

Healing Together: The Labor- Management Partnership at Kaiser Permanente

Thomas A. Kochan
Adrienne E. Eaton
Robert B. McKersie
Paul S. Adler

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CHAPTER 1: To Fight or Talk?

The union leaders came prepared for a fight on that cold December day in 1995. They represented a coalition of twenty- seven unions and 55,000 workers employed by health care giant Kaiser Permanente (KP), the nation's leading not- for- profit health maintenance organization. Both sides faced enormous pressures—and an enormous choice.

At the time, Kaiser was losing more than \$250 million and was being advised by a management consultant to break itself up and to take steps to better match the cost structures of competing HMOs. But if he followed such advice, Kaiser's CEO Dr. David Lawrence would be abandoning Kaiser's historic commitment not only to being an integrated health care provider and insurer, but also to its hard- earned reputation as an employee- UNION friendly employer. As it was, Kaiser's response to mounting competitive pressures facing all health care providers was already transforming its long history of positive labor- management relations into one of intensifying conflict, with Kaiser demanding wage and benefit reductions and the unions responding

with strikes.

Peter diCicco, who for the next decade was the executive director of the Coalition of Kaiser Permanente Unions, faced similarly high stakes. On the one hand, the twenty- seven Kaiser union locals represented in the coalition were increasingly impatient and unhappy. On the other hand, it might not serve either Kaiser employees or the broader labor movement for the coalition to go to war with Kaiser.

In an attempt to find neutral ground to frankly discuss each party's concerns and possible options, John Sweeney, then president of the Service Employees International Union (SEIU) and on his way to becoming president of the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), called on the nation's top mediator, John Calhoun Wells, to arrange and facilitate a top- level, off- the- record meeting. The outcome was that crucial December meeting, which was held deep inside Dallas's sprawling airport.

Led by Sweeney, the labor delegation was set to warn Lawrence and other top Kaiser executives of the consequences of continued hostility and escalating conflict. "We went to that meeting ready to blast Kaiser Permanente for its behavior," said diCicco. "At the top of our list was patient care. That's where the frustration was the greatest among our members." Lawrence clearly recognized the stakes. "It was almost a make- or- break meeting," he would later recall.

But the labor leaders were in for a surprise. Lawrence opened the meeting with a statement that disarmed them. "He said all the things we were prepared to say," said diCicco. "It was clear that there was almost total alignment of objectives."

Thus began what would become the largest, most complex, ambitious, and broad- based labor- management partnership in U.S. history. "What I remember thinking about at that meeting was that we've got nothing to lose by being forthcoming about what I believed needed to happen in terms of our relationships . . . [and] the kind of collaboration required to deliver modern medical care in all of its complexity," says Lawrence. "[T]here are no answers to these things; they grow out of the collective effort of teams of people who are working on specific areas of medical care delivery."

This book tells the story of the first ten years of the Kaiser partnership and its implications for two of the greatest challenges facing the nation today: how to at least improve, if not fix, a broken health care system; and how to revive a labor- management relationship that has collapsed. The Kaiser partnership informs both issues. As the chapters that follow make clear, the partnership is a living thing, constantly facing threats as well as opportunities. In those early days of 1995, the parties chose to convert threat into opportunity. And as seen in the challenging contract negotiations of August 2008, this pattern of managing to become stronger in the face of even dire economic and other circumstances continues. Details of the 2008 agreement

are impressive in their own right. They include a wage agreement that keeps workers whole in a period of rising inflation and an innovative Health Retirement Account that allows workers to apply unused, accumulated sick leave at retirement to purchase health insurance benefits. But what is most striking is how the new agreement positions the partnership to move to the next level. It establishes a jointly developed new performance improvement program that strengthens the line of sight between worker efforts on the front line and teams that improve quality and other operational health care outcomes to performance based wage increases. It also creates a high-level labor-management committee to work on marketing, product development, and other strategic issues needed to attract the new customers needed to secure Kaiser Permanente's future.

In such ways, the partnership has expanded the frontiers of U.S. labor-management relations in health care. It is an important model for how to engage the workforce and its representatives in joint efforts to improve health care delivery through major organizational reforms and efficiency improvements—and how to do so without imposing the suffering and economic losses, which have afflicted workers in other industries that are also struggling to restructure themselves. Within this context, the partnership story is especially resonant because it has grown within a sector—health care—that can be especially adverse to such collaborative approaches.

At the same time, the lessons of the Kaiser partnership have implications for improvement of health care delivery. It is, after all, impossible to talk about true reform of the health care system without including those who actually deliver and manage health care services. And with health care providers facing major shortages of nurses and other front-line workers, finding ways to improve and better manage the health care workplace is more important than ever. The partnership has produced positive and lasting benefits for patient, employee, and health care provider alike.

This is no theoretical story. By 2007, the Kaiser partnership covered more than 90,000 employees. Three path-breaking collective bargaining agreements had used state-of-the-art negotiations and problem-solving tools to address topics normally beyond the purview of union-management relations, such as quality and performance improvement. Policies continue to be set at Kaiser by labor-management forums on a wide variety of issues, from improving work and family balance to responding to incorporating electronic medical records into the care delivery process.

What makes such accomplishments especially noteworthy is their achievement within an industry—health care—where power is so highly decentralized and dispersed among doctors, who defend their autonomy, and across medical care units that have long traditions of tailoring practices to fit their seemingly unique needs. A labor-management partnership would seem to be especially hard to implement and sustain in such a context. Distrust borne out of past conflicts and/or ideological differences does not melt away with the announcement from leaders at the top of management or labor organizations that a partnership has been formed. Doctors, managers,

nurses, and other employees must first feel the same pressure to change for them to even consider their own true commitment to partnership principles and processes.

The pre- partnership relationship between Kaiser and its employee unions reflected such challenges and mutual distrust. Now, more than a decade later, Kaiser Permanente and the union coalition have succeeded in sustaining their partnership, demonstrating that it is not only possible to negotiate path- breaking labor agreements in innovative ways, but to work together to implement new medical technologies and team- based work systems that health care experts see as central to reducing costs and improving the quality of health care in the United States.

To be clear: We do not present the Kaiser partnership as a panacea for the nation's labor- management problems, let alone for its health care crisis. Nor do we suggest it as the best or only way to structure employment relations in health care or other industries. Indeed, as we will discuss, major disagreements exist within the labor movement about the proper role of health care unions and health care employers in meeting the challenges facing the industry. One major union, the California Nurses Association, has refused to join the partnership and is highly critical of it, Kaiser, and the coalition of unions. We are critical of some of the bureaucratic features of the partnership that have slowed progress in improving health care delivery. Partnership efforts such as Kaiser's can indeed be slow, hard, and fragile. Their success can be difficult to measure.

All that said, the advantages and limitations of the partnership offer some core lessons that can be applied across sectors and in the design and administration of national labor policy, especially within the health care industry, 80 percent of which remains unorganized. No one is served by a full return to the adversarial traditions of the past, or by the turmoil and pain seen in other sectors that have undergone significant restructuring, such as the airline industry. The Kaiser partnership points to a better way.

This book brings together our collective observations about and experiences with the Kaiser partnership. These go back to early 2001, when head of the union coalition at Kaiser Peter diCicco, lead negotiator and key executive at Kaiser Leslie Margolin, and their lead consultant John Stepp visited MIT to ask whether our group would be interested in conducting an independent study of the then- four year old Kaiser Permanente labor- management partnership. They approached us because of our prior work on industrial relations, especially on innovations in labor- management relations. Although we had heard about the partnership, none of our research team members had any prior involvement in it. Given its importance, we prepared a proposal to which the partnership leaders agreed.

Among other things, we required that consistent with standard MIT research requirements, our team would have full access to the parties and the data available and we would be free to reach our own conclusions and publish our results subject only to review for factual accuracy (not interpretations)

and for proprietary information. The project would be supported by the Kaiser Permanente Labor- Management Partnership Trust Fund that was set up to administer the partnership. In early 2001, the original research team of Thomas Kochan, Robert McKersie, and Susan Eaton began working on the project.

In the 1980s, Kochan, McKersie, and another colleague—Harry Katz—conducted a series of case studies of innovations in labor- management relations for the U. S. Department of Labor,¹ data from which featured prominently in our 1986 publication, *The Transformation of American Industrial Relations*. In that book we argued that the traditional New Deal system of collective bargaining was undergoing significant changes that were both necessary to its future viability and yet at risk for lack of a supportive public policy. In the 1990s, our group continued to study and be involved in partnerships in the steel, clothing, telecommunications, and other industries. One project was a long- term study of the Saturn Corporation, the effort by General Motors and the United Auto Workers that was the most ambitious labor- management experiment of its era.

Our role in these projects was similar to the one we proposed for the Kaiser project. We would retain our independence as outside researchers, while providing periodic feedback and recommendations to the parties on how to address challenges they were experiencing as their efforts unfolded. To us, this mixed role of research and engagement was consistent with our team's goal of acting on the conclusions that had emerged from our 1980s research: Labor- management relations needed to change in ways that fostered both expanded worker voice and improved organizational performance. Unless innovations could be sustained, our analysis suggested unions would continue to decline and labor- management relations would become more rigid and less effective in meeting the needs of workers, employers, and society in general. This project was thus consistent with our interest in continuing to pursue this line of research and with our goal of fostering innovations and improvement in labor- management relations.

To us, the central intellectual question in this project is whether the partnership the parties were building would yield the improved results for workers, unions, Kaiser as an employer, and the members (patients) Kaiser Permanente served.

The project is now in its eighth year. Over time, our research team has both changed and expanded. Less than three years into the project, we lost our close friend and colleague, Susan Eaton, to leukemia. Aside from the enormous personal loss, this left a big void in our team. Fortunately, we had already begun to work with Adrienne Eaton (no relation to Susan) before Susan's death. Adrienne also had a long history of studying the role of unions in labor- management partnerships⁴ and, as a consultant, had been helping the Kaiser union coalition assess the partnership. Adrienne agreed to join our project while continuing her work with the coalition. In 2004, Paul Adler, an organizational sociologist who has worked both on partnerships and on work processes in health care, joined the team to bolster our West

Coast presence as we began working on a report on partnership developments between 2002 and 2005.

Our methods of research can best be described as a mix of standard social science research—case studies, surveys, interviews, participant observation, and analysis of documents, reports, presentations—and action research through our feedback to those involved in the partnership processes. We have produced four interim reports on the partnership. Though written largely for the parties themselves, each of these reports was published independently, circulated widely to people in our profession, and posted on the MIT Institute for Work and Employment Research website (<http://mitsloan.mit.edu/iwer>). We have also published a number of peer-reviewed journal articles.

In the following chapters, we detail the people and pivotal events that illustrate both the power of partnership and its precarious, often fragile, nature in the face of often resistant management, labor, and public policy traditions.

We will delve into the leadership styles, governance structures, and organizational changes needed to initiate, sustain, and derive benefits from a labor-management partnership. By highlighting how these issues were addressed by those involved in the Kaiser partnership, we hope to show that there are ways for labor and management to work together, not in total harmony or under naive notions that conflicts would magically disappear, but by surfacing and addressing issues, challenges, and conflicts as they arise to improve patient care and the lives of those who deliver it.

Chapter 2 reviews the history of health care labor relations, followed by a discussion of how that history has informed and complicated the establishment of labor-management partnerships. Chapter 3 presents a profile of Kaiser Permanente. Chapter 4 summarizes the partnership's early years, focusing on some early achievements and challenges that had to be addressed if it was to make it beyond the initial stages. Chapter 5 discusses the struggles associated with diffusing a partnership across an organization as complex and decentralized as Kaiser Permanente.

Chapter 6 provides a description and analysis of one of the signature breakthroughs and achievements of the partnership—the negotiation of two of the largest, most complex, and most innovative collective bargaining agreements in U.S. labor relations history. Chapter 7 reviews the challenge of building and maintaining a coalition of the various Kaiser unions, made all the more difficult by the 2005 split of the major unions at the national level. Chapter 8 analyzes the partnership at a more personal level, looking at the role of upper- and middle-level leadership of Kaiser and the unions. Chapters 9 and 10 take up two major initiatives on the front lines of health care delivery—efforts to introduce and expand the use of teams of health care workers to solve problems and improve care and efforts to introduce and expand the use of electronic medical records' technologies. In chapter 11, we assess Kaiser's overall performance as a health care delivery organization and how Kaiser's workforce and unions have fared over the first decade of the partnership's existence.

The final chapter summarizes the lessons—both for the health care industry and for the nation’s labor relations system—that we hope policy makers and others will take away from the partnership. The partnership can serve as a road map. The route may not be direct or without detour and obstacles, but it can lead to success for those who choose to work in partnership to improve both health care delivery and the lives of those who deliver it.