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PEER-TO-PEER LEARNING EXCHANGE RESEARCH REPORT

The Evolution of the
Supply Chain Executive

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Introduction

The traditional healthcare supply chain role has been focused on procurement and contract management, a product of the materials management mindset. As such, the top supply chain executive is usually a department director, often reporting to either the chief financial officer, chief operating officer or someone lower on the organizational chart.

In many organizations, however, this situation is rapidly changing, driven by new economic pressures and Healthcare Reform. With supply costs running second only to labor costs, more healthcare CEOs are counting on supply chain leaders to deliver needed savings without sacrificing clinical quality. In what could be characterized as the evolution of the supply chain executive, a growing number of hospitals and healthcare systems are inviting directors of supply chain to take a seat at the senior leadership table.

“There is a recognition in the industry of a need to transition from materials management to supply chain management, which includes extensive spend management capabilities, working closely with physicians and clinicians on quality of care and cost management, and expanding the scope of supply chain beyond supplies and capital to include all non-salary spend and resource management,” says Michael Langlois, vice president of supply chain at Beaumont Health System, a three-hospital system based in Royal Oak, Mich. He was appointed to his C-suite-level post a year ago.

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Louis J. Fierens, Senior Vice President, Supply Chain and Fixed Asset Management, Trinity Health

A 2010 white paper, *Repositioning Supply Chain in Health Care Systems*, by the Health Sector Supply Chain Research Consortium at Arizona State University, found that moving from a transactional to a strategic view of the supply chain requires both organizational insight and organizational action. The study was based on detailed interviews with senior supply chain managers and senior system leaders.

“Merely recognizing that ‘materials matter’ is not sufficient to redefine the role for supply chain management or to drive organizational change,” the authors found. “Organizations must hire the appropriate individuals who can envision, orchestrate and manage change, and the function they assume must be redefined and repositioned to drive change both within the organization and with the organization’s strategic constituents.”

Louis J. Fierens II, senior vice president of supply chain and fixed asset management at Trinity Health, Novi, Mich., has seen his position evolve since he joined the 47-hospital system in 2001. He manages about \$2 billion in annual spending for Trinity, a sprawling system that also has 401 outpatient clinics/facilities, 31 long-term care facilities and numerous home health and hospice programs in 10 states.

Fierens now has responsibility for most areas of non-labor expense management. Supply and purchased services contracting, information technology contracting, centralized procurement, accounts payable, bio-medical

engineering, capital equipment sourcing, capital project (construction) management and real estate management all fall under his purview.

“Non-labor expense makes up roughly 50% of our cost structure,” he says. “Managing this is paramount to the success of the organization.”

Dave Silwester, vice president and chief resource officer (CRO) for the Michigan region of Ascension Health, the largest of Ascension’s 14 regions, works on engaging leadership and influencing change with senior leadership. The goal of this engagement by the CRO is to reduce resource costs while making product and service choices that help preserve quality in the delivery system. In addition to the interaction with key supply chain leaders in each of the five ministries in the Michigan Region, the CRO works closely with executive sponsors and clinical sponsors in those hospitals to achieve greater organizational leverage to make some of the more difficult utilization-related changes happen.

Ensuring that the entire C-Suite group is well-informed and engaged with both the national and local resource and supply management strategy is a key part of the CRO role.

Silwester also serves as the Resource and Supply Management Group stakeholder for the Michigan Region to the Symphony Initiative, Ascension Health’s nationwide enterprise resource planning system, which will standardize basic business and transaction oriented processes in finance, supply chain and human resources.

His position has been at the senior leadership/C-suite level for about a year. “The catalyst for that change is the growing desire at Ascension to make massive reductions to non-labor spend and the need for leadership to make that happen,” Silwester says.

Change Comes from the Top

The Arizona State study found that the barriers to repositioning of supply chain are manifold. They included the culture of individual hospitals, a lack of leadership to push change and physician resistance to ceding control of spending decisions. Also problematic is a lack of understanding of the supply chain by the C-suite and worries about the cost of conversion of the supply chain position from operational to strategic. Incomplete centralization and the fracturing of “systemness” as a result of mergers and acquisitions – reflected in decentralization of the supply function – also proved to be barriers to success.

In systems that have advanced the role of supply chain leader, it is the CEO or the CFO who has driven the change. Despite the resistance of medical staffs to consolidate supply chain functions and foster standardization, system leaders push forward on repositioning because they see it as necessary for the betterment of the organization.

The onset of reform, even before the passage of legislation, has brought the supply chain executive to the forefront where the trend has captured growing interest in the industry. In July 2009, Jay Kirkpatrick, then president of the Association for Healthcare Resource & Materials Management (AHRMM), noted, “In the current economy, and with healthcare reform imminent, supply chain professionals are uniquely positioned to play a strategic role in preparing their facilities for future reimbursement cuts, pay-for-performance challenges and increasing cost pressure.”

Fierens agrees that healthcare reform, including value-based purchasing, controlling variability in spending and need to do comparative effectiveness analysis, helps him in his role at Trinity. “Having data around supply consumption tied as closely as possible to the patient encounter is a strong ‘witness mark’ of variation in care and can facilitate outcome improvement,” he says. “Cost of episode of care is an outcome of increasing importance.”

He adds that value analysis is becoming more important in his organization as a result of reform, due primarily to efforts to reduce variation in care and establish best practices, protocols and order sets.

Changing Job Requirements

But in order for supply chain professionals to maximize their value, they must be highly knowledgeable. Not only must they possess a solid working knowledge of leading organizational productivity and efficiency trends, such as lean process management, but they must also have strong analytical skills, excellent clinical understanding, and business administration and strategic planning capability. Beyond this knowledge base, they must also possess the ability to influence the corporate culture.

Higher levels of education, including advanced degrees, are becoming commonplace at hospitals beyond the largest in the country, Mike Nestlebush, corporate procurement and contracting administrator at Wellspan Health, wrote in an article for IDN Summit earlier this year.

As more supply chain managers rise to positions of executive leadership, the likelihood that they will do so via finance, accounting or even information technology avenues is much greater than in years past when the supply chain manager typically came up through the ranks of the supply chain, drawing on years of experience in product expertise and customer familiarity to fulfill their roles.

Langlois has a master's in healthcare administration. "I believe a master's degree should be a prerequisite for any executive position. Certification, such as certified purchasing manager, is helpful, but not necessary."

In addition to an MBA in operations management from the University of Michigan, Fierens completed the Accelerated Development Program for International Managers at the London Business School in London, England. Prior to joining Trinity, he spent 15 years with General Motors Corp., rising to director of GMSupplyPower.com, the automaker's global supply chain management portal.

Silwester is a case study in educational diversity, with a bachelor's in engineering, an MBA and a law degree.

Other backgrounds and expertise can lend themselves to the new chief supply chain officer role. As more supply chain managers rise to positions of executive leadership, the likelihood that they will do so via finance, accounting or even information technology avenues is much greater than in years past when the supply chain manager typically came up through the ranks of the supply chain,

drawing on years of experience in product expertise and customer familiarity to fulfill their roles.

The benefit of this new influx of talent, experience and expertise is evident with the potential for fresh business perspectives leading to better results for the supply chain department.

The current CEO of the Sisters of Mercy Health System in St. Louis, Lynn Britton, was the first president of Resource Optimization & Innovation (ROI), Mercy's supply chain division and sees this trend continuing.

"I believe as revenue continues to become more and more difficult to generate and costs continue to rise, supply chain leadership will be elevated into the C-suite either from existing staff or from outside of the department, such as recruitment from outside the organization or via another internal executive given this responsibility," Langlois says. "I have already seen this on a number of occasions, as the opportunities for reducing costs through supply chain management with effective leadership are identified."

Relationship Management

In the Arizona State study, both supply chain leaders and senior leadership identified relationship management as the most important function of the supply chain leader's job. They also said that being able to set the vision for supply chain, build excellent teams, and utilize great financial, analytical and negotiating skills were important functions of the job. Supply chain leaders additionally noted the attributes of building trust, collaboration, and long-term relationships, development of strategy, risk management, change management and building a culture as very important for their job performance.

In particular, the ability to engage and communicate with clinical staff and physicians was frequently invoked as a core competency and needed capability. "Key attributes included being able to understand and respect the clinical world and to make physicians a part of the strategy, decision-making, and value analysis efforts," the study found.

Silvester identifies five tactics a supply chain leader can use to gain the respect of physicians:

1. Listen well and don't presume to have all the answers.
2. Show respect for the difficulties they are facing.
3. Deliver on your promises; don't commit to doing something and then not follow through.
4. Don't be wishy-washy; be decisive, and if the issue is something you are unsure about, tell physicians when you can get back to them with an answer and then meet that timeframe.
5. Be confident, but not arrogant.

Langlois has three data points he brings to meetings with individual physicians:

1. Total cost per procedure, including labor, OR turnaround times, etc.
2. Quality outcomes such as length of stay and re-admission rates
3. Revenue per procedure

Michael Langlois, vice president of supply chain, Beaumont Health System, has three data points he bring to meetings with individual physicians:

1) Total cost per procedure, including labor, OR turnaround times, etc.

2) Quality outcomes such as length of stay and re-admission rates

3) Revenue per procedure

"Physicians are very data-driven and competitive," he says.

"Good, accurate and comparative information will get their attention, gain their respect and get them to change their behavior if they are on the high side of cost per procedure."

There seems to be new recognition of the formerly unrecognized and untapped ability of the supply chain to positively affect clinical outcomes. Practices such as bar coding medications for bedside administration as part of a supply chain initiative is just one example of how a supply chain's actions can result in positive clinical impact for its organization.

As the role of supply chain as an executive team member continues to evolve, a number of best practices or actions that will help to support the supply chain executive's changing role will no doubt emerge as well—along with new demands. Initiatives like data standardization to maximize supply chain efficiencies and effectiveness, and better integration and interfacing of technologies for optimum benefits are likely to come to the

forefront. Likewise, supply chain executives will increasingly be asked to provide objective data and information for value analysis and product standardization committees.

Silvester, Langlois and Fierens say that conceiving, gaining buy-in and implementing a strategic plan for spend management, contracting and contract compliance are essential to gaining influence/equality with the rest of the senior leadership team. “Engage senior leadership in reviewing and approving the plan,” Langlois recommends.

Silvester adds four keys to maintaining the trust and support of senior leaders:

1. Hit targets for metrics such as supply cost as a percentage of net patient services revenue and supply cost per equivalent discharge.
2. Maintain good relations with physicians and other clinical leaders.
3. Communicate coming changes clearly and well in advance.
4. Share the ownership of key supply chain initiatives with other leaders outside of the supply chain; for example, utilization initiatives in the surgery department may need a clinical leader.

“The biggest savings in supply chain will come from utilization changes, and most of the utilization changes affect physicians,” Silvester says. “The C-suite cares about physician relations, and consequently, on any given initiative, there may be competing interests that need to be balanced. To achieve sizeable savings requires that the chief supply chain executive be part of the senior leadership decision making team.”

Questions for Discussion

What are the barriers in a typical hospital or health system to having the top supply chain professional be a member of the senior leadership team?

Will health reform, including value-based purchasing, controlling variability in spending, and need to do comparative effectiveness analysis, enhance the role of the supply chain and its leader?

What are the elements of the chief supply chain role that should elevate it to C-suite status?

What are the minimum qualifications, such as education and certification, that are needed to gain entry to the C-suite?

What are some tactics a supply chain leader can use to gain the respect of physicians?

What are the keys to gaining influence/equality with the rest of the senior leadership team?

Additional Reading

1. Health Sector Supply Chain Research Consortium-Arizona State University White Paper: *Repositioning Supply Chain in Health Care Systems*, September 2010
2. *Leveraging Supply Chain Leadership: Building Organizational Advantage in Challenging Times*, Association for Healthcare Resource & Materials Management Thought Leader Roundtable, July 2009
3. “Supply Chain Leaders Build Bridges to C-Suite Board Rooms,” *Healthcare Purchasing News*, July 2011
4. “Effective supply chain leaders gain in stature,” *Materials Management in Health Care*, July 2009
5. “Healthcare Reform and the Supply Chain Leader,” IDN Summit & Expo online article.