

CHARTER OF THE HEALTHCARE GROUP PURCHASING INDUSTRY INITIATIVE

Description

The Healthcare Group Purchasing Industry Initiative (HGPII) was established in 2005 by major healthcare group purchasing organizations who pledged to adopt and implement a set of principles of business ethics and conduct that acknowledge and express their responsibilities to the public and to government entities which fund healthcare services in the United States.

Healthcare group purchasing organizations (GPOs) are an essential link in the supply chain of healthcare providers such as hospitals, clinics, and other delivery organizations. GPOs aggregate the purchasing activity of their members, thereby lowering costs in both the purchasing activity itself and in the prices at which products and services are purchased. GPOs also enable members to coordinate collection of data and improvement of systems essential to the quality of care and the reduction of costs.

By joining the Healthcare Group Purchasing Industry Initiative, member organizations pledge both to follow a set of core Principles and to participate in an ongoing dialogue with other GPOs and with various organizations, including the Department of Health and Human Services, regarding the most effective policies and procedures for implementing these Principles.

The Principles

The Healthcare Group Purchasing Industry Initiative Principles are:

- 1) Each Signatory shall have and adhere to a written code of business conduct. The code establishes high ethical values and sound business practices for the Signatory's group purchasing organization.
- 2) Each Signatory shall train all within the organization as to their personal responsibilities under the code.
- 3) Each Signatory commits itself to work toward the twin goals of high quality healthcare and cost effectiveness.
- 4) Each Signatory commits itself to work toward an open and competitive purchasing process free of conflicts of interest and any undue influences.
- 5) Each Signatory shall 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.
- 6) Each Signatory, through its participation in this Initiative, shall be accountable to the public.

As they pursue these Principles, Signatories will take a leading role in making the Principles a standard for the entire healthcare group purchasing industry, and a model for other healthcare industries.

Annual Public Accountability Questionnaire

On an annual basis, each Signatory organization files a report with the Initiative Coordinator responding to the questions in the Annual Public Accountability Questionnaire. These reports will be available to the public, and will be used by the Initiative Coordinator to compile a summary report on the adherence of Signatories to the Principles and a report on evolving Best Practices in fulfillment of the Principles.

Organization

The Healthcare Group Purchasing Industry Initiative consists of a Steering Committee, a Working Group, and an Initiative Coordinator.

The *Steering Committee*, consisting of the CEOs of all Signatory organizations, shall set policies for the Healthcare Group Purchasing Industry Initiative, upon recommendation of the Working Group. (As the Initiative grows in membership, the membership of the Steering Committee and Working Group may be limited to a representative group.)

The *Working Group*, consisting of one designee from each Signatory organization, shall be responsible for the continuing activities of the Healthcare Group Purchasing Industry Initiative, shall determine the annual assessment for each Signatory organization, commensurate with the Signatory's annual revenues, to fund the expenses of the Healthcare Group Purchasing Industry Initiative.

The *Initiative Coordinator* shall be the day to day operating officer of the organization, planning and conducting meetings, including the annual Best Practices Forum, receiving and tabulating the Annual Public Accountability Questionnaires, and preparing an annual report on the adherence of Signatories to the Principles and trends in Best Practices.

The Coordinator will review the annual questionnaires for responsiveness, completeness, and accuracy, following up with participating organizations to recommend remedial action. The Coordinator will also make recommendations to the Working Group and the Steering Committee regarding the continued participation of organizations that do not take adequate remedial action.

Membership

Membership in the Healthcare Group Purchasing Industry Initiative is open to any healthcare group purchasing organization, including those entities in which group purchasing is only one of many activities of the organization. At the time of joining, members must pledge to follow the Principles, to file the Public Accountability Questionnaire annually, and to participate in the annual Best Practices Forum.

The Healthcare Group Purchasing Industry Initiative does not anticipate refusing any good faith membership applications or renewals, but does reserve the right to refuse or suspend membership privileges for cause.

QUESTIONS AND ANSWERS REGARDING THE HEALTHCARE GROUP PURCHASING INDUSTRY INITIATIVE

- 1. What are healthcare group purchasing organizations (GPOs)?**
Healthcare group purchasing organizations are business organizations that pool the purchasing volumes of member hospitals, health systems and other providers like nursing homes, home healthcare agencies, and physicians. GPOs ensure acquisition of the best and most cost-effective products and services, and assist their members in improving quality of care for patients and efficiencies throughout the supply chain.
- 2. What is the Initiative?**
The Initiative is a voluntary association of healthcare group purchasing organizations (GPOs) created in 2005 to encourage and sustain best ethical and business conduct practices in the GPO industry.
- 3. Why was the Initiative created?**
The Initiative was created to establish a process for the industry to monitor and improve its ethical and business conduct practices through significant transparency and to sustain a high level of trust with the public.
- 4. How does the Initiative encourage best ethical and business conduct practices?**
The Initiative requires each signatory company to pledge to follow six core ethical principles, to report annually on adherence to these principles using an Annual Accountability Questionnaire, and to participate in an Annual Best Practices Forum to discuss best ethical and business conduct practices with other GPO representatives and with representatives from government and other organizations.
- 5. Who sponsors the Initiative? How is it governed?**
The Initiative is a stand-alone, single-purpose organization and is not affiliated with any other organization or industry association. The Initiative is governed by a Steering Committee of the chief executive officers of participating organizations. Its day-to-day affairs are guided by a Working Group of representatives of participating organizations and by an independent Coordinator, who serves as executive officer of the Initiative.
- 6. What companies belong to the Initiative?**
The Initiative's founding members are Amerinet, Broadlane, Child Health Corporation of America, Consorta, GNYHA Ventures, Inc., Healthtrust Purchasing Group, MedAssets, Novation and Premier Inc. These companies include most of the largest group purchasing organizations in the United States, estimated to represent more than 80 percent of the volume purchased through GPOs.

7. Who may join the Initiative?

Any group purchasing organization, whether for profit or nonprofit, whether a stand-alone GPO or part of another organization, may join the Initiative. Participating companies must pledge to follow the six core principles, report annually, participate in the Best Practices Forum, and contribute to the common expenses of the Initiative. A general invitation for other GPOs to join will be issued in late 2005.

8. How will the Initiative help to elevate ethics and business conduct practices among GPOs?

The Initiative establishes six core principles of ethics and business conduct and then tracks how participating companies implement those principles. Each participating company submits an Annual Accountability Questionnaire which addresses important areas of business practice and reports on its own policies and actions. These company reports will be posted on the Initiative website and will be summarized in an Annual Public Accountability Report from the Initiative. The disclosure of policies and practices that GPOs believe assure adherence to the Initiative's six core principles will permit government officials and members of the public to assess for themselves the adequacy of these policies and practices. After the release of the Annual Public Accountability Report, all companies participate in a Best Practices Forum at which differing policies and practices are discussed with the participation of government officials and other invited guests.

Participating companies are expected to change their policies and practices as necessary in order to answer each of the questions in the Annual Questionnaire in the affirmative and to provide adequate supporting documentation to permit the Initiative Coordinator to determine that each answer to the questionnaire is fairly given. It is expected that participation in the Initiative will be a key criteria for hospitals and other providers when they select membership in a GPO. The Steering Committee may suspend the participation of any GPO which fails to fulfill its obligations under the Initiative.

9. When will the first reports from the Initiative be released?

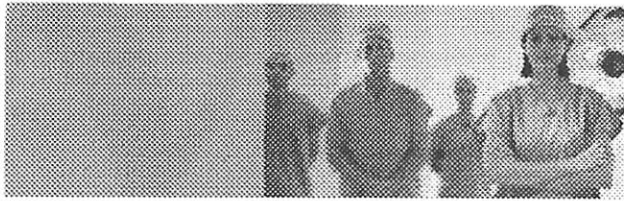
The first annual reports from participating companies will be submitted in October 2005. The first summary report on the practices of signatory companies will be released early in 2006.

10. When will the first Best Practices Forum be held?

The first Best Practices Forum will be held early in 2006.

11. What are the major benefits of a voluntary Initiative like this?

Achieving exemplary ethics and business practices across an industry is something that will occur only if the leadership of the industry makes a significant commitment to achieve the articulated standards. With this Initiative, each CEO is pledging that his or her organization will achieve the ethics and business conduct standards that are addressed in the core principles and the questionnaire, and will do so with extraordinary transparency. Each participating GPO will do this because they have chosen to do it voluntarily. This is the best way to achieve lasting change.



HEALTHCARE GROUP PURCHASING INDUSTRY INITIATIVE

Annual Public Accountability Questionnaire

1. Does the GPO have a written code of business ethics and conduct? (Please provide copy and describe any changes since the last submission.)
2. Does the GPO have policies and procedures that address conflicts of interest for all individuals involved in group purchasing and for members of the Board of Directors and/or the GPO's governing body? (Please provide.)
3. Does the GPO have policies and procedures that address activities, including other lines of business, that might constitute conflicts of interest to the independence of its purchasing activity? (Please provide.)
4. Does the GPO disclose to members money or value received from vendors, whether in the form of administrative fees, marketing fees, partnership incentives, equity or any other form, and make any other disclosures required by law or by agreement with government regulators? (Please describe.)
5. Does the GPO disclose to each member all fees and benefits, in any form, paid to the member organization, and make any disclosures required by law or by agreement with government regulators? (Please describe.)
6. Does the GPO have a publicly available description of the bid and award process which includes the following principles similar to those embodied in the Federal Competition in Contracting Act? (Please provide and describe the items below.)
 - i. Are the requirements for items or services to be purchased generally identified and published so as to be accessible to potential vendors?
 - ii. Does the GPO disclose requirements to be identified as a responsible bidder?
 - iii. Are all responsible vendors eligible to compete and receive a contract award under the criteria?

- iv. Are the criteria for selection of a vendor identified, publicized to potential vendors, and followed?
 - v. Does the GPO have a fair and unbiased system for evaluating products and services considered for procurement?
 - vi. Does the process include a preference for competitive procurement?
 - vii. Does the process establish a standard for the appropriate use of sole, single, and multi-source procurement?
 - viii. Does the process include an approach to administrative fees which insures that the interests of the GPO do not supplant those of the member organizations?
 - ix. Does the process include provisions which guide appropriate bundling of products and the length of contracts?
7. Does the GPO have a publicly available policy and procedure to ensure vendor and bidder rights, including a procedure for vendor and bidder grievances? (Provide copy.)
 8. Does the GPO have a process to evaluate and provide opportunities to contract for innovative clinical products and services? (Describe.)
 9. Does the GPO have a program to encourage contracting with small, women-owned and/or minority businesses? (Describe.)
 10. Does the GPO distribute its written code of business ethics and conduct to all employees, as well as to agents, contractors, clinical advisory committees, and all others involved in group purchasing activity? (Describe.)
 11. Are new employees involved in group purchasing provided an orientation to the written code of business ethics and conduct? (When and how?)
 12. Does the GPO conduct employee refresher training on an annual basis on the Code of Conduct? (Provide examples.)
 13. Is there a corporate review board, ombudsman, corporate compliance or ethics officer, or similar mechanism, for employees to report possible violations of the written code of business ethics and conduct to someone other than one's direct supervisor, if necessary? Do organization policies and practices seek to protect the confidentiality of the reporting employee's identity and to prevent retaliation for good-faith use of the reporting mechanism? (Describe.)

14. Is there an appropriate mechanism to follow up on reports of suspected violations to determine what occurred and who was responsible, and to recommend corrective and other actions? (Describe.)
15. Is conduct consistent with the written code of business ethics and conduct one of the standards by which all levels of supervision are measured in their job performance? (Describe.)
16. Is there a process to monitor, on a continuing basis, adherence to the written code of business ethics and conduct, and with applicable federal laws? (Describe.)
17. Did the GPO fulfill its obligation to participate in the most recent GPO Best Practices Forum? (Who attended?)
18. Are periodic reports on the GPO's program to implement and maintain its commitment to these Principles made to the company's Board of Directors or to its Audit or other appropriate committee? (Describe.)
19. Is a member of senior management assigned responsibility to oversee the business ethics and conduct program? (Please identify.)

May 2005

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An additional regulatory solution is much less likely to be successful. Faced with a complex regulatory scheme, companies inevitably turn primarily to lawyers to try to ensure that they are meeting the letter of the law. Any aspiration to best practices tends to be extinguished by regulatory complexity and burden.

In addition, the healthcare GPO industry is diverse and, in recent years, has been extremely agile and dynamic in its efforts to serve the evolving needs of health care providers. An attempt to regulate the industry would take several years, and would be unlikely to keep up with the nature of the industry. This voluntary system requires extensive, ongoing transparency and allows GPOs to respond most effectively to the evolving needs of the health care marketplace. It can also achieve these goals at the lowest cost to hospitals and other providers and ultimately to patients and the funders of health care in the United States.

12. How can I contact the Initiative?

Prof. Kirk O. Hanson of Santa Clara University is currently serving as Interim Coordinator. He can be reached at kohanson@scu.edu or 408-554-7898.

September 2005