

Healthcare Financial Management: An Expert Guide



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Financial management is critical for the longevity of any business. But for healthcare organizations, the ability to balance rising costs while providing quality care and exemplary patient experience makes sound financial management even more crucial, as it directly impacts the well-being of individuals and communities. This is why many healthcare organizations — whether a small dental practice, a regional chain of hospitals and clinics or a national healthcare provider — are expecting their finance teams to go beyond their traditional accounting, costing, control and reporting duties to play an increasingly strategic role in addressing long-standing issues related to healthcare access, equity and costs. At the same time, however, many working in healthcare financial management struggle with limited resources, outdated systems and processes, and data challenges that hamper their ability to provide additional value, such as performing data analysis and generating operational insights.

What Is Healthcare Financial Management?

Healthcare financial management comprises all of the processes required to ensure that the healthcare organization is solvent and can continue operating and delivering patient care. In addition, healthcare finance and accounting teams must be able to effectively plan, control and manage finances amid frequently changing business and economic conditions.

At a high level, healthcare financial management involves what some refer to as the “4 C’s”:

- **Costs:** The funds it takes to run the facility or organization.
- **Cash:** The money the healthcare organization has readily available to cover short-term expenses, such as salaries and insurance premiums.
- **Capital:** Funds that can be invested in large assets and growth initiatives, such as renovating a facility or implementing new digital healthcare experiences.
- **Control:** Making sure that funds are spent in the best way and that relevant regulations and standards are met.

Key Takeaways

- Effective healthcare financial management is essential to balancing rising costs while delivering quality healthcare services.
- Healthcare financial management involves a range of processes that ensure that the organization remains solvent and can deliver patient care.
- Financial management in the healthcare sector is singularly complex, requiring industry-specific understanding and insight.

Healthcare Financial Management Explained

The foremost goal of healthcare financial management is relatively straightforward: to effectively manage funds and mitigate risks in order to achieve an organization’s goals. That said, financial management in the healthcare industry is quite complex. Finance teams must be aware of changing regulations, manage increasing volumes of financial and patient data, understand medical leases and financing options, offer investment recommendations and maintain compliance with evolving rules and guidelines. At the same time, financial managers must ensure that their organizations offer quality, affordable and accessible care while continuing to invest in future improvements.

Good financial health is essential to a well-functioning healthcare organization. Though the specific parameters of financial management may vary from organization to organization, common healthcare finance functions include financial planning,

budgeting and forecasting, revenue management, compliance, investment recommendations, supply chain management, fraud detection, financing decisions, lease negotiation and management, cash flow management, working capital management and contract management.

The healthcare sector requires many of the same finance and [accounting skills](#) as other industries, but its financial managers must also be adept at dealing with industry-specific nuances. They must, for example, understand issues of cost transparency, complex and drawn-out reimbursement schedules, revenue integrity and profitability challenges. Healthcare organizations also need finance pros who grasp the ins and outs of billing, collections and claims processing.

Importance of Healthcare Financial Management

The healthcare industry faces a host of challenges, many of which can be addressed with sound financial management. Challenges include government mandates, patient safety issues, personnel shortages, increasing operating costs, intense competition and limited funding for capital improvements, to name a few.

At the same time, many healthcare organizations are shifting their metrics for determining success from those focused on patient or treatment volumes to those focused on value. In the U.S., for example, Medicare payment models are factoring quality of care and patient satisfaction into their contracts with healthcare organizations, and private payers are incorporating performance and risk-based payment structures — wherein providers are paid a fee per patient and assume the responsibility and “risk” involved in treating the patient within this budget. Moreover, this is all happening during a time of rising healthcare costs and increased price sensitivity on the part of payers, be they individuals, insurance providers or government agencies.

It’s no surprise, then, that healthcare organizations are leaning more heavily on their finance and accounting teams to help them navigate these issues. They need the efficiency, agility and — perhaps most of all — the actionable, timely insights that an effective financial management function can provide. A 2022 survey conducted by IMA and Deloitte, in which 82% of healthcare accounting and finance professionals said they were currently working in a finance function undergoing or having

completed a transformation, underscores that the industry realizes those needs, too. Leading finance functions in the healthcare industry are evolving to contribute more to strategic decision-making by analyzing profitability, delivering timely insights to business decision-makers, interpreting and sharing financial data as part of cross-functional teams, and developing tools to democratize financial data and insight across the organization on demand (rather than on a monthly or quarterly basis). They're also delivering accurate financial reports and analysis for external stakeholders.

Elements of Healthcare Financial Management

At a high level, healthcare financial management involves analysis, planning, decision-making, management and risk mitigation. Some of the specific tasks that the financial management function is responsible for in a healthcare organization include the following:

- **Evaluation and Planning**

One of the most fundamental aspects of financial management involves evaluating the financial condition and effectiveness of the healthcare organization's operations. Equally essential is the work financial managers do to plan for the company's financial future.

- **Budgeting and Forecasting**

[Budgeting and forecasting](#) work hand in hand in healthcare financial management. A healthcare organization's budget outlines how much money the company will earn and spend over a specific period. A financial forecast zeroes in on analyzing the probable future, helping to determine how funds should be allocated so the healthcare organization hits its budgeted target. Expected shifts in demand — flu season, for example — as well as unexpected changes, like a pandemic, should also be taken into account.

- **Generating Income**

Those charged with financial management in healthcare organizations play the pivotal role of identifying ways to increase income while maintaining focus on the organization's core mission of patient care. This work might involve negotiating with insurance companies for higher reimbursement rates,

modeling price increases when supply costs go up, exploring the use of telemedicine to boost income or benchmarking prices against market averages, for example.

- **Compliance**

The healthcare industry is subject to distinct federal and state regulations; financial managers must keep up with these changing requirements. In the U.S., for example, it is necessary to maintain compliance with regulations mandated by such entities as the Social Security Act (with a focus on its requirements for Medicaid, Medicare and Children's Health Insurance), the Health Insurance Portability and Accountability Act (HIPAA, with its requirements for safeguarding patient data) and the Anti-Kickback Statute and Stark Law (which, together, prevent physician self-referrals).

- **Investment Decisions**

To remain relevant, healthcare organizations must continue to invest in improvements, which could include funding research and development initiatives, purchasing new equipment or implementing new types of care and patient experience improvements. Finance functions can play a key role in these capital investment decisions, whether it's building a new hospital or investing in medical research. The financial analysis of demand, total costs, returns, key success factors and financing options are vital to such strategic business decisions.

- **Supply Chain Management**

A healthy supply chain is critical to healthcare administration, whether that means responding to sudden shocks to supply and demand, as occurred during the COVID-19 pandemic, or managing the long-running issue of costly waste in the healthcare system. Financial managers in healthcare are involved in [supply chain management](#) at a number of levels, keeping an eye on the financial health of suppliers, conducting waste audits, analyzing inventories and order frequency, and performing scenario planning to estimate the financial impact of potential disruptions.

- **Fraud Detection**

Just as costly as waste is outright criminal misuse of funds, which can also have life-and-death consequences when leakage impacts cash flow or erodes funding that could otherwise finance better prevention, more innovation or increased

access to care. Financial managers in healthcare perform regular audits to weed out fraud and misuse of funds. Advanced analytics and artificial intelligence can help make the process of monitoring and detection more efficient and effective.

- **Financing Decisions**

When healthcare organizations make the decision to invest in a new asset or initiative, they have a choice in how to fund the project. Internal or external funding? Debt or equity capital? Short-term or long-term financing? Bank loan or fundraising? Financial managers can use cash flow forecasting (addressed below) and scenario planning capabilities to analyze the financing options for these investments.

- **Lease Negotiation and Management**

Financial managers in healthcare organizations must know how to analyze the complex terms involved in medical leases and negotiate them effectively for their organizations. It may not sound as sexy as advanced analytics or as nuts-and-bolts as supply chain management, but lease negotiation and management is another critical issue in the financial well-being of a healthcare business.

- **Cash Flow Forecasts**

Cash flow describes the income coming in from patients and payers and the expenses going out of a healthcare organization — the idea being that the former should exceed the latter. Cash flow covers only liquid assets (i.e., those that can be quickly converted to cash). [Cash flow forecasting](#) involves analyzing historical data to estimate what future cash flow will be. This intelligence is essential for financial managers and other healthcare leaders and managers charged with making the best-informed decisions about investments, cost-cutting and overall cost management.

- **Working Capital Management**

[Working capital management](#) — also known as short-term asset management — is focused on the handling of a healthcare organization's cash, marketable securities, receivables and inventory. Working capital is calculated as the difference between current assets and current liabilities. Finance managers regularly look at their working capital ratio (current assets divided by current liabilities) to determine whether to make changes to ensure that the health care organization has enough cash on hand to support operations. A working capital

ratio higher than 1 is a good sign; between 1.5 and 2 is even better, as it creates a cushion for investment, growth or disruption. Anything below 1 is cause for concern.

- **Contract Management**

Organizations in healthcare negotiate, sign and monitor many important contracts, such as with managed care organizations, third-party payers, vendors and suppliers. The financial management team typically maintains oversight of these contracts, as well as their impact on financial and other operational decisions.

- **Financial Risk Management**

Healthcare financial managers are involved with mitigating financial risks related to liquidity and credit, as described above, as well as other business risks related to patient safety or facility efficiency. A proactive, enterprisewide risk-management approach, whereby a healthcare organization identifies possible risks and ranks them by likelihood and impact, can be beneficial to measures put in place to prevent or mitigate a range of risks.

Healthcare Financial Reporting and Analysis

Effective financial reporting and analysis are critical components of measuring and assessing a healthcare organization's financial condition and its planning for the future. Some key approaches to financial reports and analytics form a core toolset for the healthcare industry's financial managers and provide regular updates and insights to internal and external stakeholders.

Healthcare Financial Reports

There are four types of financial reports that are most important for managing the financial well-being of hospitals, clinics and other healthcare facilities:

- **Balance sheet:** The [balance sheet](#) is one the most important financial statements for any organization, illustrating its financial position at a specific point in time. Financial managers produce these balance sheets, but they are used throughout a healthcare organization for decision-making. The balance sheet lists the healthcare organization's assets, liabilities and shareholder equity. This report illustrates the

organization's liquidity, operating efficiency and potential return on investment. It does not, however, provide any information on revenues or cash flow.

- **Income statement:** Financial managers prepare an [income statement](#) to report on a healthcare organization's revenue, expenses and resulting profit or loss from a specific accounting period. Sometimes referred to as a profit and loss (aka P&L) or earnings statement, this report is used to assess the healthcare provider's profitability, efficiency and growth.
- **Cash flow statement:** Healthy cash flow is essential to operating a healthcare facility. Thus, an accurate [cash flow statement](#) plays a lead role in ensuring that a healthcare organization is using its funds in a profitable and sustainable manner. Financial managers prepare cash flow statements and [analyze them](#) for a number of purposes. They may be used to decide whether an investment is providing long-term value to an organization or whether it's burning through cash and should, perhaps, be liquidated instead. A cash flow statement can also help the organization's leaders determine whether to invest in a new initiative, such as a new telehealth system, or build a new hospital wing.
- **Statement of changes in equity:** For a look into a healthcare organization's net profit or loss, financial managers prepare a [statement of changes in equity](#). Sometimes called a statement of retained earnings, this report indicates the change in owners' equity over a specified accounting period. The statement of changes in equity connects the dots between a healthcare organization's balance sheet and its income statement, including information not available in either report, such as dividend payments, equity withdrawals, accounting policy changes and corrections of previous errors. This document helps owners and investors make more informed decisions.

Healthcare Financial Analysis

Financial managers working in healthcare are involved not only in producing the reports described above, but also in financial performance analysis. With the availability of [advanced analytics](#), more healthcare organizations are looking to their financial management functions for data-derived insights that support strategic decision-making.

Some of the most important types of analyses that healthcare financial managers perform include:

- **Ratio analysis:** Ratio analysis uses data from financial statements to deliver insights about profitability, liquidity, solvency or [operational efficiency](#). Some ratios that healthcare financial managers use include operating margin (a profitability ratio), debt-to-capitalization ratio (a leverage ratio particularly germane to companies with big capital expenses and long-term debt, like

healthcare organizations) and the cash flow coverage ratio (particularly relevant for healthcare organizations that must often wait for payment).

- **Trend analysis:** This is a method financial managers use to uncover patterns in a healthcare organization's financials. Analyzing financial reports to look for trends can enable financial managers to forecast future performance. For example, a hospital might look at profitability, liquidity and solvency metrics over a five-year period to deliver insights for future decision-making.
- **Comparative analysis:** Alternately, financial managers can compare data from different financial reports to give some context to financial data. This might involve analyzing the healthcare organization's financial reports from different time periods or comparing its own results to those of others in the industry.
- **Pro forma analysis:** Latin for "as a matter of form," pro forma is a type of financial analysis that incorporates projections or presumptions into the equation. This kind of analysis can assist financial managers and others in the company in [forecasting](#) or modeling the impact of hypothetical decisions or situations on the financial performance of the company. A chain of urgent care clinics might perform pro forma analysis to explore the impact of a proposed merger on future revenues and expenses, for example. The company's leaders can then make a better decision about the prospect, having considered best, worst and most likely results in greater financial detail.

Digitize Your Healthcare Facility Today

For financial managers seeking to maintain financial stability and growth within a dynamic environment, manual processes and outdated systems can stymie the best-intentioned efforts. The complexity and scale of data and analytics required to effectively consolidate and assess financial statements, particularly across a large hospital group or healthcare system, demands a digitized, automated approach designed to meet the sector's unique needs.

The implementation of a robust, cloud-based enterprise resource planning (ERP) system, such as [NetSuite ERP](#), can form the bedrock for more efficient and effective digital financial management processes and operations at a time of continued regulatory changes, escalating cost pressures and increasing competition. NetSuite's robust financial management capabilities increase visibility and transparency, reduce administrative costs, bolster supply chain management, streamline reporting and compliance, improve strategic and financial planning and — ultimately — enable a healthcare organization to provide better care to patients.

When situations change, as they often do, an [integrated ERP system](#) with consolidated financials and simple data extraction and sharing capabilities also makes it easier for financial managers to create updated cash flow forecasts or perform scenario planning. [NetSuite's cloud-based business management suite](#), which integrates financial management with back-office, sales and service processes, enables healthcare organizations to quickly adapt to changes in market conditions, evolving customer requirements, and new government and industry regulations.

While the utmost aim for healthcare organizations is quality patient care, that is only possible with the effective financial management required to sustain operations. Solid financial management is the foundation upon which healthcare organizations are able to meet the needs of their patients. As healthcare organizations contend with cost pressures, regulatory concerns, evolving patient needs, supply chain issues and increased cost pressures, they are increasingly looking to their financial managers to deliver the data and insights necessary to make the best operational and strategic decisions. Financial management teams, armed with integrated enterprise software and advanced financial reporting and analytics capabilities, are best positioned to expand their roles as strategic partners in their healthcare organizations.

Healthcare Financial Management FAQs

What is the role of a financial manager in healthcare?

The role of a financial manager in healthcare is multifaceted. A financial manager is responsible for the day-to-day financial operations of a healthcare facility or organization and also provides reporting and insight to guide strategic decision-making. The healthcare financial manager may be involved in any of a number of processes to ensure that the healthcare organization remains solvent, including budgeting and forecasting, managing cash flow and making investment recommendations.

What are the elements of financial management in healthcare?

At a high level, financial management in healthcare is focused on the “4 C’s”: costs, cash, capital and control. Typical elements include financial evaluation and planning, budgeting and forecasting, generating revenue, mitigating risk, detecting fraud, and

complying with regulations. The financial management function is also responsible for producing regular financial reports, as well as performing various types of analysis of the healthcare organization's finances for use by internal leaders and managers and external stakeholders.

What is the career path for healthcare finance?

Those seeking to work in financial management for healthcare providers have many career choices to choose from, each with opportunities for upward mobility. A finance pro who starts out in medical billing could eventually be promoted to supervisor, manager, director, and even vice president of revenue cycle management, for example. An entry-level hospital accountant could progress to accounting manager, then controller, then director of accounting and on up to chief financial officer (CFO). Likewise on the finance side, someone might start as a financial analyst, advance to a senior analyst role and then ascend the ranks to manager, director, vice president and, perhaps, CFO.