The Role Of Finance In Healthcare Setting

Posted on May 16, 2023

View this essay online:
https://academic-master.com/the-role-of-finance-in-healthcare-setting/

Abstract

This paper explores the role of finance in the working of a business, as careful financial planning can ensure the success of the said business; however, poor financial planning can have adverse effects on the working of the business. To plan an effective financial strategy, it is important to keep in mind the four C's, which include costs, cash, capital, and control. These can help in the finance activities that can improve the financial functions. Effective planning and budgeting of the capital can be vital for the business. The activities require the senior management to have a deep understanding of the implications that their decisions will have on the business. They should have complex knowledge of multitudes of operations that will be affected by their decisions, such as marketing, quality improvement, and managing human resources and facilities. The paper will analyze the role of finance in detail.

The Role of Finance

Financing in any business is the careful planning and distribution of resources so that each sector operates to its optimal capacity. Similarly, the focus of financing in the health care system is planned according to financing activities that help in financial distribution. These activities are carried out following the four C's, which are costs, cash, capital, and control. Measuring and maximizing the costs is extremely important for the financial success of every industry. Cash allows the smooth running of the industry; without it, businesses always fail. Capital in every business allows for further investment, such as acquiring additional land, equipment, and buildings. Businesses cannot be further expanded if there is no capital. Lastly, control ensures that the capital is being distributed and used wisely. This paper will analyze the financial activities in connection to the four C's (Gapenski, 1999).

Planning and Budgeting

The first step in healthcare financial distribution is to evaluate the effectiveness of the finances of the existing processes and then plan the future budget following that evaluation. Budgeting allows more effective distribution as it allows proper utilization of resources. Through this capital plan, capital is utilized either for further investment in new technology or to improve existing operations.

Financial Reporting

Making a record of the previous business expenditures, investments, profits, and losses is extremely important as observing the previous records allows control in future decisions regarding budgeting and gives insight towards past mistakes. This prevents the same mistakes from being made again by providing control over current and future financial operations.

Capital Investment Decisions

Senior management makes decisions regarding capital investments. Capital means the number of financial assets needed for the provision of goods and services. Capital budgeting allows for planning whether the investment will be used to acquire more land, equipment, or buildings or to improve existing departments. Strategic planning of capital budget improves the business performance.

Financing Decisions

Every business must accumulate capital for its future success, as capital is needed to reinvest in the business and improve its operations. By buying more assets that are required for the business processes, its future can be secured. For this purpose, financing decisions need to be made skillfully. The distribution of funds, equity capital, debt, and long-term and short-term investment needs to be carefully planned. Financial decisions have a huge impact on the financial standing of the business, so it is very important to have wise senior management that will make better decisions.

Revenue Cycles and Current Accounts Management

Billing and collection functions fall under the revenue cycle, while the short-term assets, which include cash, inventories, and liabilities, fall under current account management. It is very important to manage these properly so that processes may work smoothly.

Contract Management

Healthcare systems are involved with other care organizations, which include insurance companies and third parties. Every health care organization must have proper negotiations while signing contracts and then monitoring the said contracts to avoid any repercussions.

Financial Risk Management

The last financial activity is equally important as it allows the minimization of risk in the business. Financial transactions are made to improve the business; however, these also increase the risk factor, so proper precautions are needed to manage these risks (Eisenstein, 2020).

The importance of financial functions declines when the profits are high and financial resources are abundant. Cost identification plays an important role in accounting for different costs; this allows for efficient cost control. So, when the health care providers were compensated based on the cost incurred, cost identification was more important than cost control. Cost identification reports were used to regulate and maximize the revenue. This made the process of reimbursing the employees for their services extremely complex as a lot of time was invested in accounting, billing, and the collection of revenue. So it became quite apparent that a new way of managing financial functions was needed. These functions are carried out more strategically and sophisticatedly to improve the reimbursement process. The finance functions are now designed to support an array of financial activities so that the future of the organization can be secured. Financial decisions made by management can make or break the future of an organization, so it is important to have a strong financial team to maximize the success of the organization. For a healthcare organization, it is equally important to have optimal financial processes as their performance can affect the lives of their patients (Hirani, 2020).

References

Eisenstein, L. (2020, July 8). Objectives of Financial Management in Healthcare. *BoardEffect*. https://www.boardeffect.com/blog/objectives-financial-management-healthcare/

Gapenski, L. C. (1999). *Healthcare Finance: An Introduction to Accounting and Financial Management*. Health Administration Press.

Hirani, A. (2020). Importance of Financial Management in Healthcare Organizations. *ZT Corporate*. https://ztcorporate.com/blog/understanding-the-importance-of-financial-management-in-healthcare-organizations/