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A Mission to Save Money, a Record of Otherwise

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ne of the nation's most powerful hospital-owned buying groups, which has a mandate to help nearly 1,500 nonprofit hospitals hold down costs, has posted a rise of 84 percent in its own spending over the last three years, the group's internal records show.

The group, Premier Inc., has dismayed some hospitals by expanding into areas that have little to do with its core mission of finding the best products at the best prices.

Some hospital executives have recently started working together to examine Premier's books and learn whether the group's rising costs are justified. "Salaries and bonuses and staffing would be one area we've been looking at," said one participant, Maurice W. Elliott, the chairman of Methodist Healthcare Inc., which is based in Memphis.

Several hospital executives also privately expressed irritation at the buying group's practice of holding conferences and business meetings at luxury resorts, where Premier spends tens of thousands of dollars for speeches by world leaders and diplomats who are not directly involved in hospital care issues in this country.

James K. Gardner, a lawyer for Premier, declined to answer specific questions, but said in a letter to The New York Times that the group's expenses had simply "increased commensurately" with its growth. As for conferences and speeches, Mr. Gardner said that Premier's spending in those areas was not excessive and that hospital executives benefited from exposure to developments in "government and politics and other fields that can affect the nation's health care system."

Premier and another giant buying group, Novation, say they save hospitals money, not only by negotiating group discounts for their members but also by acting as a counterbalance to the market power of large medical suppliers.

Recent articles in The Times have reported that Premier and Novation are paid by the medical products companies they are supposed to evaluate objectively, raising questions about whether the groups are finding the best products at the lowest prices. The articles also disclosed that Premier and some of its executives received stock or options from medical supply companies with which Premier did business.

Afterward, members of a Senate panel overseeing antitrust issues accused Premier and Novation of conflicts of interest and self-dealing — accusations that both groups deny. Congressional investigators also released a preliminary study suggesting that the big buying groups might be paying too much for certain medical supplies.

The panel gave the two hospital-owned groups until the end of July to propose significant changes or risk having the government do it for them. A trade association representing the buying groups is expected to hand in a draft code of conduct at the end of this week. The draft will then be sent to other interested parties — doctors, hospitals and medical supply companies — for their comments.

Unlike most purchasing agents in other businesses, Premier and Novation are largely financed by the companies that sell medical products. In its most recent fiscal year, for example, Premier received $307 million in fees from such companies, representing a percentage of what its hospitals buy. If revenue from Premier's other businesses and investments is included, the buying group took in $515 million in that fiscal year, which ended June 30, 2001.

Total expenses, which include salaries and benefits, were $378 million, up 84 percent from $206 million three years earlier. The group's revenue also grew, by 76 percent, over that period. Some hospital executives attribute part of the rising expenses to a growing bureaucracy within Premier devoted to consulting services, electronic commerce, programs aimed at improving the quality of medical care and other businesses.

Senator Mike DeWine, an Ohio Republican, expressed concern at a recent Senate hearing that the big groups had "strayed from their original purpose." He cited "the extensive range of businesses and programs" run by the buying groups.

Premier executives say they are providing services that hospitals want and need.

Any revenue beyond what Premier needs to cover expenses is given back to its owner hospitals or held on their behalf. In fiscal 2001, Premier made cash payments of $115 million to its owner hospitals, or 22 percent of its total revenue, according to Premier records made available by a hospital official. That payment appears to reverse a trend in which Premier had given out increasing amounts of money to its owner hospitals each year.

In 2000, Premier gave its owner hospitals a larger amount, $173 million, or 40 percent of its total revenue, records show. Premier said the reduction reflected an unusually large payment in the fiscal year 2000 and did not indicate a future trend.

When asked about its returns to hospitals, Premier, a private, for-profit company, first provided a separate set of distribution figures for previous years but then withdrew them, saying they were incorrect. It subsequently declined to provide accurate ones.

Premier said the large 2000 payout included not only that year's revenue but also the return of some money it had held back in the previous three years, when it was reassessing its capital needs after a merger.

By contrast, Consorta Catholic Resource Partners, another hospital purchasing group, returned 66 percent of its total revenue to members in 2001, 59 percent in 2000 and 58 percent in 1999, its first year of operations.

Mr. Gardner, the lawyer for Premier, said Premier's payout rate was better expressed as a percentage of the money it received from suppliers only — a narrower measure of revenue that yields a higher percentage of disbursement, or about 37 percent in 2001. By this comparison, Consorta returned 71 percent to its hospitals that year.

Some hospital executives wonder whether Premier could return still more money to hospitals if it had better control over its spending.

In 2001, salaries and benefits rose to $124 million, up 53 percent from $81 million two years earlier. "That would be a big increase," Mr. Elliott of Methodist Healthcare said. "Some of the board members are raising some of the same issues."

According to an internal document from June 2000 charting Premier's compensation schedule, members of the group's "executive team" — who work directly under Premier's chief executive, Richard A. Norling — can earn more than $750,000, including bonuses. The next lower rank of executives, called group leaders, can earn up to $450,000. Premier would not disclose how much Mr. Norling is paid.

A Premier spokeswoman said the compensation chart was outdated and might contain some inaccuracies, though she offered no specifics or any current compensation figures. Instead, Premier provided an outside consultant's opinion that Premier's "compensation philosophy and the compensation paid are reasonable and appropriate."

Separately, several hospital officials said Premier sent the wrong message by spending too much on its conferences. Two years ago, a person close to Premier said, it paid tens of thousands of dollars to Margaret Thatcher, the former British prime minister, to speak before hospital executives at the Greenbrier resort in West Virginia. Early this year, Premier hired Madeleine K. Albright, the former secretary of state, to speak to a similar group at the Phoenician, a luxury resort in Scottsdale, Ariz. The agency that represents Dr. Albright says her standard speaking fee is $70,000 to $80,000.

"It was, to me, the height of hubris," one hospital official said, adding that Dr. Albright's speech had little bearing on the issues his financially struggling nonprofit hospital faced or on the state of affairs at Premier.

"If I keep you focused on golf and good food, you are not going to ask questions," he said, referring to Premier's management.

A former Premier executive who attended the Greenbrier conference said he felt uneasy about Premier's paying for a hotel room that, according to receipts, cost nearly $500 a night. Another Premier executive said his group paid for him to attend what he described as an educational conference sponsored by a drug company at the Ritz-Carlton on the Caribbean island of St. Thomas.

Several executives also expressed concern over what they said was the failure of Premier to distribute its audited financial statements regularly.

A spokeswoman for Premier said, however, that the organization did provide audited financial statements to any owner hospitals that requested them and presented an overview of the data at its annual meeting.

Several of the hospital executives who have been questioning Premier's spending are also looking at the structure of Premier's board and whether its makeup represents the diverse interests of member hospitals.

"More representation on the board is the big issue," Mr. Elliott said. Despite these questions, though, Mr. Elliott said he continued to believe in Mr. Norling's leadership and called him a "very competent and ethical executive."

A new member of Premier's board, Lloyd H. Dean, said that "anytime there are escalating costs, as a board member and as an owner, I would be concerned." But Mr. Dean, who is president and chief executive of Catholic Healthcare West in San Francisco, said he had not been on the board long enough to know whether Premier's costs were out of line.

Mr. Dean said he was confident that the board and Mr. Norling were willing to make changes, if necessary. "We want to serve our members and serve our patients," he said.

Earlier this year Premier hired Kirk O. Hanson, a professor of business ethics, to review many of the ethical issues raised in recent months. Professor Hanson, who runs the Markkula Center for Applied Ethics at Santa Clara University in California, said, "They have given me free run of the place." He promises to release his recommendations publicly later this year.