

Finance and Economics Faculty Forum
Task Force Report on
Development of Core Competencies in Health Care Finance

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This report presents a set of proposed core competencies in healthcare finance that students in graduate-level health services management programs should be expected to acquire. The scope of the competencies is limited to healthcare finance and includes those related to accounting and economics only to the extent that subject matter in these areas is needed to support a focus on healthcare finance.

Methodology

The *Core Competencies in Health Care Finance* resulted from a three-step process that entailed the following:

- A small working group from the AUPHA Finance and Economics Faculty Forum prepared an initial list of core competencies.
- The committee solicited comments on the initial list via the Forum's e-mail membership list; this resulted in a revised set of competencies.
- The Healthcare Financial Management Association's (HFMA) Board of Examiners reviewed the revised list, and members of the Healthcare Financial Matters Discussion List provided additional comments.

The primary goal of the third step was to extend the comment pool to include respondents from nonacademic organizations. Included in the appendix to this report is the final list of core competencies incorporating the comments received at each stage of the process.

Methodological Issues

In the course of the project, two issues emerged that affected the form and content of the competencies. One issue involved structural problems related to how the competencies should be defined. The other involved problems related to the scope and purpose of the competencies. Although competency-based training is straightforward in concept, the breadth of possible competencies in healthcare finance is so broad, and the range of programs so diverse, that topic-based competencies designed for one class of programs may not be appropriate for a different class. Because the objective of most health services management programs is the training of management generalists—not finance specialists—the competencies should reflect measurable skill levels that are appropriate for generalists.

The Initial List of Core Competencies

In the first step, healthcare finance was subdivided into five general subject domains, each of which was defined by a list of measurable behavioral competencies. Given the measurability criterion, the initial list emphasized analytical concepts and financial techniques. Because finance is an essentially technical field based on a well-defined body of theory and industry practices, at the project's inception it was thought that development of the competencies would be a straightforward process. This did not turn out not to be the case, however.

In the second step, the respondents' comments could be classified into two general groups. One group accepted the initial approach used to define the competencies but believed that certain specific concepts or techniques should be added to (or, in some cases, deleted from) the list. The other group generally rejected the initial approach on the grounds that the competencies tended to prescribe a "normative" view of healthcare finance that may, or may not, be appropriate for a

given program. One respondent, for example, pointed out that the competencies tended to emphasize aspects of the U.S. market that are not important in Canada, and that this could pose problems for Canadian programs if the competencies were adopted for accreditation purposes.

The comments as a whole highlighted the fact that health services management programs supply graduates for a heterogeneous labor market and thus occupy different positions along a spectrum. At one end of the spectrum are programs that have a strong focus on public policy, or public health, while at the other end are programs that have a strong business orientation. The financial skills emphasized at one end are not necessarily the same as those emphasized at the other end. Consequently, an approach to a definition of competencies that emphasizes a listing of analytical concepts and technical skills across the entire spectrum tends to be too broad, while a list that covers only the common elements tends to be too narrow.

The Revised List of Core Competencies

Rather than focusing on concepts and techniques, the revised list of competencies focuses on expected student behaviors that can be measured using the skills that characterize a behavior. Program graduates would be expected to acquire a given behavioral competency, but not necessarily all of the measurable skills associated with that competency. In the revised list, healthcare finance is subdivided into subject domains defined by behavioral competencies measured using a range of specific measurable skills. These skills are not intended to be either prescriptive or exhaustive, but to reflect a range and to emphasize the fact that programs serving a particular labor market will tend to emphasize one complement of skills over another.

Generally speaking, the comments made by HFMA's board of examiners continued to focus on the inclusion (and exclusion) of specific skills identified as important (or not important) by finance professionals. Similarly, many of the comments reflected a tension between the academic community's desire to ground management practice in financial theory, and industry's desire to employ program graduates who are well versed in current financial practices.

The competencies listed in the appendix do not attempt to draw a line between skills possessed by management generalists and skills possessed by finance specialists. Such a line, in any case, is likely to differ among industry segments and even among organizations within a given segment. Similarly, the competencies do not attempt to reconcile, but only to reflect, the differing points of view that characterize the concerns of program professors and industry professionals.

Appendix

Core Competencies in Healthcare Finance

The core competencies that follow are intended to identify behavioral competencies in healthcare finance that all program graduates should possess; however, the measurable skills that define a behavioral competency are intended to reflect only the range of management practice, and not to prescribe a skill complement deemed minimally necessary. When used for the purposes of program evaluation, a specific program should be evaluated relative to the skills relevant to the mission and goals of that program. The core competencies are organized by:

- (1) subject domain (Levels I, II, III)
- (2) behavioral competency (Levels A, B, C)
- (3) measurable skill (Levels 1, 2, 3)

Because health services management programs produce management generalists, and not finance specialists, the behavioral competencies should not be interpreted as requiring proficiency in each of the skills that define it. Depending on stakeholder needs, a particular program might reasonably choose to emphasize one complement of skills over another. Thus, in programs with differing educational objectives, the skills that define each competency could be expected to differ in emphasis and in the degree of student proficiency expected. For this reason, the sets of measurable skills that define each competency are not intended to be exhaustive. Rather, they are designed to reflect basic skills that define the range of management practices in healthcare finance.

Subject Domains, Behavioral Competencies, and Measurable Skills

I. Financial Management in Healthcare Organizations

- A. Demonstrate an understanding of the function of financial management in healthcare organizations.
 1. Evaluate the financial structure of an organization with respect to its ability to support and advance the organization's mission.
 2. Evaluate the influence of ownership status on an organization's financial goals and objectives, and on the financial practices within an organization.
- B. Demonstrate an understanding of the function of the chief financial officer in the management of healthcare organizations.
 1. Differentiate between the essential functions of organizational units that report to the chief financial officer including treasury, controllership, and internal audit functions.
 2. Recognize ethical issues that arise in financial decision making and formulate solutions consistent with an organization's financial and ethical obligations.

II. Financing and Investment Decisions

- A. Demonstrate an understanding of how organizations make investment decisions and allocate capital among competing investment opportunities.

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1. Compute the present value and future value of a stream of cash flows.
 2. Perform an investment decision analysis using the net present value, internal rate of return, accounting rate of return, and payback methods; and differentiate between the advantages and disadvantages associated with each method.
 3. Analyze the risk of an investment in isolation and in terms of its contribution to the risk of a portfolio of investments.
 4. Distinguish between systematic and nonsystematic risk, use the Capital Asset Pricing Model to estimate the risk-adjusted cost of capital; and compute the weighted average cost of capital for a mix of financing sources.
 5. Construct a capital budget from a set of competing investment opportunities.

B. Demonstrate an understanding of capital markets and how organizations use these markets to acquire capital used to finance operations.

1. Distinguish between basic categories of corporate securities including stocks, bonds, and derivatives.
2. Evaluate the impact of ownership status, organizational form, and financial structure on potential sources of capital, the ability to obtain capital, and the cost of raising capital.
3. Compute the market value and implied rate of interest for conventional debt instruments including bank loans, corporate bonds, and lease contracts.
4. Evaluate the impact of changes in interest rates and maturity on the market value of debt instruments.
5. Evaluate the contribution of financial leverage to an organization's financial risk, creditworthiness, and the cost of obtaining capital.

III. Financial Analysis, Planning, and Control

A. Demonstrate an understanding of financial accounting systems and how managers use financial information and budgets to evaluate and control organizations.

1. Discriminate between information provided by the income statement, balance sheet, and cash flow statement.
2. Evaluate an organization's budget process in terms of structure and function; discriminate between operating, cash, and capital budgets, and use a flexible budget to identify the reason for a budget variance.
3. Use financial metrics to evaluate an organization's liquidity, performance, and capital structure.
4. Identify fixed, variable, and step-fixed costs, and use the differential behavior of these cost categories to perform a breakeven analysis.
5. Discriminate between incremental and average costs, between direct and indirect costs, and use the step-down and activity-based cost finding methods to measure the cost of producing a product or service.

B. Demonstrate an understanding of how organizations finance the daily production of goods and services.

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1. Evaluate an organization's working capital policy in terms of its investment in current assets and how it finances those assets.
 2. Trace the revenue cycle beginning with the acquisition of working capital through the production, credit and billing, and collections processes.
 3. Evaluate the efficiency of an organization's cash collections process using the accounts receivable aging schedule and the uncollected balances schedule.
 4. Evaluate the use of trade credit as a source of financing.
- C. Demonstrate an understanding of how organizations use business and financial plans to manage growth and create value.
1. Evaluate an organization's need for future financing using a cash budget.
 2. Evaluate the strengths and weaknesses of a pro forma income statement and balance sheet prepared using the percentage of sales method.
 3. Evaluate the structure of an organization's financial planning process in terms of its ability to link organizational goals with organizational resources.

IV. Health Services Payment Systems

- A. Demonstrate an understanding of the payment methods used to reimburse health service providers and the associated operational implications.
1. Differentiate between the charge-based, cost-based, case-based, and capitated payment systems used to reimburse institutional health service providers.
 2. Differentiate between fee-for-service, resource-based relative value schedules, capitation, risk-based incentives, and salary structures as payment methods for medical service providers.
 3. Evaluate the financial stability of healthcare organizations under retrospective and prospective payment mechanisms.
 4. Evaluate the expected incentive effects of the alternative payment systems on provider behavior and the quality of care.
- B. Demonstrate an understanding of the role of health insurance in financing healthcare services.
1. Differentiate between the role and purpose of private market and government-sponsored health insurance in the financing of health services.
 2. Differentiate between the characteristics of integrated organizations/networks that combine financing with the active management of service delivery.