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Hospital Chiefs Get Paid for Advice on Selling

By [WALT BOGDANICH](#)

One recent sun-splashed afternoon, executives who run some of America's leading nonprofit hospitals met at a stately Colorado resort for an unusual mission: to advise companies confidentially on how best to sell their drugs, medical devices and financial services to hospitals.

The hospital executives were rewarded with more than a chance to indulge in a "harmonic" hot stone massage or mountainside golf.

They were also paid thousands of dollars for the advice they offered to dozens of companies, like [Eli Lilly](#), [Johnson & Johnson](#), [Morgan Stanley](#) and [Citigroup](#). The hospital officials and their spouses received a free trip to the luxury resort, where they could join the Morgan Stanley Tennis Tournament or the GE Healthcare Barbecue. All of this came courtesy of the Healthcare Research and Development Institute, a for-profit company that is owned by about three dozen hospital executives, but underwritten by 40 or so of its handpicked corporate members, all suppliers to hospitals.

While the financial relationship between doctors and drug companies has come under intense scrutiny, much less is known about how hospital executives interact with companies that sell products as varied as syringes and financial services. In the case of the Healthcare Research and Development Institute, executives benefit from payments made by companies their hospitals do business with.

Founded five decades ago, the company, known as H.R.D.I., has maintained a low profile, despite an elite membership that one government official calls "the health care titans of America." Earlier this year, the institute declined to even say who belongs to it. But that is changing.

The Connecticut attorney general, [Richard Blumenthal](#), is investigating whether the organization allows certain vendors to buy access to hospital leaders who are in a position to influence what supplies or services their institutions purchase. As a result, Mr. Blumenthal said, hospitals may not be getting the best deals, either in terms of cost or quality.

“At the very least it suggests insider dealings — an insidious, incestuous, insider system,” said Mr. Blumenthal, who has issued more than 100 subpoenas, mostly to hospital suppliers, including several dozen last week.

H.R.D.I. officials say they are cooperating with Mr. Blumenthal’s investigation and deny any sinister motives. Its members are merely “trying to improve products and services in health care — not more complicated than that,” said Gary A. Mecklenburg, the group’s chairman and a former chairman of the American Hospital Association, the industry’s largest trade group.

But Mr. Mecklenburg’s own background highlights the overlapping interests that he faces.

Mr. Mecklenburg not only runs a large nonprofit hospital, Northwestern Memorial in Chicago, but he also serves on the board of Becton, Dickinson and Company, a major supplier of medical devices to hospitals around the world, including his own. Becton, Dickinson pays the institute for marketing advice, and the institute pays Mr. Mecklenburg \$50,000 a year, mostly for participating in two national conferences, according to the group.

A spokeswoman for Northwestern Memorial, Holli Salls, said that hospital board members had approved Mr. Mecklenburg’s positions at both Becton, Dickinson and H.R.D.I., and that “he reviews his involvement with them annually.” But those financial entanglements anger one of Becton, Dickinson’s smaller rivals, a Texas-based manufacturer of syringe needles called [Retractable Technologies](#), which sees them thwarting competition.

“This is not the kind of club that is likely to invite us to become a member, nor is it one that we’d care to belong to,” said Thomas J. Shaw, Retractable’s chief executive. “As a matter of policy, we do not engage in pay-to-play schemes.”

Two years ago, Retractable reached a \$100 million settlement with Becton, Dickinson after accusing it and several other companies of freezing Retractable out of many hospitals. The healthcare institute did not figure in the lawsuit, but several of its members ran companies that did.

If Retractable is not interested in joining the group, many others are. “We have a long waiting list of companies,” said Diane P. Appleyard, the president of the organization, which is based in Pensacola, Fla.

Only two competing companies in any specific field are generally allowed to join, according to the group. Mr. Blumenthal said limiting membership raised antitrust concerns, adding that his office was investigating whether companies used their membership to improperly divide sales territories. “These arrangements are more than just a bunch of corporate C.E.O.’s and health care executives enjoying golf games or cocktails,” he said.

Mr. Blumenthal’s inquiry builds on a lengthy examination of hospital buying practices by the Senate antitrust subcommittee. Rather than focus on consulting firms like H.R.D.I., the Senate has looked at

companies or consortiums that buy supplies on behalf of groups of hospitals. Witnesses have described how vendors paid millions of dollars in “administrative fees” to the buying groups, prompting some critics like Mr. Shaw of Retractable to call them kickbacks.

An association of group purchasing organizations has since adopted an industry code of ethics, but some suppliers say it does not go far enough in ensuring competition in the marketplace. The Senate antitrust subcommittee is considering whether legislation is needed. H.R.D.I. is not alone in using hospital executives to advise suppliers. Ms. Appleyard says that a number of imitators have emerged in the last few years.

W. Hays Waldrop of Franklin, Tenn., said he arranged for hospital executives to advise suppliers through a company called the Institute of Healthcare Executives and Suppliers. Mr. Waldrop said he sold corporate memberships to vendors for about \$30,000 a year. “It’s about nothing else but education and peer networking,” Mr. Waldrop said.

Becton, Dickinson, which is based in Franklin Lakes, N.J., is a member of a division of the institute called the Council of Supply Chain Executives. According to that council’s Web site, it offers suppliers “a unique environment to learn and gain direct access with leading supply chain executives, in both formal and casual settings.”

Mr. Waldrop said his groups differed from H.R.D.I. in that he, not hospital executives, owned them. He said hospital officials got only a small honorarium for consulting, though he declined to say how much. In addition, Mr. Waldrop said, he donates money in the names of those executives to their hospitals’ foundations.

Until recently, H.R.D.I. discouraged media coverage of its affairs. In April, Ms. Appleyard declined to name her organization’s members, saying she did not want a reporter bothering them. The company had earlier restricted access to its Web site after a reporter began questioning those members.

But after Connecticut’s attorney general called the group a “secretive” network of “ethically questionable business arrangements,” during testimony in March before the Senate antitrust subcommittee, the company recently reopened its Web site to the public. “We decided we needed to stop not commenting,” Ms. Appleyard said.

The institute’s new policy of openness is apparently not shared by all of its members. Nearly a dozen corporate members either declined to comment or did not respond to requests to discuss their involvement. “I can’t respond for them,” Mr. Mecklenburg, the group’s chairman, said. “They are independent corporations and that’s their decision.”

Last May, more than 130 representatives from 40 health care companies were scheduled to attend confidential consulting sessions at the Broadmoor, a Colorado Springs hotel. When not attending the sessions, hospital chief executives and suppliers mingled at company-sponsored tennis, golf and social

events.

Each year, H.R.D.I. holds two gatherings like the one in Colorado, where each corporate member gets a meeting of up to three hours with five or six chief executives, according to Mr. Mecklenburg..

“The range of those discussions can be very, very wide,” he said. “I would call this market research. What do you think of our strategy? What do you think of our product?” The hospitals’ leaders also serve as a sounding board for products or services under development, the group said.

Each company is also assigned a specific hospital executive, called a liaison. “The typical organization is paying \$40,000,” Mr. Mecklenberg said. “It can be more, but that would not be typical.”

Additional access to hospital executives and their institutions can cost companies \$55,000 a year or even more. For example, a special two- to three-day visit to a specific hospital costs \$2,000 a person, according to H.R.D.I., which says most of that money is eventually passed on to the hospital.

The group’s Web site also states: “Other forms of individual or group training may be tailored to the corporate member’s specific needs and conducted at the place and time requested.”

It is unclear exactly how much hospital executives, who are the shareholders of the healthcare institute, earn annually for consulting at the two conferences. Asked to verify a report that some members earned as much as \$50,000, Mr. Mecklenberg initially denied it. “Our observation and recollection is \$20,000 to \$30,000 a year,” he said. “It may be more than that but we don’t have data in front of us, but it’s certainly not \$50,000.”

Days later, the organization said in an e-mail message that Mr. Mecklenberg himself had been paid \$50,000, \$18,000 of which was for his administrative work as chairman. The group said that for years he had donated his consulting income to his hospital’s foundation.

Mark Leahey, executive director of the Medical Device Manufacturers Association, said he was troubled by the fact that H.R.D.I. members had included leaders of organizations that negotiate major purchasing contracts on behalf of hundreds of nonprofit hospitals.

“These conflicts prevent innovative, cost-effective products from entering the market,” said Mr. Leahey, whose group has been a frequent critic of these large buying groups.

H.R.D.I. began a half-century ago when several hospital administrators started meeting informally at professional conferences “to share innovations and experiences,” according to the group’s Web site.

The organization’s mission changed, however, when a manufacturer complained in the early 1960’s that he had no reliable place to turn for impartial advice on product research. “Concerned that products and services sometimes arrived at the hospital without thoughtful evaluation and input from providers and

patients, they recognized an opportunity to influence the development process,” the Web site states.

The institute’s Web site added that members had agreed that the group’s purpose was solely for education and the sharing of ideas “and is not for direct solicitation.”

Mary Williams Walsh contributed reporting for this article.

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