



Supply Chain Fundamentals

A BEST PRACTICE GUIDE

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Applying value-based principles across an entire organization requires change management. People, process, and culture are the backbone of any change management. The key to success for hospital leaders is to find ways to operationalize these essential elements. To establish a solid foundation for operating at the intersection of cost, quality, and outcomes (CQO), hospital leaders should make the following best practices a regular feature of their operations. These best practices will help put organizations in a position not only to make strategic improvements, but to sustain their progress by setting internal controls, adopting a culture of continuous process improvement, and keeping staff properly educated.

BEST PRACTICE**Establish internal controls for the supply chain**

Some internal controls are fundamental. But by ensuring a standard, ethical way of working, operations can be streamlined and risk (negative outcomes) mitigated. High-performing institutions make a concerted effort to ensure that the practice of setting internal controls for clinical areas is also applied to the business side of their organizations, including the supply chain. Therefore, internal controls that have set standards, policies, and procedures should be created for all areas of supply chain operations (data management/analytics, requisitioning, purchasing, receiving, distribution, inventory management, value analysis, and contracting).

There are two main components of internal controls: 1) putting policies in place that spell out staff responsibilities, establish

protocols, and reduce errors and 2) ensuring that those policies are followed. Effective internal controls take people and process into consideration first and the use of technology second. Staff should receive training on their part in the process, learn what checks and balances are in place, and know their organization's policy for maintaining ethical business practices (e.g., to avoid fraud and abuse, the person who creates a purchase order [PO] shouldn't be the person who processes the payment). Technology can then be employed to make processes more efficient and to track organization-wide adherence.

Technology should not be considered the way to end a problem but rather a tool to enhance performance by automating management controls and establishing more consistent workflows. For example, everyone should be taught how to use a standardized

(organization-wide) requisition system. Then an electronic approval process can be employed to keep a record of sign-offs and track where steps were skipped or where the process can be improved. Internal controls are also closely tied to risk management. Effective internal controls help identify risk, such as product expirations, and aid in the safe introduction of new products. Technology can enhance these controls by preventing situations that might otherwise occur through human error.

Internal control reviews should be conducted regularly and when there have been recent changes to management systems or operations. These reviews can determine if the controls are serving their intended purpose (sustaining progress and performance) or if there are areas for improvement. Management should also consider the return on investment (ROI) for approval pathways related to specific policies. While it is important to enforce approval processes for certain activities—especially those that result in a cost to the organization—the time devoted to this effort must also be factored in. As a general rule of thumb, develop the shortest approval path possible while still ensuring procedural compliance. First, however, organizations should have good budget controls in place.

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Promote continuous process improvement

Smart organizations are constantly looking for ways to improve. Formalizing continuous process improvement offers a number of benefits. First, it is an organizational commitment to excellence. Second, it helps reduce waste. It can also increase operating efficiency by isolating problems that obstruct workflow. As a result, process improvement solutions can be formulated and implemented, then

their impact can be evaluated. This, in turn, can have a positive effect on employee and patient satisfaction.

Because every day brings a new challenge, the best supply chain professionals are problem solvers. Setting internal controls and adopting a culture of continuous process improvement can lead to fewer issues and more proactive responses, allowing the supply chain time to focus on strategy. However, there are certain prerequisites.

- 1. Leadership Support:** Any change in operational approach must begin at the top. Management—both organization-wide and department-specific—should focus on identifying problems and developing internal controls to avoid repeating them. The process should be clearly communicated and reinforced with the message that it is everyone's responsibility to make sure that it is followed. And *everyone* should follow the established process—from the top down. The example set by leadership is generally reflected in the level of staff acceptance.
- 2. Metrics:** Information is vital to changing behavior because evidence inspires action. Using metrics can help the supply chain catch issues before they turn into problems. Ask leading questions related to departmental responsibilities (such as how much of a certain product is the hospital buying), then optimize the use of technology to pinpoint where there are opportunities for improvement. Data reviews and reports should be common practice.

3. **Collaboration:** The participation of internal and external stakeholders is vital to the success of continuous process improvement. Team members should be empowered to ask questions, identify issues, and provide suggestions. People are more likely to comply with processes if they feel that they are part of the solution. In time, internal controls and continuous process improvement should become everyday practice. External stakeholders (such as group purchasing organizations, vendors, and professional associations) can be good sources of information about how others have dealt with similar issues.

4. **Evaluation:** Just as an organization should evaluate the effectiveness of its internal controls, it should also regularly assess its dedication to continuous process improvement. This includes asking if everything possible is being done to move processes to best practice as well as establishing key performance indicators. Remember, there is always room for improvement.

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Provide staff education

To transform the supply chain from transactional to strategic, education is crucial. Investing in staff education helps employees feel more connected to and invested in their work, which has a

direct impact on productivity. For purposes of this guide, education encompasses the following:

1. **Job-Based Training:** Members of the supply chain team should be trained in their departmental role to create efficiency as well as adherence to protocols. Adopting a culture of continuous process improvement helps ensure that the organization is tracking the success of its supply chain procedures based on overall supply chain performance. The results of these efforts will dictate if more or better training is necessary.

It is also best practice to cross-train staff in different areas of the supply chain to make certain that operations continue to run smoothly when someone goes on vacation, takes an extended leave, or resigns.

2. **Broadening the Supply Chain Skill Set:** The role of the supply chain professional has undergone tremendous change. The responsibilities of supply chain executives have traditionally focused on negotiating, ordering, receiving, and distributing medical supplies. Today, these professionals are responsible for total supply management, sometimes referred to as the value chain (to reflect the increased focus on quality). The demand to have supply chain professionals become strategic contributors to a provider's value-based goals requires them to broaden their understanding of what those objectives are as well as to understand the clinical and financial aspects of their profession, including reimbursement

policies, incentives, and penalties; evidence-based medicine; and population health management.

Hospital and department leaders should support the value-based education of their supply chain team by creating educational programs that use internal resources by enlisting the help of a strategic partner (such as a GPO or contracted vendor) or by using other readily available resources (such as conferences, webinars, and podcasts) from such professional associations as the Association for Healthcare Resource & Materials Management, Institute for Supply Management, American College of Healthcare Executives, etc. Encourage supply chain employees to receive and maintain certificates specific to their field, such as a Certified Materials & Resource Professional (CMRP).

Hospital administrators must understand the current role of the supply chain professional and offer those individuals—especially seasoned professionals—the means to evolve.

- 3. Provide Cross-Disciplinary Education:** Supply chain professionals are hard pressed to make value-based decisions if they don't have the support of clinicians. Hospital leaders should help break down internal silos and create collaborative forums in which supply chain leaders can build relationships with physicians, nurses, and other clinicians to better understand their needs. Similarly, information about clinical and physician preference products should be included

in educational programs that are created for supply chain staff. That way the supply chain team can better understand the needs of their clinical counterparts and contribute to value analysis discussions in a more meaningful way. They can also better represent the organization's needs during sourcing negotiations.

It is also important to teach clinicians about supply chain operations. Clinicians—and to a certain extent hospital administrators—need an in-depth understanding of how the supply chain's individual components operate in order to truly appreciate the positive results associated with a supply chain that runs smoothly versus the potential disruptions and expensive consequences associated with the breakdown of any individual supply chain component. Clinicians, in particular, must understand their role in the supply chain process and its potential to affect outcomes.

A regularly scheduled, formalized, cross-disciplinary educational program is critical to achieving value-based goals.

- 4. Support for Current and Future Generations:** There are several generations in the workforce. Hospitals must consider how they can attract new talent into the healthcare supply chain. Today's supply chain professionals have a variety of backgrounds. Some have degrees and years of on-the-job hospital experience while others have risen through the ranks by dint of hard work or circumstance.

Teaching employees about how different generations can work together helps increase productivity. A workplace culture that supports the ongoing development of a

more strategic supply chain skill set helps level the playing field for seasoned professionals while also helping to attract young, capable professionals by encouraging them to pursue a career in the industry.

During the recruitment process, consider the skill sets that are likely to be required of future supply chain professionals, such as the ability to work with predictive analytics. This will help attract younger generations and ensure that the department is hiring the right people.

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Measure the effectiveness of staff education

The following can be used to measure the performance of supply chain education sessions:

- Staff attendance rate
 - (# people)
 - Supply chain
 - Interdisciplinary teams
- Staff satisfaction
 - Session rating
 - Written feedback
- Training frequency (# sessions per year; year-over-year)
- Topics selected by staff (non-management)
 - (# selected/# total topics)
- Goals achieved (#)
 - Departmental
 - Organizational

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