

FIFTH EDITION

Financial Management for Nurse Managers

Merging the Heart with the Dollar



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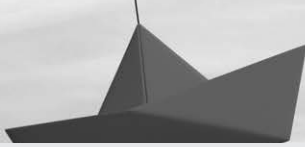
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This book is dedicated to the many nursing students who encourage me to lead by example through the editing of this text. And nurse administrators and leaders who have served as mentors, colleagues, and friends. I have learned so much from you, and I salute you.

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—JML



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Preface

After working for more than 15 years as a nurse leader—director, CNO, and VP of nursing—I made the decision to follow my passion for teaching. During my first semester as faculty in a graduate nursing program, I was assigned to teach a financial management course because of my extensive experience in healthcare operations. It was then that I realized the gap of knowledge that many graduate-level nurses have with regard to healthcare financial management.

The class was composed of professional nurses with various levels of understanding of healthcare financial management, ranging from novice to expert. I also recognized that many of my students were serving in nursing leadership roles but not in inpatient settings. While the majority of the students had a basic knowledge of many of the financial terms presented in the course textbook, application of those terms and the actual process of budgeting were elusive to a majority of the students. The reason for this is that healthcare financial management continues to be driven by financial professionals, often to the detriment of the nurse leader truly understanding their role in healthcare finance.

When asked about my interest in serving as editor for the next edition of *Financial Management for Nurse Managers: Merging the Heart with the Dollar*, I saw an opportunity to forge a different sort of path with how the material is presented. My vision was to provide a tool for nurse leaders at all levels of understanding, working in different areas along the healthcare continuum—inpatient, outpatient, acute, and subacute—to empower them with the knowledge they need, both theoretical and practical, to be more effective in their leadership roles and have a greater impact in managing finances. While the information provided in the previous editions serves students well, I recognized the need to provide students with practical examples of the material in an effort to promote their learning through application. Therefore, in editing material for the most recent edition, I made a conscious decision to remove some topics that I believe will serve students better in nonfinancial courses.

I sincerely appreciate all the contributing authors for their expertise and time in putting this book into the hands of nurse leaders, both current and future, who play such a large role in health care.



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boards, for sharing their time and expertise for this very worthwhile project.



Introduction

*It's no longer about strategic development.
It's about financial management.*

—Michael Diekmann

This text addresses healthcare financial management issues for nurse leaders in a variety of positions and settings: hospitals, ambulatory/outpatient clinics, long-term care facilities, and home care. My vision for this text is to provide you, its reader, with useful, evidence-based information that pertains to each of these healthcare settings. You will also see that we refer to the “nurse leader” throughout the book. That is because no matter the title, a nurse leader has some role in financial accountability to their unit, department, and institution.

To be successful in financial management, nurse leaders must understand, regardless of setting, what affects the healthcare environment and the financial implications that result from these forces. The nurse leader must express what needs to happen for good nursing practice and also must be able to articulate the financial aspects involved. Understanding the organization's finances is not sufficient. A nurse leader must be able to anticipate actions in response to a changing financial environment and to encourage staff to do the same.

This text covers a wide range of financial information, including evidence in healthcare finance, economics, budgeting, comparing reimbursements with costs of services provided, accounting, and financial strategies. Concepts are presented, followed by examples. At times, we make suggestions for actions that we have found to be helpful. Although many of the examples have an inpatient focus, a great number are provided from other healthcare

settings, such as ambulatory care, home care, and long-term care.

Even though this book has a financial title, there is more included here than just the financial part of health care. This is because everything in health care is *interrelated/interconnected/interwoven* with finances. For example, when administrators discuss budgeting, they must also be aware of the nurse leaders' concerns with staffing, patient acuity, and the productivity of staff, as well as quality standards. We cannot ignore leadership in an organization, because if that is ineffective, then so is everything else.

It is important to note here that every financial decision we make has management implications. The same is true in reverse: Every management decision has financial implications. So, we cannot ignore the additional aspects we have included in this book because they are all interwoven and, if one is ignored, such oversight can negatively affect the bottom line.

The bottom line should *never* be the primary focus in a healthcare organization. *When the bottom line is most important, the organization will lose money.* Many in the organization will have forgotten that our reason for existence is to *serve patients*. That is our primary focus. As long as we stay in touch with this truth, we will thrive.

This is not to say that we can ignore the financial implications. As we have heard time after time: no margin, no mission. We cannot exceed the budget we have—if we do, we must have another area in the budget that we can draw from to counter the overspending. The bottom line must remain solvent. However, the patient *always* comes first.

We have entered into a new *value-based reimbursement environment* that demands different approaches for healthcare organizations to stay solvent. Our old volume-based reimbursement environment of the previous century is outdated. Healthcare organizations cannot continue to survive unless we change and create a value-based environment that is focused on the patient and the patient's outcomes. Quality drives reimbursement. This text outlines what is needed to achieve this objective.

For value-based reimbursement, the American Hospital Association advocates nurse and physician leadership at the point of care and making decisions with the patient about that care within the available finances. Administrators' roles need to change to support the point-of-care leaders. Teamwork and interdisciplinary shared governance are necessities. Everyone—from the board/CEO/CNO/CFO to nurse aides/housekeepers—needs to be doing regular rounds listening to patients. This needs to replace some of the meetings, especially ones where administrators have no perception of what is going on at the point of care. Patients are more likely to get what they value when the whole thrust of the organization is toward finding out this information, and then providing it as much as possible.

In the value-based environment, we need to examine current practices. For instance, we burden RNs with a lot of paperwork and non-valued-added activities that take them away from the bedside for more than 50% of their time. We understaff units, which creates negative environments for everyone, yet we expect staff will provide the care that is necessary to achieve quality outcomes, thereby resulting in positive reimbursement. Evidence shows that missed care is occurring, which may cause side effects for the patient, such as pressure sores, infections, and frequent hospital readmissions requiring care that will not be reimbursed. Yet we do not pay sufficient attention to these issues until it impacts our margins. We need to value the staff nurse at the bedside,

encouraging staff to lead and make changes as they do their work. In fact, 90% of the decisions about their work needs to be made by staff as they take care of patients each day.

An enormous challenge in the current healthcare climate is achieving quality care and safety while keeping expenses down. This is especially important now that reimbursement depends on appropriate, timely care and does not cover errors. The patient has historically suffered from care driven by the bottom line, but now with value-based reimbursement, healthcare organizations are being penalized with lower reimbursement by not allowing quality outcomes to drive care.

The healthcare environment is complex and continues to increase in complexity. This causes increased bureaucracy, more errors, and more expense. Complexity and chaos are constantly changing the environment and affecting our work organizationally. We need to strive to involve all stakeholders, including those at the bedside—physicians, patients, and families—to simplify the environment. What we do today will be outdated tomorrow, so we need to continually stay tuned in to new evidence. This is interwoven with ethical and legal implications that cannot be ignored.

Finally, the financial aspects of health care cannot be ignored. To respond effectively in this complex healthcare environment and to work successfully with the financial arm of the healthcare entity, nurse leaders must understand financial concepts, such as staffing, budgeting, identifying and analyzing variances, measuring productivity, costing, accounting, and forecasting, as well as the strategies that achieve a positive bottom line. Although finance and accounting terminology is used throughout the book, chapters focused specifically on accounting and assessing financial performance are included.

This text provides nurse leaders with an interconnected view of the nursing and financial sides of health care and suggests methods nurses can use to successfully integrate these viewpoints. This realistic integration of

nursing and finance (along with all the other departments and professions) enhances nurse leader effectiveness.

A critical element for success is the ability of nurse managers to interface effectively with finance department personnel. An unusual feature of this book is that it contains both typical nursing administration terminology and financial accounting terminology. Suggestions are made for nurse leaders about how to communicate with and maximize the understanding of concepts and issues by financial personnel, who may come from different (non-healthcare) backgrounds and attach different meanings to the same terms.

The problem with the financial aspect of health care is that it is often viewed as a separate silo—where nurses do not enter and where financial personnel reside. Meanwhile, nurses are in their own silo, and financial personnel are not found there. In writing this book, we believe it is time to end this silo mentality. Our effectiveness in healthcare demands that *nursing and finance interface regularly* and conduct a healthy ongoing dialogue about every issue. We are most effective if we can face these issues *together*.

Nurses need to express themselves more effectively using financial principles and data; financial personnel need to more effectively understand the care side of health care. Because this book is written for the nurse leader, we emphasize the first part. We hope this book will be helpful for finance personnel as well.

A problem that occurs when nurses and financial people try to talk together is that financial officers often think in a linear way. When they talk to each other, they talk about numbers, ratios, and stats. Nurses, however, tend to think in an abstract, interpersonal way. When nurses talk to each other, they talk about how someone feels, how someone will be affected by a certain treatment, or whether particular tasks have been accomplished.

The breakdown in communication occurs when nurses talk to financial people using

abstract language, while financial people talk to nurses using linear language. The conversations run parallel to each other, with both sides not understanding what the other is talking about. Nurses complain that financial people never think about anything but the bottom line, while financial people complain that all nurses do is whine about quality. Thus, true dialogue and communication do not occur.

This book gives examples that nurses can use to better communicate with financial personnel, as well as with other linear-thinking administrators. In addition, we recommend that if a nurse leader really wants to talk effectively with financial administrators, they should be able to *express/communicate the abstract information using linear language* (i.e., numbers that will be affected by something that has or has not occurred or that is being planned, including specific amounts of money needed to implement a project, and so forth).

Abstract thinking is effective in communication between nurses and physicians. However, it is often ineffective when communicating with the finance department. For example, concepts such as “care” might not have meaning to a finance officer. *Caring* is an abstract term that does not provide any real form of measure. Exceptions occur when a financial person experiences a serious illness or when the financial officer previously worked as a healthcare professional.

At times, this communication problem can be compounded by simple differences in male and female communication techniques (remember *Men Are from Mars, Women Are from Venus* [Gray, 1992]), especially if the chief financial officer is male and the chief nursing officer is female. This is changing with less gender-specific roles in the workplace. In the past, a male chief nursing officer often had an edge because he could be “one of the boys.” This is also slowly changing with more males in nursing and more females in finance.

Properly prepared nurse managers and nurse administrators can successfully provide

an interface between finance and nursing, making decisions based on *both* clinical and financial perspectives. A nurse manager, as well as financial personnel, cannot make the mistake of ignoring the whole while dealing with the individual parts.

This interconnection goes beyond just nursing and finance. In this book, we strongly encourage every person and every department and profession to collaborate as they provide what the patient values. Because of this interconnection, there is a ripple effect. What one person or department does affects all the others. Nevertheless, some of us cling to the old silo mentality.

Another financial silo exists when the organization's mentality is that staff are not leaders and should not be involved with financial information. We are in the information age. Transparency is best. Because we are all interconnected, every task a staff member performs has financial implications. It is critical to *involve all staff and nurse leaders with the finances*, such as the following: payment structures and how much is actually received; reimbursement that is lost when timely, appropriate care is not given; costs of technology and supplies; staffing costs; quality and safety costs; costs incurred with safety or quality issues; and legal costs. They should understand the impact their actions have on the bottom line and, thus, patient care.

Staff members need to be making 90% of the care decisions right at the point of care. Administrators only *serve* the staff and help them do their best work for the patients. We need to create positive environments because evidence shows that such environments generate the best outcomes—even regarding the bottom line. We need to empower staff, but more than that, we need to support them as being leaders in their work and support patients being leaders in what care they choose to receive.

Solutions are always better when the people directly involved are included in the process of devising the solutions. Therefore,

we advocate that *staff and patients, as well as administrators, come to the table on issues and decide on the best way to accomplish the work through interdisciplinary shared governance*. This gets rid of another silo—the one where administrators make all the decisions and do not delegate to others—which is a leftover from the previous century.

We will have small successes we can celebrate, and we will have failures. Failures are natural, a fact of life. As they occur, we need to learn from each one and adapt and implement changes to simplify the environment. Many errors are caused by a series of events—because we are all interconnected. Dealing with failures goes beyond being blame-free. We must make incremental changes to simplify processes that have become cumbersome.

The *Fifth Edition* of this book comes at an interesting time. The US economy is beginning a climb out of one of the worst recessions we have seen since the Great Depression due to the COVID-19 global pandemic. Weather events and climate disasters are getting more severe and more costly, with an estimated \$95 billion in damages in 2020 alone (NOAA, 2021). Despite all of these trials, we have pulled together in such times of crisis, and, hopefully, we can pull together in fixing our healthcare system. It takes each of us. We are all interconnected.

Discussion Questions

1. How does understanding complexity break down silos?
2. What silos exist in your workplace? In your own thinking? How will you contribute to breaking down these silos?
3. What actions further the silo concept?
4. Give an example where a nurse administrator effectively expresses a need to the finance department using numbers and dollars.
5. State an administrative decision and explain its financial implications.

6. Describe a financial decision, giving the administrative implications of this decision.
7. Describe an administrative or financial decision and map out the ripple effect of this decision.

References

- Gray, J. (1992). *Men are from Mars, women are from Venus*. HarperCollins.
- NOAA National Centers for Environmental Information. (2021). *U.S. billion-dollar weather and climate disasters*. <https://doi.org/10.25921/stkw-7w73>