

Every Hospital Has Two Distinct Businesses



HI-LINE CAPITAL
MANAGEMENT



Introduction

Leadership in healthcare has long been defined by operational excellence. Hospital executives are trained to focus on patient outcomes, service delivery, staffing, and financial performance measured through operating margin. These responsibilities are essential. They reflect the mission.

But they are not the full picture.

Every hospital operates two distinct businesses. The first is well understood: the delivery of healthcare services. The second is less visible but equally important: the management of financial assets on the balance sheet.

Most leadership teams devote nearly all of their attention to the first. Yet long-term strength, independence, and sustainability increasingly depend on the second.

This is not theoretical. It is practical. Financial assets—when managed intentionally—can become a powerful engine of stability and growth. When neglected, they quietly lose value over time.

As the Healthcare Financial Management Association (HFMA) has noted, “long-term financial viability depends not only on operating performance, but also on effective stewardship of capital and investments.”¹

Leadership, therefore, is not simply about running operations well. It is about recognizing both businesses and ensuring they work together to support the mission.

“Every hospital operates two businesses. Most are only leading one.”

The Leadership Gap

The challenge is not what to achieve. It is how financial strength is defined.

Too often, financial strength is reduced to operating performance. Leaders focus on margins, revenue, and expenses. These metrics matter—but they reflect only part of the organization's reality.

The balance sheet tells the rest of the story.

Days cash on hand is one of the clearest indicators of financial strength, yet it is not driven solely by operations. Credit rating agencies consistently emphasize liquidity and balance sheet strength as primary determinants of hospital resilience.²

In many hospitals, financial assets represent a substantial portion of total equity. Still, they are rarely managed with the same rigor as operations. They are protected, but not optimized.

This gap is structural. Healthcare finance education and practice have historically emphasized operations while giving minimal attention to investing. As a result, many leadership teams have never fully engaged with the second business.³



The Two-Business Reality

Viewed differently, a hospital's financials reveal two parallel engines. One is operational—revenue, expenses, and the delivery of care. It is best measured by the income statement. The other, second business, is financial—cash, investments, and reserves that support the future. It is represented by financial assets on the balance sheet.

In many cases, these businesses are similar in size.

The difference is leadership.

The operational business has structure, accountability, and continuous improvement. The financial asset business often does not.

This imbalance matters more today than ever. Healthcare organizations face rising costs, capital demands, and increasing uncertainty in reimbursement. The American Hospital Association has repeatedly highlighted that many hospitals are operating under sustained financial pressure, limiting their ability to rely solely on operating income for long-term stability.⁴

The second business offers another path. When managed effectively, it becomes a source of stability and long-term growth.



The principle behind it is straightforward: financial strength is built through compounding.

Long-term capital market data reinforces this reality. Equities have historically outperformed other asset classes by a wide margin over extended periods, demonstrating the power of disciplined, long-term investment strategies.⁵

At its core, the equation is simple. If financial assets grow slower than expenses, the organization loses ground. If they grow at the same rate, it stands still. Only when returns exceed inflation does real strength emerge.

Even a modest advantage—one or two percent above inflation—sustained over time can double or triple financial capacity. That translates directly into greater flexibility, stronger balance sheets, and increased ability to invest in the mission.

One rural hospital leader recognized this decades ago. By prioritizing the second business and committing to long-term discipline, the organization tripled its days cash on hand over twenty years.⁶

“Financial strength is not defined by margin alone—it is built by returns that outpace inflation over time.”



The Leadership Decision

The greatest risk facing healthcare organizations today is not market volatility. It is the quiet erosion of financial strength caused by underperformance relative to inflation and inaction.

Maintaining the status quo may feel safe, but over time it becomes costly. Financial assets that are not actively managed tend to underperform, reducing purchasing power and limiting future options.

Behavioral research reinforces this challenge. Studies show that even sophisticated investors often underperform due to short-term decision-making and lack of discipline, leaving meaningful long-term value unrealized.⁷

Leadership must evolve.

It begins by recognizing the second business. It requires adopting a long-term perspective consistent with the enduring nature of healthcare institutions. And it demands the discipline to build processes that support sustained compounding.

Every hospital faces a choice. It can operate with one engine, relying entirely on operations, or it can develop a second engine through its financial assets.

The analogy is simple. A hospital with one source of income can function, but its future is more uncertain. A hospital with two sources of strength is better positioned to remain independent, invest in its community, and navigate change.

It only takes one leader to begin.

One executive. One board member. One champion.

The mission of healthcare is enduring. Sustaining that mission requires more than operational success. It requires financial strength built over time.

No margins, no mission. Not margin—plural.

“It only takes one leader to turn a balance sheet into a long-term engine of independence.”

The Two-Business Reality

Case Study: The Visionary Leadership of Paul Hanson

Decades ago, Paul Hanson, a leader at a rural hospital, recognized a fundamental shift in healthcare finance. While not an investment expert, he possessed a keen understanding of three concepts essential for institutional growth: two businesses exist in healthcare, the power of compound interest, and the historical outperformance of equities over bonds.

Implementing this vision was not without its challenges. Hanson encountered significant institutional inertia, including local political pressure, board resistance to change, established relationships and the fact that Hanson was not viewed as an investment expert.

However, Hanson's true strength lay in his ability to challenge the status quo. Through three years of persistent advocacy, he successfully dismantled these barriers, demonstrating the strategic necessity of creating an internal Chief Investment Officer (CIO) role.



The Goal was simple, reduce fees, and reduce opportunity cost to enhance returns. Under this approach, the organization achieved transformative results:

- **Cost Optimization:** Management fees and operational costs were substantially reduced.
- **Strategic Allocation:** The hospital safely transitioned toward higher-yielding assets.
- **Compound the Assets:** As a direct result, the organization's **Days Cash on Hand tripled.**

While the full magnitude of these gains was realized after his tenure, it was Hanson's foresight, leadership, and persistence that established the foundation for the hospital's long-term financial resilience.

References

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