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U-T SPECIAL REPORT

Local firm wins prize, and some controversy

By Keith Darcé
STAFF WRITER

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Not long after a Del Mar purchasing company learned that it had won a prominent national business award, questions began surfacing about whether the firm should have received the prize, and about potential conflicts of interest in its selection.

Premier, the medical-supplies purchasing company that won the Baldrige Award last month, has been at the center of a four-year probe by a U.S. Senate subcommittee. The panel is looking into allegations that big players in the industry use unfair, and potentially illegal, tactics to squash smaller competitors and to exact exorbitant profits from vendors.

Richard Norling, Premier's chief executive, is a board member and former chairman of the Foundation for the Malcolm Baldrige National Quality Awards, a private group that raises money to support the government-run program. Premier has given at least \$150,000 to the group, and Norling himself has raised more than \$1 million in donations for the foundation since joining the board.

"We were shocked to learn that such a prestigious award was given to an organization that has a lot of unanswered questions about the way it operates," said Mark Leahey, executive director of the Medical Device Manufacturers Association,

which represents the industry's smaller competitors.

At the very least, the cozy relationship between Premier and the foundation creates a perception of impropriety that potentially sullies the prize and puts the entire program under a cloud of suspicion, said Lori Ryan, director of San Diego State University's Corporate Governance Institute.

"If directors' companies are getting these awards, it doesn't look good," she said. "You're putting yourself in a position of having a conflict of interest."



The Baldrige Award

What it is: The Malcolm Baldrige Quality Award recognizes achievements in quality and performance by American businesses, educational institutions and nonprofits.

How it's awarded: Volunteer examiners evaluate applications and produce blind reports on the best candidates. A panel of

outside judges reviews the reports and selects the finalists. The commerce secretary selects the winners.

How it's funded: The Commerce Department spends about \$7 million annually to manage the program. An additional \$1 million annually comes from an independent foundation.

SOURCE: CommerceDepartment

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position of having a conflict of interest.

Program administrators say there was nothing dubious about Premier's selection this year as one of three Baldrige Award recipients. They say the company's application, like all others, was reviewed by independent volunteer examiners and considered in a blind process by a panel of nine outside judges selected by the secretary of commerce.

"We have strict code of conduct and conflict-of-interest rules," said Harry Hertz, director of the Baldrige National Quality Program, which operates under the Commerce Department's National Institute of Standards and Technology.

And the foundation's executive director, Thomas Schamberger, noted that Norling isn't the first executive whose company won an award at the same time he served on the foundation's board.

"It's a very, very rigorous process with a lot of integrity," he said.

Still, Norling offered to resign from the board shortly after his company applied for the award, out of concern that his involvement with the group might raise questions, Schamberger said.

"He thought there might be a perception problem," Schamberger said. "We said no, there is no conflict of interest."

Norling was traveling outside the country this week and could not be reached for comment.

John Darrouzet, a Texas corporate attorney who served as an adviser to a former Baldrige foundation chairman, said this week that the line separating the government-run awards program from the private fundraising foundation sometimes gets blurred. For example, he said, the program has become increasingly reliant on the foundation for money to support the awards competition.

At times, the program's administrator has attended foundation board meetings to discuss fundraising and the organization's endowment, which grew from \$18 million to \$20 million in recent years, Darrouzet said.

The lawyer said the boundaries separating the two organizations need to be made clearer.

"Over the course of a couple of years, it became more and more obvious that the leadership aspect (of the program and foundation) wasn't transparent," he said.

Marc Lampe, a professor of business law and ethics at the University of San Diego, suggested that a committee of neutral individuals could investigate whether there are leaks in the firewall separating the award program from the foundation.

"It sounds like there is an awful lot of smoke here," Lampe said.

Senate investigation

Serving as a backdrop to this year's contest was the ongoing investigation of group purchasing organizations by the Senate Subcommittee on Antitrust, Competition Policy and Consumer Rights.

The middlemen purchasers secure bulk supply contracts for items such as syringes and toilet paper for thousands of hospitals and nursing homes across the country. The companies, which are mostly privately owned, secured contracts with vendors on behalf of about 90 percent of the nation's health care centers last year and were responsible for more than \$200 billion in supply purchases, according to a recent study by S. Prakash Sethi, president of the International Center for Corporate Accountability in New York.

Premier and Novation of Irving, Texas, are the industry's largest players, according to the study, sharing just more than 50 percent of the market. Premier has annual revenue of \$500 million, according to information

from the Baldrige program.

Premier's corporate headquarters in Del Mar employs about 300 of the company's 932 workers. Other offices are in Charlotte, N.C., and Washington.

In theory, the companies' bulk purchasing power forces vendors to sell their products at lower prices, which translates into savings for hospitals and nursing homes. But critics say the industry is rife with kickbacks and other corrupt practices that limit competition, restrict access to medical products and actually drive up prices.

Premier and the other big companies voluntarily adopted a series of reforms that banned some of the industry's most egregious abuses, such as owning stock in the vendors with whom they contract.

Senate subcommittee members who favor further changes are expected to introduce several pieces of legislation early next year that, among other things, would require federal regulation of group purchasing organizations and reverse the industry's exemption from federal antitrust law.

Premier and the other industry players say no legislation is needed.

"The industry changed the way it behaved, and Premier was at the forefront of doing that," company spokesman Blair Childs said this week. "We have opened ourselves up as an industry. We have been very forthcoming, transparent and open about all of this."

Like the Nobel Prize

Most of the \$1 million that Norling has raised for the Baldrige foundation has come from vendors that depend on contracts with his company to sell their products to Premier's member hospitals and nursing homes, said Schamberger, the foundation's executive director.

Norling stopped soliciting donations from vendors in recent years after his company adopted new ethics standards, Schamberger said.

Given the Baldrige Award's lofty reputation – some have called it the Nobel Prize for quality business practices – Premier's win could go a long way toward cleaning up its image and that of the group purchasing industry. The award also could make it harder for industry critics to win the support they need in Congress to pass reform legislation.

"I hope (Senate subcommittee members) read about the Baldrige and nod approvingly," said Curtis Rooney, president of the Health Industry Group Purchasing Association, a lobbying organization for Premier and 29 other medical group purchasing companies. "This sort of award is like having your friends say great things about you."

If tradition holds, Norling will accept the Baldrige award, a 24-pound, \$15,000 Steuben crystal trophy, from President Bush or Vice President Cheney at a ceremony next spring in Washington.

Soon after, he and senior executives from the other two 2006 Baldrige winners – MESA Products of Tulsa, Okla., and North Mississippi Medical Center in Tupelo – will appear at The Quest for Excellence Conference, an annual event designed to showcase the winners' achievements and to spread the successful business practices promoted by the awards program.

If it were up to Darrouzet, Premier would be left out. The former Baldrige foundation adviser said the San Diego company should turn down the award to avoid further damage to the program's reputation.

"The president hasn't given the award. . . . The better thing would be for Mr. Norling to recognize that this isn't a good idea," Darrouzet said.

Others involved with the program say the controversy surrounding Premier's win is unwarranted.

"I'm frankly very surprised by these allegations, and I think they are groundless," said George Benson, chairman of the Terry College of

Business at the University of Georgia and a member of the Baldrige Board of Overseers, which advises the commerce secretary on the program.

“I can understand how someone who doesn't understand how the program operates would have a perception that something is going on. But there is absolutely no relationship between what goes on in the foundation and what goes on in the judging process.

“This is one of the strongest organizations that I've been associated with,” he said.

Childs, the Premier spokesman, said most of the complaints about the company's selection for the award came from smaller competitors who are leading the push in Congress for more regulation.

“They have one goal: to drive up their profits by driving down our organizations,” Childs said.

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