

Preface for Instructors

HEALTHCARE FINANCE CAN be a fascinating, exciting subject, yet students often regard it as either too theoretical or too mechanical. The fact is good financial decision making requires both good theory and good quantitative work plus a great deal of insight and judgment. The best way to get this point across to students, and to demonstrate the inherent richness of the subject matter, is to relate classroom work to real-world decision making. When this is done, students must not only grapple with the concepts but, more important, with how the concepts are applied in practice.

Of course, the most realistic application of healthcare finance occurs within healthcare organizations, and there is no substitute for “on-the-job” experience. The next best thing, and the only real option for the classroom, is to use cases to simulate the environment in which financial decisions are actually made. The purpose of this casebook is to provide students with an opportunity to bridge the gap between learning concepts in a classroom setting and actually applying them on the job. By using these cases, students can be better prepared to deal with the multitude of problems that arise in the practice of healthcare finance.

Content

This casebook primarily consists of 30 cases that focus on the practice of healthcare finance within various types of healthcare organizations. In general, each case addresses a single financial issue, such as a capital

investment decision, but the uncertainty of the input data, along with the presence of relevant nonfinancial factors, makes each case interesting and challenging. Because the cases focus on both accounting and financial management decisions, they cover the full range of health-care finance. Furthermore, the case settings include a wide variety of organizational settings, including hospitals, clinics, medical practices, home health care organizations, integrated delivery systems, and managed care organizations.

In addition to healthcare finance cases, the casebook contains six ethics mini-cases. Each mini-case contains a very short description of a finance situation that has potential ethical implications. These cases require no numerical analysis; rather, they are intended to be used as discussion vehicles for instructors who want to include finance-related ethics content in their healthcare finance courses.

Changes in the Fourth Edition

I have used the third edition in more than ten courses since its publication. Moreover, I have received comments and suggestions from numerous users in different settings. This feedback has resulted in many changes; a few are substantial and a great deal are minor.

The most substantial change to the casebook involves authorship. This edition was written in collaboration with George H. Pink, a professor of health policy and management at the University of North Carolina at Chapel Hill. As you may know, George also is joining me as coauthor on *Understanding Healthcare Financial Management*, the book that is often used as a reference text with the casebook. George brings new insights to the cases that, beginning with this edition, will have a profound and positive impact on the book.

A few of the cases have had major revisions:

- **Case 9 (Boston Transplant Center):** This marginal cost pricing analysis case has been expanded to include both underlying cost structure and current profitability information. Thus, students can apply total cost and profitability analysis on top of marginal cost and profitability. The case also encourages students to consider long-term and short-term implications.

- **Case 11 (Maitland Family Physicians):** This pay-for-performance (P4P) case has been expanded to include three areas of performance (productivity, finance, and quality), whereas the previous version focused almost exclusively on financial performance. Students can select from among nine performance measures, each of which has different strengths and limitations. The case better illustrates the incentives, data burden, internal politics, and difficulties involved in implementing a P4P plan.
- **Case 24 (Bloomington Clinics):** This clinic valuation case has been expanded to include the use of free operating cash flow as a valuation approach in addition to valuations based on free cash flow to equityholders, number of physicians, and revenues. Also, debt financing has been added to the clinic's capital structure, which increases the complexity of the financial statements and valuation analyses.
- **Chapter 27 (Commonwealth Pharmaceuticals):** This receivables management case has been modified to make it more realistic. The firm now has four customers instead of two, and each customer has a different receivables collection pattern. The greater number of customers makes interpretation of changes in the accounts receivables balances, average collection period, aging schedule, and uncollected balances schedule more complicated. In addition, the cost of carrying receivables has been added to the model, which permits analyses of the trade-offs between the costs and benefits of actions taken to reduce receivables balances.
- **Case 30 (Copperline Healthcare):** This capitation and risk-sharing case has been recast as a new Physician Hospital Organization (PHO) that must decide (1) how to allocate the premium dollars collected from its first contract to its different classes of providers and (2) what reimbursement methods it should use. The premium allocation has been expanded to include more provider components, which requires students to consider more factors when making the revenue

allocation decision. In addition, the case model now includes sensitivity analyses to assess how changes in allocations from the professional services and inpatient services risk pools are affected by changes in the premium allocation.

In addition to these major revisions, many smaller changes have been made to improve both the cases and the spreadsheet models. Regarding the cases, all case titles were changed, and numerous alterations were made to the case settings and numerical values to make the cases more beneficial for students. Regarding the models, many changes, mostly minor, were made to make the models easier to understand and use as well as more valuable to the case analyses.

Our primary goal in making these changes was to improve the pedagogic value of the cases. In addition, in cases without major changes, we modified a number or two to change the solutions slightly, ensuring that the new edition presents a fresh challenge to students. Still, we did not want to change the underlying character of the cases because (1) they work well now and (2) we do not want instructors to have to relearn the cases each time a new edition is published.

Directed Versus Nondirected Cases

In general, cases may be classified as directed or nondirected. Directed cases include a specific set of questions that students must answer to complete the case, while nondirected cases (as we use the term) contain only general guidance to point students in the right direction. Most of the cases in this book are nondirected. (Cases 12 through 15, which focus on basic finance concepts rather than applications, are directed.) The primary advantage of nondirected cases is that they closely resemble how real-world managers confront financial decision making because they require students to develop their own solution approach. The disadvantage is that students who stray from the key issues of the case often do not obtain full value from their effort.

In general, students with more advanced analytical and logic skills gain the most from nondirected cases, while students who have had less exposure to casework gain the most from directed cases. The online Instructor's Resources contains a set of questions for each nondirected case that can be used to convert the nondirected into directed

cases. Thus, instructors have the option of using the cases in either way, depending on the experience of the students, the objectives of the course, and the extent to which the cases will be used.

Use of This Casebook

The cases in this book can be used in several different ways. For example, these cases form the foundation for the second healthcare finance course in the University of Florida's MHA program. Students in this program take an introductory healthcare finance course that includes both accounting and financial management basics, so the second course focuses on the **application** of finance concepts within healthcare organizations. The course is essentially a pure case course, and about 15 cases (one per week) are assigned. The students have had sufficient lecture work in healthcare finance, so at this stage learning by doing is most important. The students are not provided with the accompanying case questions, so they must develop their own approaches to completing each case.

A group of three to four students is assigned to present each assigned case in class. Group work is an excellent experience for students because almost all decision making in businesses is done in a group environment, and people who cannot work in groups are doomed to failure. Students will need to know how to motivate people who work for them, and students will need to be able to work with others in a cooperative manner.

Many students wish that they did not have to work in groups because doing their own thing at their own convenience is much easier. Because the world does not work that way, learning to work with others is better done now while mistakes are less costly. Typically, the highest-quality case analyses are conducted by cooperative teams that discuss the issues and methods. Generally, some team members will be good at spreadsheet modeling, others will be good writers or good with word processing or presentation software, while others will be good at identifying and analyzing the relevant points in the cases. By combining those talents, the group can produce a better analysis and presentation than can one student working individually.

An in-class group presentation of the cases also provides students the opportunity to hone their presentation skills, including the use of presentation software such as Microsoft PowerPoint. Healthcare executives

constantly state that the ability to communicate is absolutely critical to success in business. We agree completely. A knowledge of healthcare finance (or any other managerial discipline) is useless unless the individual can communicate his or her ideas to others. Students who are not presenting the case must work the case individually (or perhaps in groups) and then act as members of the board of directors during the presentation. They are responsible for asking relevant questions of the presenting group and pointing out any deficiencies in the analysis.

In addition to use in a pure case course, the cases can also be used in other ways. For example, the MHA program at the University of North Carolina at Chapel Hill has two second-year healthcare finance courses. The first course covers basic financial management concepts, capital acquisition, cost of capital, and capital structure. The second course covers capital allocation, financial condition analysis and forecasting, and other topics. Each course includes six to seven cases, which the students either present or discuss in class as guided by the instructor.

Finally, we find that the cases work particularly well in Executive MHA programs. Executive students generally bring a great deal of real-world insights into their case analyses, which results in lively discussions. In addition, the cases can be worked during the intervals between on-campus sessions, which allows plenty of time for group discussion and analysis.

Spreadsheet Models

Spreadsheet analysis has become extremely important in all aspects of healthcare finance. Students should be given the opportunity to develop computer skills and be allowed, or required, to use spreadsheet programs to assist in case analyses. If students have not previously used spreadsheets, they must be exposed to them because functional literacy in any area of management today requires a knowledge of spreadsheet modeling. Furthermore, spreadsheet models can reduce the amount of busywork required to perform the calculations and hence leave students with more time to focus on finance issues.

Because of these factors, we developed well-structured, user-friendly spreadsheet models for all cases except those that focus on building skills as opposed to applying them. The spreadsheet models are efficient and hence big time savers, especially when conducting

risk assessment using techniques such as sensitivity and scenario analyses. In addition, spreadsheet models allow students to easily create graphics and other computer output that enhance the quality of both analyses and presentations.

Spreadsheet models are available for 26 of the 30 cases. Those cases without models focus on basic principles that underlie mathematical calculations (Cases 12–15, the financial management basics cases). The best way for students to learn these principles is to perform the calculations from scratch, using either a calculator or a spreadsheet program to ease the burden.

In thinking about student use of these models, an important question arose: Should we provide complete models to the students, or should students be required to do some (or all) of the modeling themselves? After using several different approaches, we concluded that the best solution is to provide students with complete versions of the case models in the sense that no modeling is required to obtain a base case solution. However, zeros have been entered for all input data in the student versions, and hence students must identify and then enter the appropriate input data. When this is done, the model automatically calculates the base case solution. However, the models do not contain risk analyses or other extensions such as graphics, so students must modify the models as necessary to make them most useful in completing the cases. The student versions of the case models can be downloaded from the Health Administration Press website at www.ache.org/books/FinanceCases4.

The instructor versions of the case models are similar to the student versions, except that the input values are intact. Thus, instructors can view the base case solution without entering any data. In addition, some instructor-version models include additional modeling, such as risk analyses.

Instructor's Resources

Several teaching aids are available for instructors who adopt this book. Contact hapi1@ache.org to gain access to these files.

- *PowerPoint slides.* The essential material needed for each case is summarized in a set of introductory slides. Instructors may use these slides if students need

an in-class review. Hard-copy versions (or the files themselves) may be provided to students if desired. Instructors may either use the slides “as is” or customize them to meet the needs of the class.

- *Case questions.* A set of questions for each case is available for instructors who want to convert the cases from nondirected to directed.
- *Case solutions.* Each case has a comprehensive solution based on the case questions.
- *Instructor models.* The instructor’s version of the spreadsheet models may be downloaded.

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- Ian Jamieson
- Brett Justice
- Paul Phillips

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Conclusion

The field of healthcare finance continues to undergo significant changes and advances. Participating in these developments is stimulat-

ing, and we sincerely hope that the fourth edition of *Cases in Health-care Finance* will help students gain a better appreciation for the application of finance principles to healthcare organizations.

A book that raises so many issues will also inevitably generate a variety of opinions regarding financial theory and practice. Furthermore, although both the publisher and I have placed great emphasis on the accuracy of the cases, some discrepancies or inconsistencies may exist. We would appreciate any comments, corrections, criticisms, and ideas for improving all aspects of the cases and related materials. Also, if any technical problems arise with the models, feel free to contact me directly.

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