

PREFACE

After years of teaching corporate finance and writing related textbooks and casebooks, I began teaching the healthcare financial management course in the University of Florida's Graduate Program in Health and Hospital Administration. The first thing that struck me was that no textbook was available that truly focused on healthcare financial management. To me, financial management primarily involves analysis and decision making, yet the textbooks available at the time mostly covered accounting and institutional detail, with only a very limited number of pages devoted to financial management.

Thus, I set about creating a textbook that emphasized (1) financial management rather than accounting and (2) analysis and decision making rather than institutional detail. In creating this textbook, I set out to do two things. First, I adopted a very broad definition of the health services industry that included medical practices, managed care organizations, nursing homes, and home health care providers, in addition to hospitals. Today, more and more health services administration students are electing careers outside the hospital industry, and it is important that a textbook on healthcare financial management presents a broad range of provider settings. Second, I identified the environmental factors that are unique to the health services industry and hence make healthcare financial management different from corporate finance. Then, I made sure that these factors played an important role in the textbook discussions.

Concept of the Textbook

My goals in writing the first edition were to create a textbook that provided health services administration students with (1) an operational knowledge of financial management theory and concepts, (2) the opportunity to apply these ideas to real-world healthcare business settings, and (3) the opportunity to use spreadsheet analyses to help make better financial decisions. Additionally, I wanted to create a textbook that could be used as a reference during internships and residencies as well as after graduation. Finally, I wanted a textbook that students would find user friendly, meaning one that they would enjoy

reading and could learn from on their own. If students don't find a textbook interesting, understandable, and useful, they won't read it!

This fifth edition of the textbook continues to meet those goals. It begins with basic concepts about both the health services industry and financial management. The textbook then progresses to show how financial management theory and concepts can be applied to healthcare businesses to help managers make better decisions, where "better" is defined as promoting the financial well-being of the organization.

Intended Market and Use

The textbook is targeted for the healthcare financial management course required in graduate programs in health services administration. Students typically have some background in basic business topics such as financial and managerial accounting, probability and statistics, spreadsheet analysis, and perhaps even corporate finance. However, the textbook contains a great deal of background information in these areas, and it can be used in programs where students have not had prior exposure to business topics. The textbook is useful also to healthcare professionals, including both those holding general management positions and those working as members of financial staffs.

Alternative Course Formats

There is no single best approach to teaching a healthcare financial management course. The optimal approach varies with students' backgrounds, instructors' interests, class contact hours, and the role of the course in the overall curriculum. Because these factors change, most instructors vary their approaches over time. Still, it may be useful to adopters to learn how the textbook has been used at the University of Florida.

In the Florida program, students first take an introductory healthcare finance course that covers both accounting and financial management. The healthcare financial management course is the second, and final, finance course in the curriculum unless a student elects to take an advanced independent study course. The second financial management course in any curriculum generally is taught either as a theoretically based lecture course, as a pragmatically based pure case course, or as a blend of theory and practice where lectures are combined with some cases. Over time, I have used all three approaches, but the one that I have found best is a blend of theory and practice, but with a strong bias toward practice. Thus, I lecture occasionally but use a large number of cases to provide insights into the complex financial decisions faced by practicing healthcare managers.

Understanding Healthcare Financial Management provides both the theory and concepts behind financial decision making in the health services industry and the "nuts and bolts" tools required to implement the theory

and concepts. Students learn the theory and concepts of healthcare financial management from the textbook and periodic lectures and then implement the material by working cases. In the first two editions, the cases were contained in the textbook. However, the editorial and production burden of having both textbook and casebook in a single edition created constraints that became too confining. The publisher and I agreed that the optimal solution to this problem was to separate the cases from the textbook, which we implemented in the third edition. I will have much more to say about this decision later in the preface.

I cover most of the textbook, along with 12 cases (one per week, after some introductory material), in a one-semester course. In addition, I typically include a few accounting-oriented cases from the casebook as a refresher. However, the dominant theme is financial management because a well-grounded understanding of financial decision making is more important for most students than a better understanding of accounting. Also, our students are studying to be general managers, not financial staff specialists, and hence I am willing to sacrifice depth to expose students to a large range of topics. The course runs fast and furious, but this tends to keep students, and instructors, on their toes and in high gear.

Although the textbook is designed for use in the second course in financial management, a great deal of introductory material has been included. In spite of the fact that the Florida students have already had one finance course, I have found that many of them still do not have a good grasp of the basic fundamentals of financial management. Thus, they appreciate the fact that *Understanding Healthcare Financial Management* reviews basic concepts in addition to presenting new material. After all, repetition is the key to learning.

Because the textbook contains so much introductory material, it is also suitable for use in courses in which students have not had an introductory finance course, including two-course sequences. In this situation, I would tend to go slower to give students more time to digest the material, and the lectures would be more frequent and extensive to ensure that students really know the fundamentals before working the cases, which would be fewer in number. In a two-course sequence, instructors can easily supplement the textbook with outside readings and/or additional cases.

Changes in the Fifth Edition

Since the fourth edition of the textbook was published, I have used the textbook several times in courses I have taught and have received many comments from users at other universities. Furthermore, Health Administration Press has solicited and received a number of thoughtful reviews. The reaction of students, other professors, and the market in general has been overwhelmingly positive—every comment indicates that the basic concept of the textbook is

sound. Even so, nothing is perfect, and the health services industry is evolving at a dizzying pace. These circumstances have led to a number of changes to the textbook; the most important of which are listed below:

- First and foremost, this edition was written in collaboration with George H. Pink, a well-known healthcare finance professor at the University of North Carolina at Chapel Hill. George brings new insights to the book that, over time, will have a profound and positive impact.
- Time value calculations, particularly in Chapter 3, now focus exclusively on spreadsheets, with pictorials used to illustrate solution techniques. Students overwhelmingly state that because they do not use financial calculators for time value problems, the inclusion of calculator solutions was a distraction. Note, however, that a calculator tutorial is available as an ancillary to the text.
- Many students, as well as instructors, have asked that a glossary be added to the book. This edition has one.
- A new chapter, Chapter 19: Distributions to Owners: Bonuses, Dividends, and Repurchases, has been added as an ancillary. It is available online.
- Short introductions have been added to each part page to introduce the topics contained in the chapters of that part.
- All aspects of the text discussion as well as references have been updated and clarified as needed. Particular care was taken to include the most recent reimbursement changes and to update the real-world examples.
- New sections have been added or existing sections have been expanded for the following topics: municipal bond pools, cost of capital for not-for-profit and small businesses, modified IRR, subjective risk assessment, supply chain management, stop-loss insurance, current challenges for healthcare managers, and health savings accounts.

Ancillary Materials

Several ancillary materials have been designed to enhance the learning experience associated with this text.

Materials for Instructors

Two very useful ancillaries are available to instructors who adopt this text:


1. **Slideshow.** A set of PowerPoint® slides that cover the essential topics contained in each chapter is available. Concepts, graphs, tables, lists, and calculations are presented in about 40 slides per chapter, much as an instructor might do on a blackboard. However, the slides are more crisp, clear, and colorful and can be displayed on a screen almost instantaneously. Furthermore, hard copies of the slides can be provided to students for use as lecture notes, which I have found that students truly appreciate. Many

instructors will find these slides useful, either as is or as customized to best meet unique course and student requirements.

2. **End-of-chapter problem solutions.** As indicated below, a set of problems in spreadsheet format is available for most chapters. These problem sets, which focus on key concepts, can be assigned as graded homework or used in any way that the instructor desires. A section at the end of each chapter indicates when problems are available.

Materials for Students and Instructors

Four useful ancillaries are available to students (and instructors) who use this text:

1. **Text models.** Most of the chapters in the text have accompanying Excel® models that illustrate the text calculations as well as additional calculations that are relevant to the chapter material. The purpose of these spreadsheet models is twofold. First, students can learn the material better because they can more easily visualize how various input factors influence a particular calculation. For example, the spreadsheet model for capital budgeting allows students to change input values, such as volume and average reimbursement, and immediately see the effects on profitability. Second, the spreadsheets permit students to learn the mechanics of spreadsheet analysis in a less challenging context than the cases (discussed below) because these models typically are not part of a graded assignment. Note that sections of the text that have accompanying models are designated by a web icon . Also, a section at the end of each chapter indicates when text models are available.
2. **End-of-chapter problems.** A set of problems in spreadsheet format is available for most chapters. The problems may be assigned by the instructor as homework or worked by students on their own to gain an additional understanding of the topics in the chapter. A section at the end of each chapter indicates when problems are available.
3. **Calculator tutorial.** A short tutorial is available for those students who use financial calculators to solve time value problems.
4. **Chapter 19.** This chapter, Distributions to Owners: Bonuses, Dividends, and Repurchases, is available online either to instructors for coverage in class or to students for independent learning.

Obtaining the Ancillary Materials

All student ancillary materials can be accessed on this book's companion website: ache.org/UnderstandingFinancialManagement5. Instructor ancillaries, which are contained in a secure area, are available only to adopters of this text. For access information, e-mail hapl@ache.org.

The Casebook

In addition to the free ancillaries, many adopters pair this textbook with its accompanying casebook, *Cases in Healthcare Finance*. Of course, the most realistic application of healthcare finance occurs within health services 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, to the extent possible, the environment in which finance decisions are actually made. Cases provide students with the opportunity to bridge the gap between learning concepts in a lecture setting and actually applying them on the job. By using cases, students can be better prepared to deal with the multitude of problems that arise in the practice of healthcare financial management.

Cases in Healthcare Finance, 3rd edition, contains 30 cases that focus on the practice of healthcare finance, including accounting, within provider 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. The case settings include a wide variety of provider organizations, including integrated delivery systems and managed care organizations. In addition to cases that focus purely on financial decisions, the casebook contains eight mini-cases on ethics. The mini-cases are not quantitative in nature but rather are designed to promote discussion about a finance situation that has potential ethical implications.

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 I use the term) contain only general guidance to point students in the right direction. Most of the cases in the casebook are nondirected. 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.

I have found that students with more advanced finance skills gain the most from nondirected cases, while students that have had less finance exposure gain most from directed cases. The online *Instructor's Manual* for the casebook contains a set of case questions that can be used to convert each nondirected case to a directed case. Thus, instructors have the option of using the nondirected cases in either way, depending on the experience of the students, the objectives of the course, and the extent to which cases will be used.

Spreadsheet analysis has become extremely important in all aspects of healthcare finance. Students must 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 learned about spreadsheets,

they must be exposed to them because functional literacy in any area of management today means at least some knowledge of spreadsheet modeling. Furthermore, spreadsheet models can reduce the amount of “busywork” required to perform the required calculations and hence leave students with more time to focus on financial management issues.

Because of these factors, I developed well-structured, user-friendly spreadsheet models for those cases where models would help to create a more efficient analysis. Most of the cases can, of course, be done with a calculator, but the spreadsheet models are far more 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 outputs that enhance the quality of both the analyses and any required presentations.

The student versions of the case models are complete in the sense that no modeling is required to obtain a base case solution. However, zeros have been entered for all input data, and hence students must identify and then enter the appropriate input values. 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 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 have additional modeling, such as risk analyses, included. The instructor versions of the case models are distributed with the online *Instructor’s Manual* to the casebook.

Health Administration Press is keenly aware of the increasing financial burden that students face as course materials escalate in both quantity and price. The casebook is discounted 20 percent when purchased with this text. For more information, call Health Administration Press at (301) 362–6905 or e-mail hap@pmds.com.

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Errors in the Textbook

In spite of the significant effort that has been expended on this edition, it is safe to say that some errors exist. In an attempt to create the most error-free and useful textbook possible, we strongly encourage both instructors and students to write me at the address below with comments and suggestions for improving the textbook. We welcome and value your input!

Conclusion

Good financial management is vital to the economic well-being of the health services industry. Because of its importance, financial management theory and concepts should be thoroughly understood, but this is easier said than done. We hope that *Understanding Healthcare Financial Management* will help you better appreciate the financial management problems faced by the health services industry today and that it will provide guidance on how best to solve them.

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