

MAKING THE HEALTHCARE CASE FOR INTER-ORGANIZATIONAL TRUST

Original Research by the Health Sector Supply Chain Research Consortium

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ABOUT THE PROJECT

“Project Trust” was initiated with the objective to understand factors that influence the relationships between healthcare providers and their suppliers, and to identify the enablers and barriers associated with trust in an industry which holds unique features for purchasing relationships. The first phase of the project was exploratory in nature, with the purpose of identifying the core elements in trusting relationships in the healthcare industry, beginning with qualitative interviews with both healthcare providers and suppliers. After identifying both enablers and barriers to trust as perceived by parties on both sides of the relationship, the second phase of the research attempted to study, through surveys, how such factors shape trust in the buyer-supplier relationship and impact supply chain performance.

RESEARCH BACKGROUND

Extant research supports that inter-organizational trust is a strong performance driver for organizations^{2,3,4}. The causal mechanism in

which trust is developed and reflects on performance has been a topic in economic, management, sociology and even political science research. Literature reviews have summarized the progress made in this area^{5,6}, one of which concludes that “*while a great deal of research has occurred in the area of trust over the past decade, the new research only suggests that there is a lot more to be done and many very promising avenues to pursue*”⁵.

This research extends previous findings related to inter-organizational trust in two ways. First, in addition to considering relevant facilitators of trust used in previous trust models, it also examines trust barriers, which have recently gained more attention as factors of “distrust”^{1,5}. Secondly, this research considers context-specific variables, taking into account some of the key characteristics that influence the intricate buyer-supplier relationships in the healthcare context, such as the physician’s influence on purchasing decisions, and heavy involvement of intermediaries (i.e. GPOS and 3PLs), and the common demand for value-added services and after-market support.

“Trust usually refers to a judgment that one can rely on another party’s word or promise at the risk of a bad outcome should the other cheat or renege.” - Russell Hardin¹

KEY FINDINGS

- There is a high level of similarity in perceptions of trusting relationships between providers & suppliers, but they deviate from research findings in other industries.
- Providers are sensitive to the conflicting views between them and their suppliers in developing trust.
- Barriers to good relationships do not necessarily dilute the potential for trust.
- Some dependency tensions may lead to stronger formalized contracting, to ultimately enhance trust in good relationships.

PRACTICAL IMPLICATIONS TO HEALTHCARE

Healthcare providers and suppliers face multiple sources of tension as they form and develop relationships, but such tensions need not hinder a good working relationship. While it may appear that suppliers and providers have divergent concerns and conflicts, both sides showed highly overlapping perceptions regarding the relevant factors in a good relationship. Two such factor identified in this research are information-sharing and the use of formalized contracts, which were characteristics of the best relationships perceived by both providers and suppliers. Furthermore, suppliers

should align their provider-facing strategies with provider expectations and operating models, as this appears to be a potential barrier to trust.

Finally, receiving dedicated resources from the other party (such as supplier representatives, IT resources etc.) may not necessary increase trust in relationships, but shows a significant positive effect on performance of the receiving firm. Dedicated resources involved in provider-supplier relationships are coming to be somewhat of an expectation rather than a differentiator or value-added service, as alluded to in the qualitative phase of this study.

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SAMPLE & MEASUREMENTS

ABOUT THE SAMPLE Survey data was collected from over 1,000 executives representing healthcare providers and supplier organizations. The survey asked respondents to identify their best relationship and answer questions regarding characteristics of that good relationship. Descriptive statistics about the data are presented below:

	Provider Respondents (N= 582)	Supplier Respondents (N=537)
<i>Organization Size</i>	25% up to 99 beds 27% over 400 beds	28% revenue less than \$50 million, 34% revenue over \$1 billion
<i>Organization Type</i>	68% of the hospitals represented were not-for-profit organizations	65% identified their main product type to be PPI, Med./Surg., or Capital Equipment.
<i>Respondent's Health Industry Experience</i>	87% 10+ years in healthcare industry, 48% in current role for 10+ years, 53% had a job title of Vice President or Director	36% 10+ years in healthcare industry, 38% in current role for 10+ years, 63% had a job title of CEO, Vice President or Director
<i>Best Relationship</i>	63% best relationship is with a distributor, 33% best relationship with manufacturer	46% best relationship is with hospital/health system, 29% best relationship with National GPOs
<i>Duration of Best Relationship</i>	67% have had a relationship with their best supplier for 5+ years	86% have had a relationship with their best customer for 10+ years

ABOUT THE MEASURED VARIABLES Provider and supplier organizations were surveyed using parallel questionnaires to measure relevant factors related to trust in buyer-supplier relationships. The factors deemed relevant for this study (and their corresponding question items) were determined on the basis of a literature review^{7,8,9} and the first phase of this research project, which was a qualitative study. The language of the question items was modified between the two parallel surveys to fit the context of each (ex. "supplier keeps commitments" versus "customer keeps commitments"). Each item listed below was scored by the respondent using a 7-point Likert scale, rating their agreement with the statement.

Focal Variable

	To what extent do the following facilitate this good relationships [with your best customer/supplier]?
Trust	Supplier keeps commitments Supplier works for the best interests of the relationship Supplier wants your organization to succeed Supplier keeps your best interests in mind

Outcome Variable

	To what extent are the following supported for your organization by this good relationship [with your best customer/supplier]?
Performance	Strategic advantage Meeting organization's mission Financial viability Service effectiveness

Facilitators of Trust

	To what extent do the following FACILITATE this good relationships [with your best customer/supplier]?
Dedicated Resources	Supplier provides personnel for contract support Supplier provides personnel for product management Supplier provides personnel for clinical support Supplier provides equipment for product support
Information Sharing	Supplier provides product performance data Supplier provides product utilization data Supplier provides clinical evidence-basis for product choice Supplier provides economic basis for product choice
Contracting	Contract language that mitigates problems Fair contract negotiations Clear contractual specifications Contractual clauses that support risk sharing

Barriers to Trust

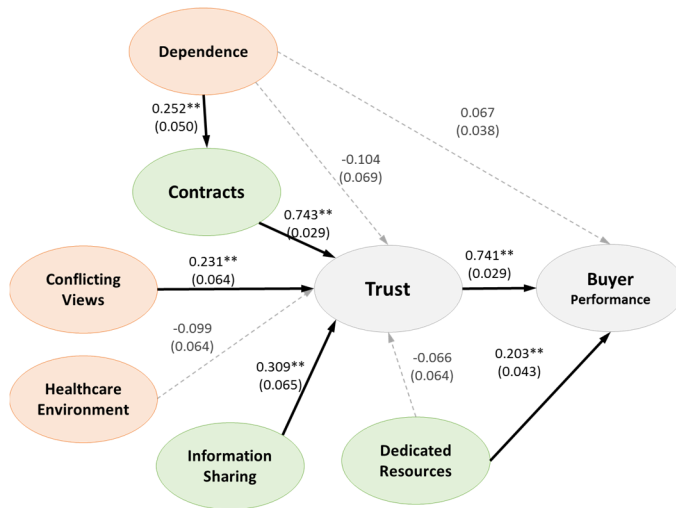
	To what extent do the following act as a BARRIER to building good relationships [with your customer/supplier]?
Dependency	Reliance on supplier's product services Supplier product is unique with few competitors Product requires supplier organizational service/support
Conflicting Views	Supplier not sharing key performance indicators Lack of price transparency Incongruent economic priorities Incongruent views of sales and marketing spending
Healthcare Operating Environment	Physician leadership roles in Hospital System supply chain Senior leadership support for SC management initiatives New models of care, such as ACOs, Bundled Payments etc. Contract non-disclosure clauses Supplier sales/service model.

ANALYSIS & INSIGHTS

PROVIDER AND SUPPLIER PERCEPTIONS OF FACILITATORS AND BARRIERS TO TRUST IN BUYER-SUPPLIER RELATIONSHIPS

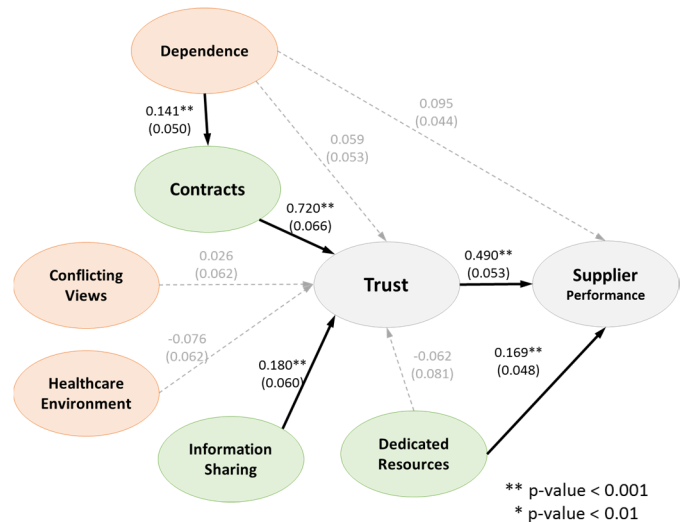
PROVIDER (BUYER) TRUST MODEL

Model Fit Statistics: CFI=0.951, RMSEA=0.055, SRMR=0.096



SUPPLIER TRUST MODEL

Model Fit Statistics: CFI=0.923, RMSEA=0.053, SRMR=0.095



1 High level of overlap between healthcare providers & suppliers on perceptions of factors in good relationships

One of the first questions this research attempted to answer was whether there were differences in perception of the factors affecting "good relationship" between healthcare providers (the buyers) and suppliers. There is a high level of conformance between the model results of the two groups (as seen above), both in terms of the factors identified by the survey and the relationship among the various factors. This indicates that the dynamics between these buyer-supplier relationship constructs are perceived in a consistent way regardless whether the respondent represents the provider organization or the supplier.

On the other hand, the results from our study diverged from results of similar studies conducted in other industries⁷. As an example, in the manufacturing industry, contracts were not perceived to have a significant value on trust, whereas in the healthcare context they showed the strongest effect on trust compared to all other tested factors. Greater emphasis should be on contracting language that supports changing demands on buyer organizations.

2 Providers are more wary about conflicting views between them and their suppliers, when developing trust

The only barrier to have a significant role in the perception of trust in good relationships was the *conflicting views* barrier. It was particularly the providers who perceived that conflicting views impeded trust in good relationships. This suggests that, in the provider-supplier relationship, providers are more sensitive than the suppliers about having misaligned economic objectives and views on budget allocations with their suppliers, and lack of visibility regarding the supplier's views and incentives. Strategies to support recognized key performance indicators, increased transparency, buffer incongruent economic priorities and redesign sales and marketing strategies should be crafted and implemented by suppliers.

3 Barriers to good relationships do not necessarily dilute the potential for trust

It is noteworthy that in both the healthcare provider and supplier models, the main barriers that were identified in the qualitative interviews, except *conflicting views*, did not impact the perceived value of trust in good relationships. Even though the measurement models for both buyers and suppliers showed evidence that the barrier factors were acknowledged by the respondents, the model results suggest that presence of barriers may not have a significant impact on the perceived role of trust in good relationships. Providers and suppliers acknowledge the existence of barriers in the relationship development, but these barriers did not appear to compromise the trust developed in their best and longest-standing relationships. Hence, an emphasis on information transparency and adhering to clearly outlined contractual agreements develops trust over time despite the presence of potential barriers.

4 Some dependency tensions may lead to a good thing

The results of both models indicate that when providers or suppliers perceive their dependence on the other party to be high (a barrier to trust, due to potential power imbalance and risk of opportunistic behavior), they utilized more formalized governance mechanisms (i.e. contracts), which is conducive to trust and ultimately leading to higher performance for the focal firm. The relationship between *dependence* and *trust* being fully mediated by *contracts* has been previously theorized by researchers, but they did not find a significant correlation linking contracts to trust when the theory was tested on buyers in manufacturing firms⁷. The healthcare context of this investigation provides evidence to support that theory.

Formalized contracts in the healthcare sector play a pivotal role in defining the buyer-supplier relationship, especially while this relationship is tempered by others forces such as GPO intermediation and government regulations. As both GPOs and IDNs engage in contracting in an environment characterized by global sourcing, pressures towards reducing supplier-base and customized demand, the contracting language must be diligent in its ability to reduce dependency and sustain reliability in performance.

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The Health Sector Supply Chain Research Consortium (HSRC) is a research group within the W. P. Carey School of Business at Arizona State University, founded in 2004 to bring together health sector organizations and academic researchers to conduct research on topics related to the strategic management of the health care supply chain.

The **mission** of HSRC is to provide actionable research to develop best standard practices for the health care supply chain that reduce risk and cost and to influence policy.

Our **vision** is that HSRC will be the thought leader for education and research and the strategic resource in health care supply chain.