What GPOs are Doing to Promote Ethical Compliance

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Today’s Presentation

- Premier

- Healthcare Group Purchasing Industry Initiative (HGPII)
Premier, Inc.
Bringing nation-wide knowledge to benefit local healthcare

Shared goals:
- Better outcomes
- Safely reducing cost

Owners
Affiliates

- Owned by 200+ not-for-profit hospitals and health systems
- Serving more than 1,700 hospitals and 42,000 other providers
- Sharing of clinical, labor and supply chain data for benchmarking
- $27 billion in group purchasing volume – largest in U.S.
- 2006 Malcolm Baldrige National Quality Award Recipient
- Highest ethical standards - leading Code of Conduct
- Diversity, safety and environmental programs
Setting the Ethics Stage
“This might not be ethical. Is that a problem for anybody?”
The Beginning...

- “Needles” – CBS 60 Minutes focus – “In the U.S., 600,000 needle stick accidents occur every year. Workers stuck by contaminated needles can become infected with deadly viruses such as HIV and Hepatitis C. But while many safety needles have been invented, hospitals and clinics often won’t buy them.”

- Headlines – article series “Medicine’s Middlemen”
The New York Times Articles

- March 4, 2002  MEDICINE'S MIDDLEMEN; Questions Raised of Conflicts At 2 Hospital Buying Groups
- March 26, 2002  When a Buyer for Hospitals Has a Stake in Drugs It Buys
- April 23, 2002  Hospital Products Get Seal of Approval at a Price
- April 30, 2002  Hospitals Find Big Buying Groups May Not Come Up With Savings
- May 1, 2002  Senate Panel Criticizes Hospital Buying Groups
- June 5, 2002  States Accuse Bristol-Myers of Fraud on Taxol
- June 7, 2002  A Mission To Save Money, A Record Of Otherwise
- August 1, 2002  Accusation Of Conflicts At a Supplier To Hospitals
- August 9, 2002  Buying Group For Hospitals Vows Change
- August 15, 2002  U.S. Expands Hospital Supply Buying Inquiry
- August 25, 2002  Mt. Sinai on a Path Away From the Past
- Sept 4, 2002  A Persistent Small Supplier Gets Contract for Hospitals
- Sept 7, 2002  Spitzer Opens Inquiry Into the Business Practices of Hospital Buying Groups
- October 8, 2002  A Region's Hospital Supplies: Costly Ties
- October 24, 2002  Ethics Standards Overhaul Urged for Hospital Buying Groups
- Nov 23, 2002  Hospital Network's Switch Is Blow to Novation
The Industry Responds
Industry Initiatives

- HIGPA – Health Industry Group Purchasing Association
- July, 2002 - HIGPA creates an industry Code of Conduct
- 9 Principles
  - Compliance with Applicable Laws
  - Conflicts of Interest
  - Member Relations, Product Evaluation & Vendor Grievances
  - Use of Contracting Tools
  - Compliance, Certification & Implementation
  - Reporting and Education
  - Disclosure of Vendor Payments
  - Safety, Cost-Reduction & Clinical Comparability
  - Diversity
Premier Responds
Outside Verification and Insight

- Study undertaken under direction of our Audit Committee
- Respected ethicist Kirk O. Hanson engaged as study leader, with freedom of inquiry and access
- Hanson quoted in the NY Times, "They have given me free run of the place."
- Hanson promises to release his recommendations publicly.
- Because no uniform standards existed for GPOs, study came to represent first-time, large-scale examination of industry serving most of nation’s hospitals
- Involved Hanson’s engagement with many different stakeholders, ethics experts in formulating best practices
Outside Verification and Insight

Output of Hanson study: recommendations of 50 best ethical standards for organizations operating GPOs*

Outcome:
- Immediate acceptance of report by Premier in October 2002 with commitment to implement
- Incorporation of all recommendations into a Code of Conduct for Premier overall, and implementing it over months-long effort according to detailed plan overseen by Audit Committee
- Associated development of ethics compliance, reporting, education processes led by new chief compliance officer reporting directly to Audit Committee
- Report made freely available to other GPOs and public
Corporate Accountability

- Baldrige criteria ask: *How does your organization address…stakeholder and stockholder interests, as appropriate?*

- A key Premier response:
  - Voluntary adoption of applicable best standards for governance of Sarbanes-Oxley Act of 2002
  - A second intense months-long effort to implement and embed policies and practices where necessary to ensure adherence, under direction of Audit Committee
Hire an Ethics and Compliance Officer
“I don’t know how it started, either. All I know is that it’s part of our corporate culture.”
What does an ethical culture look like?
Changing Perspective
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Elements of Premier’s Approach

- ECO reports directly to the Audit Committee and meets quarterly
- Code of Conduct that incorporates Professor Hanson’s 50 recommendations
- Annual Code of Conduct training for employees, committee members and BOD
- Anonymous reporting mechanism
- Notification to suppliers of Premier’s Code of Conduct
- External audit of Code of Conduct
- Internal monitoring and verification of on-going Code compliance
- Annual ethics and compliance survey assessment
- Visible commitment from senior management
Where is Premier and the GPO Industry Today?
Institute for Global Ethics*

- Survey by the Institute for Global Ethics on Moral Values
- The survey asked the respondents to choose the five moral values from a list of 15 that were the most important to them.
- The top three values: Truth, Compassion, Responsibility
- The most frequent choice: Truth
- The respondents were also asked to select the single most important value: Compassion topped that list.

*Information taken from the research and writings of Rushworth Kidder of the Institute for Global Ethics (IGE).
IGE – Sources of Authority*

- Respondents were asked about their sources of authority, or the people and institutions they relied on for knowing what is morally right.
- The respondents ranked six possible sources of authority: modern science, religious leaders, best friends, personal experience, God's word, and government.
- The most striking result was the tremendous importance given to personal experience.
- Government was far and away the least important source.

*Information taken from the research and writings of Rushworth Kidder of the Institute for Global Ethics (IGE).
2005 - Present

- May, 2005 – 9 GPOs create Healthcare Group Purchasing Industry Initiative (HGPII) – self-regulation including comprehensive questionnaire and best practices forum
- Signatories agree to adhere to six core principles.*
- Fall, 2005 Hire Richard Bednar to be the Initiative Coordinator – also the coordinator of the Defense Industry Initiative
- Fall, 2005 – First questionnaire is submitted by signatories and posted publicly
- January, 2006 – First annual best practice forum
- Fall, 2006 – Second questionnaire
- January, 2007 – Second annual best practice forum
Six Core Principles

The Principles require each participant to:

- Have and adhere to a written code of business conduct. The code establishes the high ethical values expected for all within the Signatory’s organization.
- Train all within the organization as to their personal responsibilities under the code.
- Work toward the twin goals of high quality healthcare and cost effectiveness.
- Work toward an open and competitive purchasing process free of conflicts of interest and any undue influences.
- Have the responsibility to each other to share their best practices in implementing the Principles; each Signatory shall participate in an annual Best Practices Forum.
- Be accountable to the public.
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Auction
Auction Rules

- No talking during the auction. Only those bidding can speak.
- Bidding must start at $.50 and take place in increments of $.50.
- The highest two bidders must pay their final bids to Megan.
- Only the highest bidder will collect the auctioned item.
What happened?
Auction Learnings

- Sometimes our emotional commitment to something causes us to behave irrationally.

- If we step back and think about the outcomes, we are often more likely to act rationally.

- Sometimes we think we’ve “won” – when actually we’ve “lost.” (Winner’s curse)
Industry Issues

- Conflict of Interest
  - Perceptions of how contracts are awarded
  - Stock ownership by employees and committee members
- Vendor ownership by GPOs
- Sourcing of Physician Preference Products
- Contract length – general limitation to 3 years
- Administrative Fees - Cap and Standardization
- Elimination of additional fees:
  - No up-front Administrative fees
  - No Administrative fees in the form of Vendor equity
  - No Marketing or other fees from Vendors
  - No private label programs
Concluding Remarks
Card 1

- Some say you can't win a war in Southeast Asia with a public divided about its morality. But I'm going to tell you how.
Card 2

Some say you can't advance the cause of civil rights without violence in the streets. But I'm going to tell you how.
Some say you can't fight poverty and balance the budget. But I'm going to tell you how.
And now, Lyndon, you’re on your own.