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Award raises questions

Premier wins Baldrige for best-run business despite ongoing Senate antitrust probe

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Premier Inc., a California medical-supplies purchasing company with its largest offices in Charlotte, won a 2006 Malcolm Baldrige National Quality Award last week, the nation's highest honor for best-run businesses.

The company sees the award as the crowning achievement of a seven-year "journey" to improve leadership, customer focus and other key tenants of the Baldrige program.

Yet some of Premier's competitors say the award is ironic for a company with a history of anti-competitive challenges and one that remains the subject of a Senate antitrust investigation.

Premier is one of the nation's largest health care group-purchasing organizations or GPOs. It acts as a middleman and negotiates bulk medical supply and service contracts to the tune of $27 billion a year for about 1,500 nonprofit hospitals and thousands of other health care providers.

San Diego-based Premier, one of the nation's biggest medical-supply purchasing contractors, moved its Chicago offices to Charlotte in 2004. The company serves Stanly Memorial Hospital in Albemarle and Gaston Memorial Hospital, but none in Charlotte.

Premier was one of three Baldrige winners this year. Judges said the winners demonstrated greater customer satisfaction, improved employee relations and increased market share.

Through an act of Congress 20 years ago that gave GPOs safe harbor from anti-kickback laws, Premier and other GPOs are allowed to charge major medical suppliers millions of dollars in annual administrative fees.

The fees are part of contracts that save suppliers the hassle and expense of marketing and selling products to thousands of hospitals, GPOs say.

Critics and smaller competitors argue GPOs are cartels and the fees put them in the role of advocates for major corporate suppliers, which lock out independent suppliers of cheaper and sometimes better devices.

Testifying before Congress this spring, Dr. Prakash Sethi, president of the International Center for Corporate Accountability at the City University of New York's Zicklin School of Business, said the GPO business model "has built-in structural flaws and its financial incentives are so perverse" that the industry can't effectively self-regulate.

Premier and other GPOs remain under investigation by the Senate's Subcommittee on Antitrust, Competition Policy and Consumer Rights. Investigators have been looking since 2002 into whether Premier and industry peers block smaller medical device makers' access to hospitals.

In a statement to the Observer on Thursday, Senate Antitrust Subcommittee Chief Counsel Jeff Miller said his ongoing investigation of GPOs "uncovered many serious obstacles to competition operating to the detriment of patients and hospitals."

He said the industry has implemented "substantial voluntary reforms" and has pledged to end market-rigging practices.

"We will continue to monitor this industry to ensure that competition prevails and that these voluntary reforms are permanent," the statement added.

The day before Premier won its Baldrige award on Nov. 21, the company settled a lawsuit for $8.8 million with Rochester Medical Corp. The Minnesota catheter maker accused Premier of preventing it from selling its product to hospitals.

Two years ago, Premier and two other defendants settled a lawsuit for more than $50 million for allegedly blocking sales of syringes made by Little Elm, Texas-based Retractable Technologies Inc.

"It's very strange that of all the organizations in the country ... there aren't more worthy candidates for this award," said Mark Leahey, executive director of the Medical Device Manufacturers Association, which represents small companies that compete with Premier clients.

Leahey also questioned Premier Chief Executive Richard Norling's connection to the Baldrige organization as a member of the Foundation for the Malcolm Baldrige National Quality Award. The foundation oversees the Baldrige award program's $20 million endowment.

Blair Childs, Premier's senior vice president of public affairs, said the company is a model of ethics. "There isn't an industry in this country that doesn't face some anti-competitive challenge from someone," he said.

Childs also said the company had asked award officials whether Norling should step down from the foundation to avoid conflict-of-interest accusations and "he was told there was no reason to do that."

Norling, a former chairman of the Baldrige award foundation, has been associated with the organization since before taking over as CEO of Premier in 1999.

Harry Hertz, director of the Baldrige program, said this week he was unaware that Premier remained the subject of a Senate investigation. He said he had "no hard information to make me rethink" Premier's qualifications for the award.

Hertz also said that the foundation for the Baldrige award is completely separate from the award program and that there was no conflict of interest regarding Norling's role with the foundation. "(Foundation members) have no oversight over the award program," he said.

Hertz said Premier's responsiveness to congressional criticism factored into winning this year's award.

Previous Baldrige winners, including AT&T, Boeing and Xerox, have come under regulatory scrutiny for various financial or privacy violations. Boeing CEO Phil Condit resigned after ethical scandals involving defense contracts in 2003, the same year the company won one of its Baldrige awards.

Premier's detractors -- often smaller competing manufacturers such as Retractable Technologies -- hope the new Democrat-controlled Senate will kick-start a bill that would eliminate the safe-harbor rule that allows GPOs to accept fees from suppliers.

Premier spokesman Hunter Kome said the company consulted with a noted ethicist and instituted a series of reforms beginning in 2003 to blunt criticism of alleged antitrust behavior and forestall calls for federal legislation.

The company adopted all 50 recommendations from the ethicist, and urged others in the industry to follow its lead, Kome said.

He said the resulting code of conduct and self-policing "was one of the strengths of our (Baldrige award) application."

The company has about 650 employees in Charlotte, where a Baldrige team spent about a week poring over how the company operates its group-purchasing, data-collection and insurance-related businesses.

As for last week's $8.8 million settlement with the Minnesota catheter maker, Kome said "the timing was unfortunate."

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About the Award

Congress established the Malcolm Baldrige National Quality Award in 1987. Named after the 26th secretary of commerce, some consider it the Nobel for companies that adhere to a set of best management practices.

Vice President Dick Cheney, or even the president himself, will present the award -- a prize 14 inches tall made of Steuben crystal -- at a ceremony in Washington early next year.

The U.S. Department of Commerce runs the Baldrige award program under the auspices of the National Institute of Standards and Technology.

Seventy six companies competed for the prize this year.

Unlike programs such as Six Sigma that typically focus on improving specific projects, the Baldrige program measures overall business improvement in seven areas that include leadership, strategic planning, and customer and market focus.

The Baldrige award program has about 500 volunteer examiners. A team of about six examiners spends a week onsite evaluating a nominated company's strengths and weaknesses, as measured by the Baldrige scale. Employees cannot serve as examiners at their own companies or at that of industry rivals.

Source: National Institute of Standards and Technology