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COST MANAGEMENT IN HEALTHCARE: STATUS QUO AND OPPORTUNITIES



TABLE OF CONTENTS

Executive Summary	5
Costing Practices in Healthcare: An Overview	6
Cost Management in Healthcare: Challenges and Opportunities	7
Impact of Costing Practices	7
Adoption of Advanced Costing Systems and Methodologies	8
Improving Costing Practices: Benefits	9
Improving Costing Practices: Challenges	9
Improving Costing Practices: Future Directions	10
Evolving Roles of the Finance Function in Healthcare	12
Business Demands of the Finance Function	12
Driving Changes	13
Revenue and Profitability Initiatives	14
Lowering Healthcare Costs	14
Contribution to Health Equity	15
Conclusion	17



healthcare financial management association

The Healthcare Financial Management Association (HFMA) helps its members—both individuals and organizations—achieve optimal performance by providing the practical tools and solutions, education, industry analyses, and strategic guidance needed to address the many challenges that exist within the U.S. healthcare system.

The diverse HFMA community has more than 96,000 members, including healthcare finance leaders and professionals from hospitals and health systems, provider organizations, physician practices, business partners, and payer markets.

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The Association of
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IMA® (Institute of Management Accountants) is one of the largest and most respected associations focused exclusively on advancing the management accounting profession.

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EXECUTIVE SUMMARY

The accelerated pace of change and increased complexities, characteristics of the environment in which many industries find themselves today, have prompted business leaders to rely on their finance and accounting teams more than ever before. The healthcare industry is no exception. As one of the largest, most complex, and truly essential industries in the world, the healthcare industry finds itself constantly challenged to improve quality and lower costs while delivering value. Consequently, the role of cost management, led by management accountants (i.e., accountants and financial professionals in business), and the need for innovative approaches to cost management have become critical to the healthcare industry's sustainability and positive contribution to people, society, and the economy.

This research study, sponsored by IMA® (Institute of Management Accountants) and the Healthcare Financial Management Association (HFMA), sought to examine the role of management accounting in the U.S. healthcare industry. Through roundtable discussions with 20 leaders in U.S. healthcare financial management, accounting, and analytics roles, we explored the role of management accountants in organizational value delivery in our discussions around costing practices and the evolution of the finance function's role in healthcare institutions.

Our findings reveal growing business demand for finance functions to deliver greater value through efficient data analysis and strategic insight generation. Some finance teams meet this demand by playing leading roles in revenue management, performance analysis and measurement, and investment decisions. Yet many healthcare finance and accounting teams face limited resources within, underpinning, and surrounding their functions to deliver this value well beyond the traditional

accounting, costing, control, and reporting scope. Outdated systems, data integrity and access, scarce human resources, and limited leadership bandwidth pose challenging barriers to modernization initiatives. Further, even in instances during which finance functions are meeting demands, broader contributions to macro-level initiatives such as lowering healthcare costs to patients and health equity remain largely untapped by finance functions.

This report sheds light on the challenges faced and opportunities available in healthcare cost management while emphasizing the need for finance functions to evolve and making recommendations for the direction and manner of that evolution toward delivery of greater value not only to the healthcare institution but to patients and society at large. •



Costing Practices in Healthcare: An Overview

Of all the transformations shaping healthcare in the United States, none is more profound than the shift toward value. Quality and patient satisfaction are being factored into Medicare payment models, while private payers are incorporating performance and risk-based payment structures into their contracts. At the same time, rising healthcare costs are creating more price sensitivity among healthcare purchasers, including government agencies, employers, and, of course, patients themselves, who are being asked to pay higher premiums, copayments, and deductibles for their care. Hospitals have always focused on quality because they are fundamentally dedicated to patient well-being. But recent pressures make it financially imperative to develop collaborative approaches that combine strong clinical outcomes with effective cost management.

For providers to deliver value in healthcare, they must have accurate, actionable data on the two elements driving the value equation: the quality of the care delivered and the cost of providing the care (the basis for the price that purchasers should be asked to pay for care). They must also be able to link quality and cost metrics to quantify the value of care provided. To build this business case, healthcare organizations must have capabilities to perform several functions:

- Accurately and consistently report cost and other financial data on appropriate metrics developed in collaboration with clinicians.
- Drive information sharing throughout the organization by linking dashboards and individual measures to strategic goals.
- Report quality results to both internal and external stakeholders.

The need for better costing and other business analytics in healthcare is both recognized and real. Many providers readily acknowledge the inadequacies of their current systems. They are working to enhance their organizational competencies enabling optimal data utilization and to develop the systems that will lay the foundation to succeed under value-based care models and other risk arrangements. In comparison to the investments in information and analytics for clinical quality, however, investments in business intelligence on the finance side have lagged. As a result, tying cost implications to performance on quality metrics often requires a considerable amount of time-consuming, manual work.

Providers also struggle to precisely quantify the financial impact of quality initiatives, although the effects of quality initiatives on metrics such as length of stay and other indirect macro indicators demonstrate when initiatives are working to reduce costs.

A key point is that less than perfect data should not stop a provider from pursuing value and that cost data use is a tool, not the answer, in improving value. A second point is that, although data use may be less than perfect, it needs to be used with the greatest consistency possible. This consideration is especially important when working with physicians, who are data-driven and place a high value on the credibility of the information they are asked to work with in improving the value of patient care. Costing information is clearly recognized as important as providers facilitate linking clinicians and staff throughout the organization, produce data that can verify the outcomes and financial implications of performance improvement efforts, and enable the creation of patient information repositories that will become increasingly important as providers assume risk contracts. •

Cost Management in Healthcare: Challenges and Opportunities

Providers recognize the significance of the link between quality improvement and cost management efforts. They are measuring the impact of quality and waste on their organizations and contemplating moving beyond traditional methods of cost accounting.

Impact of Costing Practices

In order to identify the varied impacts of costing practices from a strategic perspective, we invited roundtable participants to share their perceptions on (1) how the information of healthcare costs is utilized to set healthcare pricing (from a patient's perspective) and improve transparency, and (2) how costing practices impact overall healthcare costs in the U.S.

Healthcare pricing. As indicated by participants, the healthcare industry does not have a pricing strategy driven by costs—it is primarily driven by the market. Thus, a U.S. healthcare organization does not customarily utilize healthcare costs as the single source, or even a primary source, of information to set prices charged to patients. Instead, it is common to use benchmarking data, together with the information on reimbursement contracted rates, to support pricing strategies throughout healthcare organizations. Some participants also shared that a hybrid approach to pricing has been adopted in their organization, which does not solely rely on benchmarking data given the differences from competitors in many aspects of their organizational operations.

Overall healthcare costs. There was no consensus among study participants with respect to the impact of costing methodologies and practices on overall healthcare costs because they vary significantly across organizations and sometimes across different divisions within the same organization. According to one participant who works for a healthcare system with 30 hospitals, their organization has started conducting comparisons of costs within the organization as opposed to comparing with outsiders due to the myriad of complexities associated with the treatment of numerous costs within the company. This is

"Costing is about 60% logic and math and 40% art. You can always argue whether the cost is variable or fixed, or whether it's direct or indirect...and you don't know what everyone else in the market is doing. You can make educational assumptions, but not everybody views costing with the same weight that some organizations do."

—Corporate director of decision support at one of the largest faith-based, nonprofit health systems in the U.S.

"We don't do a ton of external benchmarking when it comes to costing.... It's more of how we are looking directionally, such as trends over time, across the hospitals within our system, which is one of the most important things for us to look at."

—Director of finance and decision support at a university hospital system in the Midwest

COSTING METHODOLOGIES: ACTIVITY-BASED COSTING

Different from traditional costing methods, ABC systems focus on what activities of people and equipment are required to produce a product or provide a service, as well as how activities are consumed. To allocate indirect costs (e.g., overhead) to products or services, ABC systems identify (1) resources and their costs, (2) consumption of resources by activities, and (3) performance of activities to products or services. Under ABC, resources are allocated to activities using cost drivers, which are used to calculate the cost per activity. Activity costs are then traced to each product or service by determining how many units of activity each product or service consumes, multiplied by the cost per activity.

Source: IMA, [Implementing Activity-Based Costing](#), 2014.

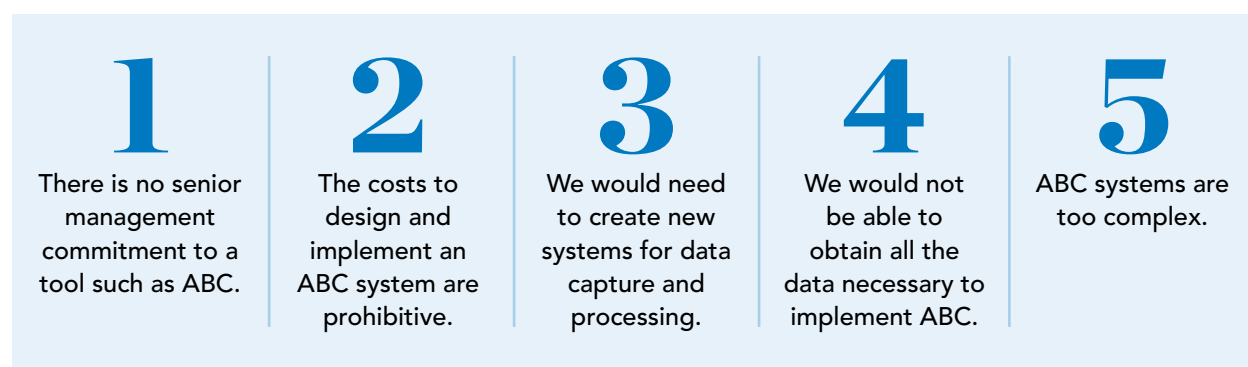
consistent with the observation shared by another participant whose organization acquired a hospital in the previous year. They noticed immediately how different the new acquiree's costing practices were from those of the existing hospitals in the organization, posing challenges for costing system integration.

Adoption of Advanced Costing Systems and Methodologies

As found in a 2017 study on the adoption of activity-based costing (ABC) in the healthcare industry conducted by IMA® (Institute of Management Accountants) and the Healthcare Financial Management Association (HFMA), healthcare organizations generally recognize the problems associated with their current accounting systems, but most choose not to implement ABC systems despite the potential benefits (see

"Costing Methodologies: Activity-Based Costing" for a detailed definition).¹ Figure 1 summarizes the top five reasons for not adopting ABC as documented in the 2017 study.²

FIGURE 1: REASONS FOR NOT ADOPTING ABC SYSTEMS



Conversations with the participants in this study generated consensus that aligned with results from previous studies. Most participants confirmed that the adoption of ABC or other advanced costing systems such as time-driven activity-based costing (TDABC) was out of the realm of possibilities within their organizations (see "Costing Methodologies: Time-Driven Activity-Based Costing" on page 9 for a detailed definition).³ When asked to identify the drivers for nonadoption, participants pointed to the complexity of deploying these systems, constraints of internal resources, and others. For example, a common issue for a healthcare system with various services in multiple locations but sharing the same integrated information system data hosting is that, given that each service might use the system differently than others within the same organization, analyzing the level of details to achieve like-kind comparison across service lines using ABC or TDABC becomes increasingly challenging.

Improving Costing Practices: Benefits

When asked about the perceived benefits of better costing measurement in healthcare, most participants agreed that better costing practices would enhance internal cost management and performance measurement. A robust costing system can significantly improve the utilization of cost information for management control and performance evaluation. For instance, as indicated by some participants, costing information has been used in internal reports to calculate contribution margins of different service line providers, facilitating the understanding of the profitability of each service line. In addition, costing information also flows through to budgeting systems that can be used for a variety of financial planning and analysis purposes, informing key strategic and operational decisions across the organization.

“Figuring out labor costs, which amounts for almost a third of expenses, is a big challenge for us. We have a way of pinpointing what labor is producing at a gross level.... ABC and TDABC seem to be great ideas to solve this theoretically, but how exactly to implement [them] in practice is unclear.”

—Senior director of finance initiatives
at a university health system

Improving Costing Practices: Challenges

While the benefits of adopting a sound and reliable costing system are obvious, barriers to achieving it cannot be overlooked. Key examples of such challenges are staggered development in healthcare and the inadequacy of internal resources needed for execution.

Staggered development in healthcare. One study participant, who previously worked in the manufacturing industry, said that when he started in healthcare, he was surprised that the industry seemed to be lagging in many aspects, including costing, from a quality reporting and technology

perspective. Although tremendous strides have been made in catching up in the past two decades, there is still room for considerable improvement in healthcare, especially in facilitating real-time, data-driven decision making supported by advanced data science and technologies.

Yet based on the observations of our study participants, the industry often feels slow-moving, risk averse, and reluctant to change as it pertains to innovation and the adoption of new approaches—even as improvements in technology have made more data available. Furthermore, some participants noted

COSTING METHODOLOGIES: TIME-DRIVEN ACTIVITY-BASED COSTING

TDABC was originally introduced by Robert Kaplan and Steven Anderson. It is considered a revised approach that allows managers to “directly estimate the resource demands imposed by each transaction, product or customer,” as opposed to assigning resources costs to activities first and then to products or services under ABC. Under TDABC, for each resource, the cost of each time unit of providing resources and the total quantity of resources consumed (in time units) by each product or service are calculated. Product cost is then determined by multiplying the cost per unit time and the total quantity of time units for each resource, adding up over all resources consumed by that product.

Source: Robert S. Kaplan and Steven R. Anderson, “[Time-Driven Activity-Based Costing](#),” *Harvard Business Review*, November 2004.

that the existence of information analytical data silos within organizations prohibits leaders from making informed decisions in an efficient manner because they will have to approach different teams to obtain a small portion of a holistic solution.

Inadequacy of internal resources. Some participants emphasized the constraints they face internally in achieving better costing measurements. For instance, due to the limitation of software currently in place in some participants' organizations, their finance teams are unable to account for costs by providers. Even though they were fully aware that Medicare patients typically incur higher costs due to higher utilization of many resources and functions than younger commercial patients do, the current software does not provide such functionality for them to capture the information that presents the differences. For example, two patients placed in hospital rooms with the same room rate (i.e., price charges per day) can have completely different severity of illness or medical conditions (known as patient acuities), a parameter generally used in determining staff allocation and justification of budgeting projections. Because the software does not differentiate between the resources these two patients consume, there is no difference in room rate charges and average cost per patient, which is usually used for major decision making. This causes imprecision in costing measurement. The lack of such functionality also prohibits the organization from deploying advanced costing systems such as ABC.

Other participants also shared concerns about the hurdles their software systems create in processing and generating real-time data. For instance, one participant mentioned that, on certain costing calculation and allocation procedures, their system tends to be fast early in the year and slow and sluggish toward the end of the year when more data is loaded into the system, making it more difficult to perform enhancements at the same time as processing data.

"The healthcare industry is just very nice. We allow people to customize and do things the way they want, but we rarely make hard decisions.... We don't really do the work involved to either help or direct the future. And the nonperformers just accept the way and practices that have been in place for a very long time."

—Assistant controller for general accounting and financial reporting at a university health system

"We have more clinical data now than ever, but the management practices that we'd like to implement are very slow to proceed, which is one of the biggest problems for our industry."

—Financial controller at a university health system

Improving Costing Practices: Future Directions

What would you do differently if you were not constrained by the prevailing challenges in healthcare? We posed this question to our study participants for their perceptions of the future direction of the industry.

Reallocation of resources for best outcomes. Many study participants called out the significance of organizational resource redeployment in achieving best outcomes. This includes commitment of resources to:

- Hire more competent professionals to increase the capacity of what the finance and accounting team could provide,

- Attract accounting and finance talent to the healthcare industry,
- Upskill the finance and accounting team to become true analytical thinkers, and
- Improve the costing system to produce information with more precision.

“The reimbursement method needs to change because we are incentivized to do things the way we do today and punished for not following suit.... It’s less about the cost and more about how we are going to be reimbursed. It’s true that we don’t have fantastic information about costs. But on the other hand, we don’t have to have fantastic information about costs since we are not actually reimbursed for that.”

—Director of decision support at a regional nonprofit healthcare system

Becoming low-price or low-cost providers.

There is no doubt that many healthcare organizations are competing to be high-quality providers in the market. But do they also find it important to compete to be recognized as low-price or low-cost providers? While some participants agreed that a shift to lowering costs as a competitive advantage might become significant over the long term, it is not expected to happen in the immediate future because the current reimbursement model in the industry does not reward health organizations as cost leaders.

Changing the payment and reimbursement model.

The payment model has been ascribed as one of the key drivers of the challenges faced in healthcare with respect to pricing and

healthcare costs. Per our participants, the existing practices in the industry are heavily influenced by the reimbursement model, in which healthcare organizations have little bargaining power. It becomes essential to change the payment model in order to drive down the cost of healthcare (e.g., removing some of the costs from healthcare). •



Evolving Roles of the Finance Function in Healthcare

Finance functions across industries and geographies have been undergoing a transformation from a primary focus on accounting, control, and reporting to insight generation, value creation, and decision support. Healthcare industry finance functions are no exception. Research by IMA and Deloitte in 2022 revealed that 82% of 1,300 accounting and finance professionals surveyed reported working in a finance function that was undergoing or finished its transformation.⁴ As businesses continue to operate in an increasingly fast-paced and dynamic environment, the need for efficiency, data-backed insights, and agility among finance functions will persist. In the healthcare industry, where a finance function has not yet been acknowledged and geared itself up for its expanded role, transformation is paramount.

Business Demands of the Finance Function

All roundtable participants concurred with the notion that the demand of finance and accounting functions in healthcare organizations extends beyond the traditional financial reporting and planning role that finance and accounting teams have historically played. In addition to reporting and planning, the finance function plays a significant role in financial analysis and operations management (e.g., supply chain management), driven by an increased demand for informed strategic decisions enabled by advanced data analytics. According to one of the roundtable participants, in the past few years, the finance function in their organization has been engaged in supporting groups across the organization on the interpretation of financial data and the utilization of such data for various operational decisions. In the healthcare industry, there is also a tendency to split the finance function into two parts. While one part still focuses on traditional accounting and reporting, the other part is more strategy-oriented and emphasizes the prediction and forecast of future scenarios.

Other participants shared that the finance function has been deeply involved in the intelligence side by, for instance, developing tools to capture and manage real-time labor cost data during the COVID-19 pandemic when there was a shortage of care providers in their hospital system.

Oftentimes, the finance and accounting team is required to generate and provide insights efficiently, sometimes in real time, rather than on a monthly or quarterly basis through standard reports. This value delivery is achieved by being agile, ensuring the accessibility of data, and translating data into true insights that senior leadership and other teams can leverage.

When asked whether the role of the finance function has evolved, most participants did confirm that the finance function now “has a seat at the table” and is viewed as a strategic business partner. For instance, as stated by one of the roundtable participants, their finance function has been involved in strategically directing care services to the right population informed by data and advanced analytics. A summary of the business demands of the finance function is demonstrated in Figure 2.

“As it comes to profitability utilizing the cost accounting system, such as the profitability of service lines, the profitability of certain physicians or physician groups, and so on, all aspects of strategic planning were called upon in our data and cost accounting is heavily relied upon to make those strategic decisions.”

—Vice president of general accounting and finance at a medical center located in the Midwest

FIGURE 2: BUSINESS DEMANDS OF THE FINANCE FUNCTION IN HEALTHCARE

The finance function in the healthcare industry has been playing roles beyond financial reporting and planning, such as:

- Contributing to business decision making as a strategic business partner.
- Supporting profitability-related decision making from an analytical perspective.
- Leveraging timely and actionable data and insights to resolve complex issues across business lines.
- Engaging in the interpretation and utilization of financial data for cross-functional teams (e.g., operational improvement initiative groups, clinical groups, etc.).
- Sharing data at various levels (e.g., from patient level to the aggregated organizational level) with the entire organization in accordance with external demands and collecting feedback on the usefulness of the data.
- Developing tools to provide and manage real-time data in various business and market environments and scenarios.
- Providing insights driven by data analytics in a more timely manner, rather than on a monthly or quarterly basis through cyclical reports.

“A lot of the requests come from outside [the finance function]. There is more emphasis on looking at the information right now... We use Power BI to create that information based on demands and grant service line leaders access to the platform so that they can retrieve the information on their own without us generating [a] spreadsheet and sending [it] to them. This process has been proved to be very successful to this point.”

—Director of strategic finance at a charitable nonprofit healthcare organization

Driving Changes

Is the finance function driving the changes to its role within the organization? In many cases, according to roundtable participants, the answer is no. Participants report that major changes to the role of the finance function are often prompted by external circumstances or demands. Nevertheless, finance and accounting teams undertake initiatives to transform delivery and provide insightful information by leveraging advanced analytics and data visualization tools, making data and insights readily available to the parties who implement and oversee changes within the organization.

As some participants pointed out, with the finance function’s progressive involvement in decision support functionality, its role continues to gain influence strategically. For example, the delivery model of healthcare is changing due to

the COVID-19 pandemic such that telemedicine and virtual visits are becoming available to more and more people. As one participant shared, the finance function in this instance is driving conversations among all stakeholders (e.g., clinicians, managers of clinical operations, leaders in the organization, etc.) as to how the future of healthcare will look and the actions their organization needs to take in preparation. In another example shared by a study participant, through working with physicians during value-based care reviews, the finance function is driving changes in strategic areas by identifying

instances in which operational efficiency can be improved. This can be achieved by comparative work with other institutions utilizing data on, for instance, the length of stay, the type of services provided, the ancillaries used, and so on.

Revenue and Profitability Initiatives

To understand the role the finance function plays in revenue and profitability initiatives within the organization, we invited study participants to share their experiences as well as those of their teams. Examples of the finance function's involvement in these initiatives are summarized in this section.

Revenue management. Price charge modeling has been adopted as an effective tool to manage revenue in the healthcare industry. The finance function engages in the modeling of price increases by,

for example, examining the acquisition costs of supplies and monitoring price fluctuations of these supplies in accordance with changes in charge codes and other pricing factors.



Performance analysis and measurement. The finance and accounting teams are always engaged in the measurement and analysis of profitability. As one participant shared, whether and how to use the word “margin” in accounting reports is heavily influenced by the finance function given the differences in definition and calculation of various margins that capture different aspects of performance. For instance, the margin calculated as revenue minus direct costs presents distinctive information not fully captured by contribution margin, which is the difference between revenue and variable costs. The finance function is in a

unique position to advise on the utilization of appropriate performance measures in accounting reports. Other participants also highlighted that their teams were regularly involved in profitability analysis at the division level (e.g., hospitals at various locations) within their healthcare systems.

Capital investment decisions. According to several study participants, their finance functions are involved in the decisions of all capital investment projects, including building a new hospital site, starting a new clinic, purchasing new equipment or machinery, and so on. The finance and accounting teams are invited to discuss, for example, whether there is demand in the market for the new site to be built, if the reimbursement is appropriate to cover the costs, what the true costs will be, or what changes are needed to existing operations to enable the success of the new business or initiative. Insights from the finance function have proven invaluable in these strategic decisions.

Lowering Healthcare Costs

While the impacts of costing practices on healthcare costs and pricing were broadly discussed in the previous sections, the potential influence of persons in finance functions (e.g., CFO, VP/directors of finance, etc.) in lowering healthcare costs for patients is left unexplored. How can they contribute effectively in this space? Study participants called attention to the following.

Lowering drug prices through the 340B program. The federal government's 340B Drug Pricing Program aims to provide more affordable care by requiring manufacturers to supply eligible healthcare organizations and covered entities with drugs at significantly lower prices.⁵ Several study participants acknowledged that their organizations are participants of this program. They highlighted the importance and effectiveness of utilizing the 340B program to lower healthcare costs to patients in general and suggested that the finance function bring visibility of such opportunities to doctors, physicians, and other care providers in their systems to continue to drive patient savings.

Bringing attention to cost-effectiveness. As finance and accounting teams have access to an abundance of financial and nonfinancial data and are increasingly serving in decision-support roles, some participants recommended that the finance function bring to the attention of senior leadership teams cost-effectiveness as it pertains to, for instance, in which location to conduct certain procedures (e.g., performing a minor procedure in a major academic medical center that is heavily staffed will incur higher costs, which is not considered cost-effective). Others suggested a more patient-focused approach to classify indirect costs, as opposed to allocating them to overhead, to improve information transparency and subsequently achieve cost-effectiveness.

Contribution to Health Equity

According to the Centers for Disease Control and Prevention (CDC), health equity is defined as "the state in which everyone has a fair and just opportunity to attain their highest level of health."⁶ Health equity can be achieved by eliminating health disparities attributable to social and economic determinants, such as race or ethnicity, sexual identity, age, disabilities, socioeconomic status, or geographic location.⁷ How can management accountants contribute to improving health equity outcomes? When prompted with this question, study participants generally agreed that this is still a relatively new and under-explored area among finance functions, although some organizations have started initiatives and provided training to leadership teams on health equity issues.

Yet there is a potential role management accountants can play in addressing health disparities. One participant working for a large healthcare organization in the Midwest said their finance function helps support initiatives to establish freestanding clinics in a major metropolitan city. As in other major cities in the U.S., a large Medicaid and self-paid population exists in the inner city where there are food deserts and a lack of accessible care. Their organization partnered with places that are willing to establish clinics

"To the extent that we don't spend enough dollars on preventive care [for groups that are excluded or marginalized] that don't generate direct return, we are actually hurting ourselves economically and socially because we are not thinking through the full cost and benefit of the programs we might offer.... There's a big place [for the finance function] to support such decisions with information and analysis, as this is not only the right thing to do for our communities but also for the financials of our organization."

—Senior director of finance initiatives at a university health system

"I think one thing people need to realize is that the Medicaid and the underinsured population are not necessarily unprofitable business, considering how high the fixed healthcare costs can be regardless."

—Director of strategic finance at a charitable nonprofit healthcare organization

in their sites to help manage that front-level care, including dental services, flu shots, wellness checks, and other basic screenings. The finance and accounting team has played an important role in these endeavors by supporting the decision from a data-driven finance perspective, such as quantifying the investment and donation needs for these initiatives, illustrating their financial benefits, and optimizing the choice of sites

"It was also financially advantageous for us to help support these freestanding clinics that are part of our organization....

To be able to make sure that more areas have access to good quality care is very important to us.”

—Director of decision support at a health network with hospitals and healthcare organizations in the Midwest

based on the data of population health, demands for quality care, and so on.

Other initiatives toward health equity shared by participants include a street nurse program, in which nurses are paid to go out and provide care to the homeless, and a small pilot program called “Hospital at Home” that allows patients to receive care in their homes. Both programs are rewarding because they are implementing a path to maintaining the health of the population in the community—at relatively lower costs—while preventing critical illnesses that could be extremely expensive to treat. •



CONCLUSION

The finance function is playing an increasingly crucial role as the healthcare industry progressively shifts toward value delivery with a focus on service quality and patient satisfaction. The demands of accounting and finance teams now extend beyond traditional financial reporting and planning to strategic partnership in business decision making, such as providing insights based on analysis of real-time data, supporting the resolution of complex issues across business lines from an analytical perspective, and interpreting and utilizing financial data for cross-functional collaborations. Yet there remain prevailing challenges with respect to costing practice improvement due to inadequate resources, staggered development, and slow adoption of advanced technologies and data analytics tools.

To achieve best outcomes for healthcare institutions and the society at large, the finance function, as well as the healthcare industry as a whole, should consider:

- Redeploying resources to upskill the existing workforce and prioritize analytical thinking while attracting more skilled talent to the healthcare industry,
- Bolstering data accessibility and integration and upgrading digital platforms and systems to enable optimal utilization of costing and other financial data to facilitate strategic decision making throughout the organization,
- Contributing to lowering healthcare costs by bringing more attention to cost-effectiveness and advocating for the change of the payment and reimbursement model, and
- Advancing health equity by supporting initiatives to eliminate health disparities from a financial perspective. •



For more information, please visit [imanet.org/thought_leadership](https://www.imanet.org/thought_leadership).

ENDNOTES

¹ Raef Lawson, "[Costing Practices in Healthcare Organizations: A Look at Adoption of ABC](#)," HFMA, December 5, 2017.

² *Ibid.*

³ A thorough discussion on commonly adopted costing systems, such as activity-based costing and time-driven costing, can be found in: Ramji Balakrishnan, Eva Labro, and K. Sivaramakrishnan, "Product Costs as Decision Aids: An Analysis of Alternative Approaches (Part 1)," *Accounting Horizons*, March 2012.

⁴ Loreal Jiles and Kate Gates, [Stepping into the Future of Controllershship: From Accounting to Insight](#), IMA and Deloitte, 2022.

⁵ Health Resources & Services Administration, "[340B Drug Pricing Program](#)."

⁶ CDC, "[What is Health Equity?](#)"

⁷ Office of Disease Prevention and Health Promotion, "[Disparities](#)."