



The Language of Business: A Key Nurse Executive Competency

EXECUTIVE SUMMARY

- ▶ The ability to interpret fiscal data pertaining to patient outcomes, human resources, customer satisfaction, and financial positions is a vital evidenced-based nurse executive competency.
- ▶ The ability of nurse leaders to influence and contribute in health system executive decision making requires fluency in accounting, "the language of business."
- ▶ After examining challenges faced by nurse executives, faculty at the Loewenberg School of Nursing at the University of Memphis integrated intensive accounting education into a new executive MSN program.
- ▶ Woven throughout the management accounting course is the concept that accounting data must be relevant and accurate for use by organization decision makers.
- ▶ Evidence-based decision making is emphasized when teaching planning and control activities. In addition, fluency in accounting is enhanced which leads to greater skill in patient and nursing advocacy.
- ▶ As competency in management accounting increases through the semester, executive MSN students are encouraged to apply cost accounting course content to their practice settings and to analyze how planning or control activities improve quality outcomes.



Joan Thomas

ful at business, you have to understand the underly-

IN FALL 2003, THE WELL-KNOWN INVESTOR WARREN Buffett (2004), head of the conglomerate Berkshire Hathaway, addressed students at the University of Nebraska at Lincoln, saying: "Accounting is the language of business, and you have to learn it like a language. You can't be comfortable in the country if you aren't comfortable with the language. To be successful

ing financial values of the business."

Executive nurse leadership is critical for achieving organizational goals, including quantitative improvements in patient outcomes, nurse recruitment and retention, customer satisfaction, and financial results. Nurse executives administer clinical resources to provide services, influence and participate in shaping hospital strategy, and design patient care delivery systems (Aiken, Clarke, Sloane, Sochalski, & Silber, 2002; Manojlovich, 2005; McClure & Hinshaw, 2002; Vahey, Aiken, Sloane, Clarke, & Vargas, 2004). Thus, resource allocation and operating decisions dominate the world of nurse executives. The ability to interpret fiscal data pertaining to patient outcomes, human resources, customer satisfaction, and financial positions is a vital evidenced-based nurse executive competency.

Nursing expenditures are one of the highest within the national health care system, representing an estimated 25% to 30% of hospital total operating budgets and 40% to 50% of direct care costs. Hospital costs will likely double by 2014, resulting in expenditures for nursing care rising to a quarter of a trillion dollars before another decade passes (Welton, Unruh & Halloran, 2006). With costs contributed to nursing rising and concerns about health care costs remaining persistent, it is imperative that nurse executives lead in shaping financial decisions that impact patient care and the nursing profession. To meet the challenge of formulating evidence-based management decisions, nurse executives must demonstrate fluency in accounting, the language that most executive team members understand and value.

Buffett's (2004) statement reinforces the view that nurse executives who are unable to speak the language of accounting may lose their "voice at the table" while other executive team members converse effortlessly in this language of business. For example, when nurse executives advocate adoption of new patient care devices, some executive team members may question costs without understanding the resulting quality and financial benefits. Understanding how

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Table 1.
MSN Accounting Education Courses

Course Title	Course Description	Hours
Relationship Building for the Nurse Executive	Creates nurse executive skills to effectively communicate; manage relationships; influence behaviors; support diversity; and implement shared decision making.	3
Developing Nurse Executive Leaders	Create nurse executive leadership skills focusing on nursing and clinical department operational issues. Content includes data-driven decision making, systems thinking, succession planning, and change management.	3
Accountability and Advocacy for Nurse Executives	Creates nurse executive skills to promote accountability; develop career planning paths; integrate high ethics into culture of the organization; and advocate patient care as the core of the organization.	3
Health Policy	Primary focus of this course is the analysis of health care systems. Public and private health care delivery systems are examined. Students explore future challenges and processes to improve systems.	3
Fundamentals of Accounting	Accelerated and in-depth introduction to the conceptual foundations of accounting as a dynamic information system for measuring and communicating economic and financial data for planning and control purposes.	3
HealthCare Finance I	This course creates nurse executive skills in interpretation of financial reports, cost behavior, profit analysis, cost allocation, pricing and service decisions, planning and budgeting, time value analysis, and financial risk and return.	3
Financial Management and Resource Allocation for Patient Care	Creates skills required of a nurse executive to articulate and operationalize business models for nursing and clinical departments within organizations.	3
Improving Patient Care Delivery	Creates skills required of a nurse executive to interpret clinical practice knowledge; analyzes delivery models/work design; explain payer mix, CMI, and benchmark data.	3
Health Planning	This course will provide a framework for strategic marketing and its relationship to strategic planning and management, an understanding of marketing concepts, and their application to health care.	3
Evidence-Based Leadership Practices	Creates nurse executive skills to practice an evidenced-based nurse leadership role; support and monitor patient safety; sustains effective utilization and case management models; articulate and support quality improvement and metrics.	3
Scholarly Synthesis	Student may choose one of the following synthesizing activities: 1) design a program; 2) write a grant proposal; 3) complete a scholarly project; 4) write a manuscript for potential publication. Executive MSN students will perform #4.	3
Nurse Executive Practicum	Student collaborates with nurse executive mentor to enhance competency in communication/relationship building; knowledge of the health care environment; leadership; professionalism; and business skills.	4
		Total = 37

costs are measured and reported by organizations' cost reporting systems, whether at aggregated department levels or individual patient levels, enables nurse executives to anticipate these challenges. Nurse leaders then can formulate appropriate evidence-based financial analyses to demonstrate that increased costs are offset by improvements in patient outcomes and increases in revenues, presenting the return on investment. To do this, nurse executives must be "bilingual" in both the language of patient care and also the language of accounting (Fralic & Morjikian, 2006).

After examining challenges faced by nurse execu-

tives, faculty at the Loewenberg School of Nursing at the University of Memphis (U of M) integrated an intensive accounting education into the new executive MSN program. How an executive MSN program develops competency in both "the language of business" and evidence-based management through application of accounting concepts and procedures is described (see Table 1).

The accounting education for the U of M executive MSN students is intensive and rigorous. The executive MSN program requires students to take six credit-hours in accounting. The sequence includes a

three credit-hour financial accounting and reporting course offered by the Colleges of Business and Economics and a three credit-hour management accounting course provided by the Department of Health Administration. These courses provide “hands-on” introductions and broad overviews of accounting principles, concepts, and tools with additional emphasis on how accounting is used to facilitate decision making.

The Financial Accounting and Reporting Course

Financial accounting and reporting typically focus on preparation and use of financial statements for organizations. These financial statements have both internal and external organizational purposes. In financial reporting, results of economic events that describe financial positions of organizations are measured and reported. When summarized in standardized reports, these measurement activities produce accounting numbers that knowledgeable users examine to make evidence-based decisions about the financial health and revenue/cash flow generating ability of organizations. As such, these statements are used by internal stakeholders of organizations, such as executive teams, boards of directors, and investors to make administrative, business, and investment decisions. Financial statements are also used by external stakeholders such as regulatory and tax authorities, investors, creditors, unions, and public interest groups for making investment, financing, regulatory, tax, and advocacy decisions pertaining to organizations (Pratt, 2006).

The principles and rules that govern preparation of financial statements are known as Generally Accepted Accounting Principles (GAAP) and are set and modified by accounting standard setters such as the Financial Accounting Standards Board (FASB) and by regulatory bodies such as the Securities and Exchange Commission (SEC). Financial statements audited by certified public accountants are generally prepared in accordance with GAAP (Pratt, 2006).

While approaches for teaching master’s-level introductory financial reporting survey courses vary, most are structured around development and interpretation of basic financial statements of organizations (Pratt, 2006). Not-for-profit organizations typically report a *statement of financial position*, a *statement of activities*, and a *statement of cash flows*. In for-profit settings, analogous statements include a *statement of financial position*, an *income statement*, and a *statement of cash flows*. Various financial statements may also include descriptive notes detailing major accounting policies adopted by organizations. The notes provide readers with additional information describing the bases upon which financial statements are prepared and reported (Pratt, 2006). The following are descriptions of the major financial statements with comparisons of how not-for-profit and for-

profit organizations statements differ.

Statement of financial position. The course curriculum examines all major asset and liability categories related to not-for-profit and for-profit organizations. Assets are resources controlled by businesses. Examples of current assets are cash, accounts receivables, and inventory. Liabilities are claims of creditors’ to companies’ resources and are frequently referred to as “loans.” Not-for-profit and for-profit organizations employ statements of financial position, also known as balance sheets, to provide relevant information about assets and liabilities of organizations. The difference between assets and liabilities represents the residual amount. Within not-for-profit organizations, the residual amount represents net assets of organizations. However, for-profit organizations term the residual amount as “stockholders’ equity” to indicate shareholder claims on organizational assets (Pratt, 2006).

Monitoring of assets and liabilities is critical for organizations because current liabilities and timing of their payment schedules significantly impact organizations’ cash flows and assets. For example, an asset such as radiology equipment requires periodic repairs and replacement, thus consuming resources. Long-term financing of such capital expenditures may take many forms and terms of funding these capital expenditures (repairs and replacement) affect future liabilities and cash flows. To participate in executive team discussions of patient care and technology expenditures, fluency in the language of assets and liabilities, cash flows, and financing arrangements is required (Pratt, 2006).

Statement of activities and income statement. Although these two statements differ in content and structure, they possess the same conceptual core because both measure and report revenues and expenses. Not-for-profit health organizations usually consider revenues and expenses as major operational components. These organizations make decisions that consider costs of goods and services when establishing revenue-generating contracts and billings. In effect, the statement of activities reflects an organization’s ability to “cover its costs” by generating revenues. Additionally, statements of activities provide details regarding other types of contributions and financial support while describing *activities for temporarily and permanently restricted net assets*. For example, donors may designate that certain contributions to a public health care organization be restricted for use in activities designed to serve indigent patients. The statement of activities provides details on how these targeted activities consumed restricted resources (Pratt, 2006).

Within for-profit organizations, revenues and expenses in income statements are of major importance for nursing and finance executives’ evaluation of profit performance. Many financial ratios used to

Table 2.
American Organization of Nurse Executive (AONE) Competencies

Business Skill Domain	AONE Competencies
Financial Management	Describe general accounting principles and define basic accounting terms. Analyze financial statements. Establish procedures to assure accurate charging mechanisms. Educate patient care team members on financial implications of patient care decisions.
Human Resource Management	Identify future skill sets needed to remain competitive. Analyze market data in relation to supply and demand and manage resources to ensure appropriate compensation.
Strategic Management	Understand what organizations should measure in order to "balance" the financial perspective. Measure and analyze performance from the learning and growth, business process, customer, and financial perspectives.
Information Management & Technology	Utilize hospital database management, decision support, and expert system programs to access information and analyze data from disparate sources for use in planning for patient care processes and systems. Recognize the utility of nursing involvement in the planning, design, choice, and implementation of information systems in the practice environment. Demonstrate awareness of societal and technological trends, issues, and new developments as they apply to nursing. Read and interpret benchmarking, financial, and occupancy data.

SOURCE: AONE, 2007.

evaluate for-profit organizations, such as earnings per share and the P/E ratio (market price per share divided by the earnings per share), are based on information contained in income statements. Profit is considered a critical indicator of successful management decisions by for-profit organizations (Pratt, 2006). For example, Dougherty (2007) described how a small community hospital revised its operating results which indicated a profit of \$2 million. The hospital actually experienced a loss of \$6.2 million due to errors in how the hospital estimated reimbursements from Medicare, Medicaid, insurance companies, and individual patients (Dougherty, 2007). Such significant errors impacted both reported operating results as well as the hospital's working capital reported on its balance sheet.

Statement of cash flows. Not-for-profit and for-profit versions of the statement of cash flows are the most similar in content, structure, and purpose of all financial statements. The primary focus of the statement of cash flows is to categorize cash flow-generating activities into operating, investing, and financing activities. These categories allow financial statement readers to see cash inflows and outflows from (a) regular, periodic operating activity, (b) cash paid for purchasing (and received for selling) major assets and facilities, and (c) cash received and paid on long-term financing activities. In the long-term, both not-for-

profit and for-profit organizations should generate sufficient operating cash flows to cover operating expenses. Given that cash is used to pay for operating expenses as opposed to earnings, nurse executives need competency in analyzing how patient care, planning, and resource allocation decisions affect operating cash flows of organizations (Pratt, 2006).

Gaining financial accounting competency. Understanding how financial statements are prepared is critical for nurse executives' ability to make evidence-based patient care decisions while recognizing how the decisions influence, either directly or indirectly, reported operating results and financial positions of health systems. The course explains preparation and use of financial statements in a structured fashion that allows executive MSN students to demonstrate independent ability to interpret these financial statements. This skill is validated by analyses of financial statements from actual organizations and by preparation of written reports of the analyses. The various financial statements usually form the basis for quarterly and annual reports provided to stakeholders. Therefore competency in analysis of financial statements provides insight into how organizational performance is viewed by others.

The American Organization of Nurse Executives (AONE) recognizes that financial skills gained from knowledge of accounting are critical for successful

executive team performance. The AONE Nurse Executive competencies address the need for accounting proficiency in the competency domain entitled Business Skills (AONE, 2007). Table 2 delineates the major AONE competencies that require accounting knowledge and skill.

Health Care Finance I: Management Accounting

In contrast to financial accounting and reporting, the management accounting course focuses on collection and reporting of information for use by managers exclusively inside organizations (Garrison, Noreen, & Brewer, 2006; Horngren, Datar, & Foster, 2003). Since the 1980s, as the pace of technological change has quickened, management accounting systems have evolved to exploit the new information technology environment to better serve management teams. Thus, the focus of management accounting is to leverage organizational accounting systems to provide high-quality, relevant accounting information for evidence-based decisions and nursing care (Garrison et al., 2006).

Reporting of management accounting data. In contrast to financial accounting reports, management accounting reports are not governed by any standard-setting body (such as the FASB or the SEC). Hence, organizations may prepare any reports they choose, use any format or method desired, and measure any numbers deemed relevant. Over the years numerous management accounting reports and tools have been developed to assist managers as they perform appointed assignments and make evidence-based decisions. The management accounting course is designed to provide students with a broad survey of reports and tools essential for evidence-based management (Garrison et al., 2006; Horngren et al., 2003).

Costing systems. The management accounting course involves gaining competency in how costing systems function and how costing systems assign costs to patients, departments, and operating units. Given the sea change in both patient care and financial technology in health care organizations, basic cost structures of organizations have changed significantly. In past decades, "overhead" of organizations was a relatively small component of total costs of organizations. Today, hospitals and health systems have towering overhead costs (Garrison et al., 2006; Horngren et al., 2003). Although no recent data have been reported regarding overhead costs for U.S. hospitals, in 2003 Stanford University Hospitals found that overhead costs per bed increased \$3,388 annually (Shah, Reed, Francis, Ridley, & Schulman 2003). Due to health care costs escalating at exceptional rates, the management accounting course explains various techniques for overhead costs analysis.

Costing systems differ in how costs are assigned to cost objects, what costs are assigned, and extent to which estimates (or standards) are used in assigning

costs. Traditional costing approaches in business settings include job costing, activity-based costing, absorption costing, variable costing, and standard costing. Other newer approaches that continue to gain acceptance include throughput costing, value-stream costing, target costing, and various "lean" accounting costing approaches that focus on reducing unnecessary activities within organizations (Garrison et al., 2006; Horngren et al., 2003).

Planning activities. The management accounting course focuses on how accounting information is used to facilitate planning and control activities while enhancing strategic evidence-based decisions. With respect to planning activities, competency development occurs in cost/activity behavior, operational budgeting, cost-volume-profit analysis, and capital budgeting. Competency in these planning and forecasting activities enables executives to predict resource allocation and market needs that strategically position organizations for the future. For example, understanding how staffing requirements are likely to behave in the face of seasonal or cyclical factors allows nurse executives to make evidence-based decisions regarding allocation and budget resources for impacted areas. Understanding how changes in patient demographics influence needs for facility expansions and modifications enables nurse executives to justify long-term expenditures. In addition, competency in cost-volume-profit analysis allows cogent explanations of how new health care initiatives can generate increased cash flows (Garrison et al., 2006; Horngren et al., 2003).

Variance analysis and other control activities. With respect to control issues, the management accounting course addresses standard costing and other approaches that are designed to measure and report variances in use of personnel and activities to provide necessary patient care. Competency in making evidence-based staffing decisions is developed by using cost accounting techniques that draw on variance analyses. For example, the course requires computation and interpretation of variances to determine appropriateness of staffing decisions in health care settings. Analyzing variances relative to budgets enables identification of areas where waste or inefficiencies occur, allowing evidence-based decisions for corrective actions (Garrison et al., 2006; Horngren et al., 2003).

Gaining management accounting competency. Students often have little experience with management accounting systems, what is meant by "cost" and how systems compute "cost." Hence, the management accounting course provides an eye-opening experience for executive MSN students as they gain cost competency by analyzing how a single analgesic tablet, costing a couple of pennies at retail stores, can potentially assume a total cost of more than a dollar when provided in hospitals that assign overhead

costs to pharmaceutical inventories (Garrison et al., 2006).

Woven throughout the management accounting course is the concept that accounting data must be relevant and accurate for use by organization decision makers. Evidence-based decision making is emphasized when teaching planning and control activities. In addition, fluency in accounting is enhanced which leads to greater skill in patient and nursing advocacy. As competency in management accounting increases through the semester, executive MSN students are encouraged to apply cost accounting course content to their practice settings and to analyze how planning or control activities improve quality outcomes.

Conclusion

Some nurses consider seeking competency in disciplines other than nursing may lead to diversion from nursing's primary focus of delivering quality patient care. Feedback from executive MSN students does not support this concern in relationship to the accounting courses. Students repeatedly state that the accounting courses provide essential preparation for nurse executive roles. Examples of students' feedback include:

I would advise any student interested in management to take the courses. If CNOs and other senior nurse leaders cannot understand the basic accounting dynamics of a business, their voices may not be heard in the boardroom. At the end of the day, [health] care is a business...it matters that the business is well run. Any health care system that is poorly run will eventually implode, shifting its burdens of care to other health care systems. Nurses cannot abdicate running the business to accountants...we must work together to ensure that the business and the quality of care are both sound.

At the time, I kept thinking — what am I doing? Will I ever use this information in my daily practice? I have concluded that it really is all about the numbers and I have been able to use the information I gained to support and justify proposals and daily practices.

I learned that as a nurse leader it isn't necessarily about knowing how to work every equation. What it is really about is having the knowledge to understand the language so that one can make cost-effective decisions that affect the practice of those who provide direct patient care and are at the bedside 24/7 and being able to equip your staff with the necessary tools to provide high-quality care.

In addition to student feedback, practicing nurse executives echo the need for a strengthened fiscal content. In today's world of decreased reimbursement and diminishing revenues, the chief nurse executive (CNE) must have broad overviews of accounting with

a comprehensive understanding as it relates to the world of health care finance. The CNE must be able to articulate and demonstrate the value of nursing during budget planning proceedings. Partnership and alignment with the chief financial officer (CFO) is more likely to occur when the CNE is versed in fiscal matters and understands financial implications of clinical leadership decisions. Desired in the health care organization is the CFO who also understands the implications of fiscal decisions on clinical care. This dynamic is critical to overall organizational success and is a topic worthy of future exploration. Completion of an intensive and rigorous accounting curriculum provides the CNE with confidence to evaluate the health care organization's financial resources, develop comprehensive business plans, and demonstrate the business case for quality and at the same time proving to be a good steward of the health care organization's dollars.

Executive team participation requires speaking "the language of business" to bring patient care initiatives and resource decision making to the executive team. Education in accounting provides nurse executives with increased advocacy skills for patients, the organization, and the nursing profession. Nurse executives must learn to effectively use evidence-based data to validate nursing's critical role in producing positive patient and organizational outcomes.\$

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