

Financial Management – The Essentials

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The healthcare environment is characterized by constant change – change in the world outside and change in the processes within the organization. Leaders must be prepared to respond to the financial implications of change.

To analyze these problems and make decisions successfully, leaders in healthcare organizations must understand basic financial concepts and terminology. This understanding is critical for successful collaboration and good financial decision-making.

Essentially, leaders need to understand how processes determine costs, and how revenues and costs influence the financial health of the organization, and how financial health influences the ability of the organization to fulfill its mission.

Cost-Volume-Profit Relationships

Revenues and costs ultimately determine economic viability. The cost-volume-profit model provides participants with a comprehensive model that can be used in any healthcare setting to systematically examine the critical need to avoid operating deficits and to maintain a financially healthy organization.

This model emphasizes the building blocks of financial well-being such as revenue enhancement and cost behavior, plus the interrelationships such as portfolio management and break-even analysis. Participants will also understand how the cost-volume-profit model supports the organization's efforts to engage in financial planning and budgeting by sensitizing the model to alternative assumptions.

The topics covered include:

- Managing and enhancing revenue
- Managing fixed and variable costs (cost drivers)
- Economies of scale
- Management decisions: process design, outsourcing, compensation, etc.
- Strategies for cost containment
- Break-even analysis
- Portfolio analysis (how do the parts come together?)
- Financial modeling and sensitivity analysis (financial planning)

Financial Statements

Financial statements are indispensable to leaders who must respond to the financial requirements of an organization. This introductory session is designed to prepare the participants to be informed and intelligent consumers of financial information. For those participants who will become more deeply involved with financial reports, the session is designed to provide a foundation and encourage additional self-directed learning.

The financial statements considered include the income statement (including accrual accounting), the balance sheet, and the cash flow statement. The emphasis will be on how the data they contain is used to manage organization performance.

The topics covered include:

- The balance sheet (external reporting, internal analysis, personal financial planning, regulatory requirements, etc.)
- The accrual income statement
- Cash flow management
- Ratio analysis
- Best practices and benchmarking
- Budgets and financial planning