Leveraging Receivables: Effect of Accounts Receivable Management on Leverage in the Healthcare Industry

Samuel Yeboah
Nord University Business School, Norway

Abstract

The healthcare sector is confronted with unique receivables management dynamics because of the complexities healthcare providers deal with, including private insurance, government programs, and self-paying patients. These intricacies impact their reliance on external financing. The study assesses the effect of accounts receivable days (ARD) on leverage with evidence from the US healthcare sector. The empirical process uses data from 2018 to 2022 and is analyzed using the system GMM regression method. The results indicate that a day delay in ARD increases leverage by 2.20%. This is even more pronounced in the medical equipment industry, with a 5.10% increase in leverage. The results further reveal that while the sector witnessed a decrease in leverage with extended ARD, the medical equipment industry observed a reduction during the COVID-19 pandemic. The findings suggest that extended accounts receivable periods tie up working capital in unpaid invoices, delay cash inflows, and create liquidity challenges. This can force companies to borrow more to cover short-term needs, especially in industries like medical equipment, where high upfront costs make timely receivables crucial for cash flow. The results highlight the need to consider industry-specific factors when analyzing the impact of ARD on external financing decisions.

Keywords: accounts receivable days, COVID-19 pandemic, debt-equity ratio, healthcare, leverage, working capital management