

PREFACE

It has been 22 years since *Understanding Healthcare Financial Management* was first published, and it is now in its seventh edition. The original concepts of the book included (1) a broad definition of the health services industry that recognized that many of today's health services management students are seeking careers outside the hospital industry and (2) a focus on the environmental factors that are unique to health services and hence make healthcare financial management different from generic corporate financial management. Although the book remains grounded in these original concepts, we have made many updates and improvements along the way and have tried very hard to ensure that the book continues to be of maximum value to both students and instructors. In today's healthcare environment, financial issues are of paramount importance, and future managers must be prepared to deal with these issues as they strive to improve the delivery of health services to all Americans.

Concept of the Textbook

Our goal in creating this edition, like all previous editions, is to produce a textbook that provides health services management students with (1) an operational knowledge of healthcare financial management theory and concepts and, even more important, (2) the ability to apply this knowledge to real-world decision making. Additionally, we want the textbook to be useful as a reference during internships and residencies as well as after graduation. Finally, we want a textbook that students find user friendly, meaning one that they 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!

The book begins with basic concepts pertaining to the health services industry and financial management. It then progresses to illustrate how managers of healthcare businesses can apply financial management theory and concepts to make better decisions—that is, decisions that promote the financial well-being of the organization.

Intended Market and Use

The book is designed primarily for use in graduate-level courses for students whose primary interest is the management of health services organizations. The book can be used for other student clienteles, but the absence of explicit accounting content, the amount of theory, and the nature of the ancillaries make the book most suitable for MHA, MBA (healthcare concentration), and MPH (management concentration) students. Also, because *Understanding Healthcare Financial Management* is designed to provide students with a higher level of cognition according to Bloom's Taxonomy, the end-of-chapter problems are provided on spreadsheets rather than printed in the textbook. Finally, student knowledge, skills, and abilities are maximized when the textbook is paired with cases.

Alternative Course Formats

There is no best approach to teaching a healthcare financial management course. The 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 in multicourse formats at the University of Florida (UF) and the University of North Carolina at Chapel Hill (UNC-CH):

In the first year of the UF MHA program, students take an introductory course that covers both healthcare accounting and financial management. The text used for this course is *Healthcare Finance: An Introduction to Accounting and Financial Management*. The pure healthcare financial management course is taken in the second year of the program. Most of the textbook is covered, along with 12 cases (one per week, after some introductory material), in one semester. In addition, a few accounting-oriented cases from the casebook are typically included as refreshers. (The casebook is discussed in detail later in this preface.)

In the first year of the UNC-CH MHA program, students take three courses that cover financial accounting, management accounting, and healthcare reimbursement. The healthcare financial management course is offered in the second year of the program, and the entire textbook is covered. The team-based learning approach to these courses makes extensive use of the end-of chapter models, the problems, and the cases and mini-cases featured in the casebook.

In both formats, 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, so we are willing to sacrifice depth to expose students to a large range of topics.

Financial management courses are generally taught either as a theoretically based lecture course, as a pragmatically based pure case course, or as a blend of theory and practice that combines lectures with some cases. Over time, we have used all three approaches, but the one that we have found best is a blend of theory and practice, but with a strong bias toward practice. Thus, we lecture occasionally but use a large number of cases, mini-cases, and problems to provide insights into the complex financial decisions faced by practicing healthcare managers.

Understanding Healthcare Financial Management provides 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 concepts by working cases.

Although the textbook is designed primarily for use in a second course in financial management, a great deal of introductory material has been included. Despite students having already completed one or more finance courses, we have found that many do not have a good grasp of the basic fundamentals of financial management. Thus, they appreciate that the book reviews basic concepts in addition to presenting new material. After all, repetition is the key to learning.

Changes in the Seventh Edition

Since the sixth edition was published, we have used the textbook several times 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 prompted a number of changes to the textbook.

We have two primary goals for the seventh edition: (1) to make the book even more healthcare focused and (2) to make the book even more reader friendly. In addition, we have two primary goals related to the ancillary material: (1) to create a multiple-choice test bank for instructor use and (2) to increase the quantity and scope of the spreadsheet problems. Many revisions were made to accomplish these and other goals; here is a list of the most important. (Please note that **some** of the healthcare organizations used

as examples in this and previous editions are fictitious. Any similarities in organizational name and characteristics are unintentional.)

New, Revised, and Relocated Material

- Part I (The Healthcare Environment) has been expanded from two to three chapters, incorporating most of the material from the previous edition's Chapter 17 (Capitation, Risk Sharing, Pay for Performance, and Consumer-Directed Health Plans). Now, all information on health insurance and provider payments is at the beginning, which emphasizes the healthcare focus of the book.
- Chapter 18 (Financial Risk Management) has been removed from the book and placed online. This material, although important to the financial staff, is not of prime relevance to most student users. Note that another chapter (Chapter 17), which focuses on distributions to owners, is also available online, as in the previous edition.
- Material from the securities valuation chapter (the previous edition's Chapter 7) has been incorporated into the debt and equity chapters (chapters 6 and 7); the change places securities valuation with the matching descriptive content. The result of these changes is a book with 16 chapters and 2 online chapters.
- Complete sections of the text considered nonessential have been moved into the new Chapter Supplement feature that can be found at the end of many chapters. Now, all chapters are roughly the same length, with material that is important (but not essential) separated from the primary content. By removing noncritical sections, students are better able to focus on essential content.
- An Appendix has been added that contains a summary of formulas by chapter and key equation number. This feature permits students to more easily review their knowledge of key equations.

Chapter Format Changes

- Key equations are now numbered and highlighted in a box. This makes it easier for students to identify and learn essential mathematical relationships.
- Sidebars are added that present bits of information that are useful and relevant but not essential to understanding the concept being discussed in the adjacent text. The purpose of this feature is to lighten the look and tone of the book; enhance the flow of essential concepts; and make readers think about the concepts presented in a nonacademic, everyday-life way.

- Many chapters, when appropriate, now have an Integrative Application section at the end. This new feature presents a scenario containing a key decision methodology discussed in the chapter. Essentially, the Integrative Application is a relatively long example (with both narrative and analysis) that ties together related concepts presented separately in the chapter and illustrates how those concepts are used in managerial decision making.

Ancillary Changes

- A multiple-choice test bank has been created that instructors can use for in-class quizzes or for other purposes as needed.
- All chapter spreadsheet problem sets have been expanded to include additional problems as well as to cover more text concepts.

Miscellaneous Changes

- All aspects of the text discussion as well as the references have been updated and clarified as needed. Particular care has been taken to include content reflective of the changed healthcare financial environment after the passage of the Affordable Care Act in 2010. In addition, contemporary real-world examples have been added throughout the text.

Ancillary Materials

Several ancillary materials have been designed to enhance the learning experience.

Materials for Students

Four useful ancillaries are available to students (as well as instructors) who use this text. All student ancillary materials can be accessed on this book's companion website: ache.org/books/UHFM7. A section called Chapter Models, Problems, and Mini-Cases at the end of each chapter indicates whether text models, end-of-chapter problems, and mini-cases are available.

1. **Text models.** Most of the chapters have accompanying Excel® models that illustrate the text calculations and additional calculations relevant to the chapter material. The purpose of these spreadsheet models is twofold. First, students' learning is enhanced because they can more easily visualize how various input factors influence a particular calculation. For example, the spreadsheet model for capital budgeting



On the web at:
[ache.org/books/
UHFM7](http://ache.org/books/UHFM7)

allows students to change input values (such as volume and average reimbursement) and immediately see the effects these changes have on profitability. Second, the spreadsheets enable students to learn the mechanics of spreadsheet analysis in a less challenging context than the mini-cases (discussed later) 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 (see margin).

2. **End-of-chapter problems.** A set of problems in spreadsheet format is available for most chapters. The instructor may assign the problems as homework, or students can work them on their own to gain a deeper understanding of the topics in the chapter.
3. **Mini-cases.** A mini-case in spreadsheet format is available for most chapters. The mini-cases are more complicated than the end-of-chapter problems. Again, the instructor may assign the mini-cases as homework, or students can work them on their own to gain a deeper understanding of the topics in the chapter.
4. **Online chapters.** Two chapters are available online: Chapter 17 (Distributions to Owners: Bonuses, Dividends, and Repurchases) and Chapter 18 (Financial Risk Management). These can be used by instructors in class or by students for independent learning.

Materials for Instructors

In addition to the materials for students, four useful ancillaries are available to instructors who adopt this text. Instructor ancillaries are contained in a secure area and available only to adopters of this text. For access information, e-mail hapbooks@ache.org. A section called Chapter Models, Problems, and Mini-Cases at the end of each chapter indicates whether end-of-chapter problems and mini-cases are available.

1. **Slideshow.** Sets of PowerPoint® slides that cover essential topics are available for each chapter. Each presentation contains approximately 40 slides featuring concepts, graphs, tables, lists, and calculations. Copies of the slides can be provided to students for use as lecture notes. Many instructors will find these slides useful, either without modification or customized to meet unique course and student requirements.
2. **End-of-chapter problem solutions.** A set of problems in spreadsheet format is available for most chapters. Solutions to these problem sets, which are available only to instructors, can be used to grade homework or can be provided to students for self-study.
3. **Mini-case solutions.** A mini-case in spreadsheet format is available for most chapters. Solutions to the mini-cases, which are available only to

instructors, can be used to grade homework, to help students prepare for a case, or in other ways the instructor deems appropriate.

4. **Test bank.** A multiple-choice test bank that consists of roughly 20 questions/problems per chapter is available to instructors. Most adopters use problems and/or cases to evaluate student knowledge, skills, and abilities; however, a test bank often is useful for in-class quizzes or for other purposes.

The Casebook

In addition to the free ancillaries, many adopters pair this textbook with its accompanying casebook, *Cases in Healthcare Finance*. The most realistic application of healthcare finance occurs in 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 made. Cases provide students with an opportunity to bridge the gap between learning concepts in a lecture setting and applying them on the job. By working 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, 5th edition, contains 32 cases that focus on the practice of healthcare finance, including accounting, in provider organizations. In general, each case addresses a single financial issue, such as a capital investment decision. 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 variety of provider organizations, including hospitals, medical practices, integrated delivery systems, and managed care organizations. In addition to cases that focus purely on financial decisions, the casebook contains seven mini-cases that address ethical issues related to healthcare finance. The ethics mini-cases are not quantitative in nature but rather are designed to promote discussion about finance situations that have 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 we use the term) contain only general guidance to point students in the right direction. The cases in the casebook are nondirected, because such cases closely simulate how real-world managers confront financial decision making. However, students who stray from the key issues of the cases often do not obtain full value from their effort.

We have found that students with more advanced finance skills gain the most from nondirected cases, while students who have had less finance exposure gain most from directed cases. The online instructors' material for

the casebook contains sets of questions that can be used to convert each of the cases to directed cases. Thus, instructors can use the 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 an opportunity to hone computer skills and be allowed, or required, to use spreadsheet programs to assist in financial analyses. 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, we developed well-structured, user-friendly spreadsheet models for every case to enable students to perform more efficient analyses. In addition, spreadsheet models enable students to easily create graphics and other computer outputs that will enhance the quality of the analyses and any required presentations.

The student version of each case model is complete in that no modeling is required to obtain a base case solution. However, zeros have been entered for all input data, so students must identify and enter the appropriate input values. The model then calculates the base case solution automatically. 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.

Cases in Healthcare Finance, 5th edition, is discounted 20 percent when purchased with *Understanding Healthcare Financial Management*, 7th edition. For more information, call Health Administration Press at (301) 362-6905 or e-mail hap@brightkey.net.

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Errors in the Textbook

Despite the significant effort that has been expended on this edition, it is safe to say that some errors exist. To create the most error-free and useful textbook possible, we strongly encourage students and instructors to write or e-mail us with comments and suggestions for improvement. 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 and correctly applied—but this feat 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 provide guidance on how best to solve them.

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