hospital will have eliminated the monthly payments for good. Buying more space to the hospital means increased income and improved service delivery to the patients. It also offers the hospital space for further growth in future offering the hospital permanent location giving the hospital a chance to build and increase its value to the patients. Additional space can also be leased to other organizations that will generate extra income for the hospital (Denton, 2013).

#### Advantageous of leasing space for the new orthopedic service line

The cash outlay for a lease is generally lower than a typical down payment for buying a space or the cost structure required for building the orthopedic service line. This will have a positive impact on the hospital's cash flow and the amount of money available for the hospital's operations. Every amount of lease that is paid out is an expense to the hospital that reduces the total taxable income thus lowering the tax payments (Kros & Brown, 2013). Moreover, in line with the lease terms, there are generally no maintenance and repair costs thus saving on the hospital's repair and maintenance costs as well as on time. As a hospital, it is much easier to qualify for a lease as there is no requirement for a credit report. A lease to the hospital will be quicker and has more choices as there are plenty of properties available for leasing in many

markets as compared to buildings that are available for buying. Moreover, the process of leasing consumes less time as compared to buying hence the hospital can move its operations much more quickly.

#### Disadvantages of Building a space for the new orthopedic service line

It is very costly to build the space as there is need to take into account the location of the building on the hospital grounds or outside the hospital grounds for analysis. There is a requirement to follow all regulatory requirements and land development statutes including design management that entails hiring of consultants and professionals specific to the technology. These professionals need to have an understanding of the medical office layout including permits and license by the city and state the totality of all these makes the total cost to be expensive (Denton, 2013). The building must, therefore, be constructed in line with these regulatory approvals for health care facilities especially for orthopedics that needs to have departments like MRI buildings and day surgery that may end up being a cost disadvantage. If wrong decisions are made during constructions, then the penalties and fines imposed could be very heavy.

The building of the space for the orthopedic service line is also time-consuming as the hospital will have to request for competitive bid before choosing the best company for the job who will then embark on the construction process. This process is time-consuming, a disadvantage to the hospital in terms of service delivery (Hopp & Lovejoy, 2014). The construction cost is also high because of the material costs, about and other indirect costs for

constructions. The construction of the space implies that the hospital will have to commit a substantial portion of its capital to the endeavor thus tying up the hospital capital that could have been used for other urgent operations costs.

#### Disadvantages for buying space for the new orthopedic service line

The hospital will be forced to make sacrifices based on the location visibility and strength. This is because many of the ownership opportunities are in secondary properties that may be located further from the hospital. The hospital may be an inconvenience in its quest to move some of its departments and operations away from the hospital resulting in disruptions of service as they move to the bought space. The initial cost of buying space is high as compared to leasing and the hospital will have to pay for expenses that include property appraisals including accounting for a significant down payment in case of a mortgage (Low & Rui, 2016).

This means that the hospital will need to have sufficient and excess capital on hand to avoid diverting cash meant for operations for the investment. Buying of space results into extra responsibilities for the hospital management that include repairs and maintenance and financial management. This is time-consuming and need more specialized staff for that field to be recruited. This results in an increase in cost that includes insurance costs, taxes and other expense that increase the overall expense for the hospital (Kros & Brown, 2013). Finally is extremely difficult to find the right building that exactly fits the requirements of the orthopedic service line that the hospital is envisaging or one that fits its future plans. Its location may also

not be ideal for the hospital as it may not be where it needs to be. Finding the right building might end up taking a lot of time leading to delays in operational sing the orthopedic service line.

#### Disadvantages of leasing space for the new orthopedic service line

There is an annual increase in rent charged for space every year while other landlords increase costs charged whenever the lease expires and has to be renewed. Whenever a lease ends and has to be renewed, the landlord may decide for many other reasons not to allow the hospital to renew its lease after expiry.

This will force the hospital to move on to a new location with the resultant cost being very prohibitive to the hospital and may impact on the quality of patient care. The hospital has no equity in the building it has leased due to leasing it. When the building value increases, the hospital does not benefit from this capital increase. The hospital has no control whatsoever on required improvements on the property, repairs maintenance and other related factors as it has to rely on the building owner before it can execute its decisions. The space that the hospital leases are a specific square foot and therefore the hospital will have less space for expansion and growth (Langabeer & Helton, 2016). Any substantive changes or need for additional space will require landlord permission and the cost of the additional space may be prohibitive if available at all.

#### Recommendations for the best option for the facility

In conclusion, based on the analysis of the objectives of the orthopedic service line, impact on finances and impact on the patient service delivery and quality of care; it is more advantageous for the hospital to build the orthopedic service line than buying or lease as this comes with the advantageous of designing it the way it is required, it is within the hospital

compound and it also comes with tax advantageous. The hospital is better off building the orthopedic service line (Langabeer & Helton, 2016).

#### References

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