

ADVANCING SUPPLIER DIVERSITY: HOW SOME AREA HOSPITALS ARE GOING ABOVE AND BEYOND AB 962

The passage of Assembly Bill 962 in October 2019 came with a far-reaching goal.

AB 962 requires California hospitals with operating budgets of \$25 million or more to annually collect and post data showing how much of their procurement spend goes to diverse-owned businesses. The bill is intended to expand economic opportunity for minorities, women, LGBT people, and veterans, particularly in marginalized communities, by increasing the amount hospitals spend on supplies and services provided by diverse-owned companies.

The author of the bill, Assemblymember Autumn Burke (D-Inglewood), noted that similar legislative efforts have been successful in promoting supplier diversity in other industry sectors. For example, after the California Department of Insurance began surveying the supplier diversity spend of the state's major insurance providers in 2012, the firms' investments with diverse-owned small businesses increased by 93% over five years, from \$930 million in 2012 to \$1.8 billion in 2017.

Similarly, a voluntary supplier diversity program established in 1986 and overseen by the California Public Utilities Commission has helped increase contracting with diverse-owned businesses in the utility industry from \$2.6 million in 1986 to over \$10 billion in 2017.

To comply with AB 962, California hospitals were required to submit their first data reports to the Office of Statewide Health Planning and Development (OSHPD) by July 1, 2021. (As of Oct. 4, 2021, the agency is known as the California Department of Health Care Access and Information, or HCAI.) While AB 962 only mandates the annual collection and posting of this data, some Southern California hospitals have gone above and beyond the bill's reporting requirements and are taking proactive steps to increase the percentage of their procurement spend that goes to qualified diverse-owned businesses in their communities.



FAST FACTS

42% of all California businesses are minority-owned

32% are women-owned

2% are disabled veteran-owned

1.7% are LGBT-owned

60% – est. average percentage of patient revenue California hospitals receive from all minority populations

50% – est. average percentage of patient revenue hospitals in Greater Los Angeles receive from the Latino population

3-4% – est. percentage of California hospitals' total procurement spend that goes to minority-owned businesses

1-2% – est. percentage of California hospitals' total procurement spend that goes to Latino-owned businesses

Sources: Assemblymember Autumn Burke AB 962 Hospital Diversity Act Fact Sheet; Los Angeles Latino Chamber of Commerce

CEDARS-SINAI



When Michael Herrera joined Cedars-Sinai in March 2021 as manager of supplier diversity, supporting Cedars-Sinai Health System, he brought with him over a decade of prior experience working in utility company programs that have successfully increased procurement opportunities for diverse-owned businesses in that industry. Herrera's experience has been invaluable in helping launch Cedars-Sinai's new supplier diversity program, which is part of an overall supply chain transformation.

"For Cedars-Sinai, other than in the construction space, this kind of program was relatively new to our system, so a lot of basic education was required at the outset," Herrera said. "It was very important to share with all our internal stakeholders, across our system, exactly what supplier diversity is, what we mean by a diverse-owned business, and how this type of business strategy aligns to our health care organization."



Michael Herrera

"THE SOURCING PROCESS WE USE ENSURES THAT DIVERSE-OWNED BUSINESSES ARE CONSISTENTLY CONSIDERED FOR SOURCING OPPORTUNITIES."

Also critical was making sure internal stakeholders recognized the business value of having a supplier diversity program. Herrera stressed the advantages of leveraging the health system's purchasing power to help relieve poverty and unemployment – and thereby improve people's health – in the communities by supporting diverse-owned local businesses, enhancing the supply chain by partnering with local vendors who can pivot more quickly than larger companies to produce products like surgical gowns and masks in an emergency, and going beyond mere compliance with AB 962 to build a more robust supplier diversity program overall.

To establish a foundation for the Cedars-Sinai program, policy statements were developed for each hospital in the health system. "The senior leaders at each hospital then signed off on these documents to ensure their alignment," he said. "It was important to start

from the top in garnering support for this type of systemwide effort.”

Cedars-Sinai has developed an ambassador program, with representatives from the four hospitals within the health system to help advance the new supplier diversity program. The ambassadors will ultimately help promote awareness of the program’s strategy, goals and objectives and help generate leads by identifying and vetting diverse-owned businesses and introducing them internally. “These ambassadors are people who are passionate about diversity inclusion and making sure there’s equitable access across the board, so they were ready to lend their support for our program,” Herrera said.

Since Cedars-Sinai’s supply chain is a true integrated partner for the system, it was imperative to embed supplier diversity within its strategic sourcing process. “The sourcing process we use ensures that diverse-owned businesses are consistently considered for sourcing opportunities,” Herrera said.

A key component of the Cedars-Sinai supplier diversity program includes the creation of a robust pipeline of diverse-owned businesses to select from, as well as development of a database to store information on eligible businesses. Cedars-Sinai accepts certifications from recognized local and national certifying organizations. “All of these leading organizations have far-reaching connections with their roster of certified diverse-owned suppliers,” Herrera said. “When a sourcing opportunity presents itself, we will work with the organizations to seek qualified local diverse-owned companies for the services or goods being sought. Ultimately, we will compile a list of qualified diverse-owned businesses for consideration. These companies will then be further screened and potentially invited to submit a bid.”

Cedars-Sinai also plans to work with local organizations like the Los Angeles Latino Chamber of Commerce and others to broaden the health system’s network of eligible businesses. “These local organizations play a crucial role because they have a direct connection with local suppliers,” Herrera said. “They give us the opportunity to socialize our program locally and they’ll be key partners in our efforts.”

Herrera added, “We’re currently conducting an analysis of the health system’s procurement spend to identify areas of spend where diverse-owned

HASC/CLC’S COMMITMENT TO HELPING HOSPITALS INCREASE SUPPLIER DIVERSITY

The Hospital Association of Southern California (HASC) and Communities Lifting Communities (CLC) are committed to supporting hospitals in diversifying their procurement processes and practices, identifying suppliers that meet the diverse-owned classifications under AB 962, and building a more resilient local supply chain.

In March 2021, CLC contracted with Diversity Information Resources (DIR) to assist hospitals and health systems in managing information on diverse-owned suppliers. DIR’s data scrubbing and validation service allows clients to classify current suppliers that fall into diverse categories, accurately analyze and report spend, and identify additional suppliers to increase diverse spend. Twelve hospitals participated in this service. HASC and CLC also have established a Hospital Supply Chain Diversity Task Force to help guide their efforts to support hospitals in diversifying their procurement processes and practices.

“Diversifying the supply chain is the right thing to do, for both diverse-owned businesses and the communities served by our member hospitals and health systems,” said Susan Harrington, president, CLC. “Our involvement in these efforts is part of our broader initiative to advance health equity and economic opportunity in communities that have traditionally been underserved and underrepresented. Addressing this issue now as an industry will eliminate the need for further legislation mandating specific procurement spend targets for hospitals.”

companies could be utilized.” Opportunities for diverse-owned businesses to work as subcontractors for larger non-diverse-owned companies that the health system contracts with are also being considered. Additionally, Herrera is working to create capacity-building opportunities to help further develop and mentor local diverse-owned businesses. Ultimately, the goal is to empower the local diverse-owned business community to be better prepared to do business with Cedars-Sinai and other hospitals.

In summary, Cedars-Sinai’s supplier diversity program is being set up to include, develop and stay connected to local diverse-owned businesses, and ensure that its commitment to diversity, equity and inclusion is embraced beyond the walls of the hospital into the community and beyond.

ADVENTIST HEALTH WHITE MEMORIAL



Located in the heart of East Los Angeles, Adventist Health White Memorial serves a community that is 90% Latino. Shortly after the passage of AB 962, the hospital – one of 24 hospitals in the nationwide Adventist Health system – launched a program to increase opportunities for diverse-owned local businesses to bid on projects and services for the facility.

According to John Raffoul, White Memorial's president and CEO, the legislation spurred the hospital to put together a task force responsible for guiding its efforts to develop a comprehensive supplier diversity program. Choosing the right task force members and community partners has been key to the progress White Memorial is making in developing and implementing its supplier diversity program. "It's critical to have representation from all the different constituencies," Raffoul said.

The 14-member task force comprises a broad range of community, hospital, and Adventist Health representation. White Memorial's community well-being, supply chain management, finance, facilities, and communications leaders as well as the executive



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who oversees the Adventist Health system's supply chain function are all part of the task force. Community members include Deysi Serrano, the Latina owner of a local restaurant who also serves as president of the Boyle Heights Chamber of Commerce; Darrel Saucedo, the CEO of ACS Group Inc., an area construction company, who also serves as chairman of the Los Angeles Latino Chamber of Commerce; and Gilbert R. Vasquez, managing partner of Vasquez & Company, the largest minority owned CPA firm in California and chairman emeritus of the LA Latino Chamber of Commerce.

Another community member is David Lizarraga, a local businessman who serves on the hospital's Community Board and on the board of directors of the LA Latino Chamber of Commerce. Lizarraga is president and CEO of TELACU, a nonprofit community development corporation founded in 1968 to serve disadvantaged communities in East Los Angeles through economic development. "David brings a great deal of experience with these types of programs," said Raffoul. "A lot of TELACU's developments are federally funded and their contracts require them to do a certain amount of business with diverse-owned companies."

The LA Chamber of Commerce is another important partner, according to Raffoul. "We brought in the LA Chamber of Commerce because we needed access to a database of minority-owned businesses so that when RFPs go out, we can send them to the Chamber and have their members bid on projects at our facility," Raffoul explained. "It doesn't mean they'll get the job but, if they're qualified, they'll have the opportunity to bid. We still have to go through our screening process to make sure we get the best person for the job, the best expertise, the best price, and the best quality."

The hospital recently sent an RFP for a planned demolition project to the LA Latino Chamber of Commerce, inviting bids from interested members.



said Rosa Navas, White Memorial's director of community well-being.

The results of the inventory and internal survey, as well as information provided by the hospital's finance department on dollar amounts spent on current vendor contracts, will be compiled and used to create an "asset map" of the hospital's vendors. "This will help us better understand the categories where we already have a strong baseline of

diverse-owned vendors and which categories we should look at and maybe invite more people in," said Navas. "Based on that, we can have a channel of communication with our community."

Working with the Boyle Heights Chamber of Commerce, the hospital plans to contact local diverse-owned businesses, educate them on how they can become vendors, and invite them to the facility to help them understand what products and services they potentially could provide.

The task force is currently developing policies and procedures to guide the new supplier diversity program. The next step will be setting goals. "Once you have a baseline of where you are today, you can set goals for the future," Raffoul said. "We've made progress over the past year but by no means do we have everything in place yet. The key lesson we've learned is that, to make progress, you need to have a committee to provide oversight and a mechanism that enables you to identify and track diverse-owned vendors. With those in place, you'll be able to make a difference in your community."



Once the task force members were in place, the committee began by creating a charter and taking inventory of how many minority-owned businesses White Memorial currently contracts with. "You'd think that would be an easy task, but it wasn't. We never really kept track systematically in our purchasing system of which vendors are minorities and which are not," Raffoul said. "It was important to set that baseline."

To augment those efforts, the hospital administration distributed an internal survey asking for staff input about any local diverse-owned vendors that the leadership might not be aware of. "A lot of our associates have worked here for years and frequent different neighborhood establishments so that gives us the opportunity to identify additional potential vendors,"

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