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Susan C. Eaton, Thomas A. Kochan, and Robert B. McKersie

TAKING STOCK OF THE KAISER PERMANENTE LABOR MANAGEMENT PARTNERSHIP:
A MID-COURSE ASSESSMENT

If you do approach things in a partnership mode, you can accomplish whatever you need to accomplish. It's at the most basic levels. Most large companies don't care or want to hear from the line workers. They will not be as productive, and not make their goals. You have to incorporate everybody. If there's an issue, it will be addressed, it will be taken care of. There has been so much creativity released--- that was never allowed to come to the fore before. We have our little local partnership committees, and you get the most interesting information back from people you never would have asked initially. I'm always in awe of this.

Preston Lasley, Union Leader, SEIU Local 535

The obvious benefits to both parties, in my mind, first of all have to do with the value of stability, in economic terms and dislocation terms, for individuals and for entities. We have created a framework that allows for productive relationships and labor-management peace and stability for a period of time. So we're not rehashing conditions of work, conditions of employment, economics, every period. That has enormous benefit to the labor members because there is a certainty now, there is a predictability. And it has great benefit to us. The cost of instability is high for both parties, I think. And it has economic implications; it has reputational implications.

David Lawrence, M.D., President of Kaiser Health Plans and Hospitals

In October 1997, Kaiser Permanente Hospitals and Health Plans (henceforth Kaiser Permanente or KP) and 26 U.S. local unions (representing 65,000 KP employees) signed an historic agreement to enter into a comprehensive labor management partnership. This is the largest and most ambitious labor management partnership in place in the U.S. at the moment, and the most visible one to be established since the partnership at Saturn Corporation of General Motors was put in place in the mid-1980s. The parties have achieved remarkable successes in the first four years of the partnership. They developed and used an innovative interest-based process to negotiate a single five-year system-wide collective bargaining agreement. They worked together to open Baldwin Park Medical Center, a major new health care facility in Southern California, in record time and on budget, with significant work process innovations. They engaged in an interest-based, problem-solving process to reach agreement on how to reorganize and turn around the performance of an Optical Laboratory in Northern California that saved it from closing. They created a joint governance structure and process, and trained hundreds of union and management leaders in partnership principles and skills. Through these

efforts they have built support for the partnership among a significant number of Kaiser Permanente managers, physicians, union leaders, and employees.

But significant challenges to the partnership's full success remain. Partnership values and principles are not yet well integrated into the organization's overall value system, or the standard operating procedures of Kaiser Permanente's management. The interviews that form the basis for this mid-course report documented considerable differences in the vision that key leaders within and across labor and management organizations have for the Partnership and the degree to which partnership should be integrated into their normal operations. Only a small subset of union leaders have developed the skills and capacities needed to support the partnership and to engage in joint decision-making with management, while a significant number of union leaders remain skeptical of or opposed to the partnership. A key local union of registered nurses in northern California that remains opposed to and outside the partnership is scheduled to negotiate a new contract in 2002. A majority of rank and file members report little evidence of partnership activities at their worksite, according to an internal survey. The majority of physicians remain unaffected by and uncommitted to the partnership. The parties lack clear indicators for tracking the contributions of the partnership to bottom line performance outcomes of concern to key stakeholders.

Moreover, new challenges lie ahead. Key leadership transitions in management are about to occur. Likewise, changes in key labor leaders will likely take at some point before the current agreement is due to be renegotiated in 2005. A new clinical information system that will produce fundamental changes in staffing patterns and work processes is about to be introduced at the same time that the recession threatens to reduce the number of members in many of Kaiser-Permanente's existing plans. Together these two developments will place severe pressures on the strong employment security principles embedded in the Partnership Agreement.

Experience with partnerships in other sectors of the economy suggests that if these issues are not addressed effectively, the partnership's further diffusion-- and indeed the survivability of the KP Partnership -- will be at significant risk. On the other hand taking note of these issues, and addressing them by using the partnership principles and processes, should serve to reinforce and further institutionalize the partnership.

What follows is a case study of the Kaiser Permanente Partnership from its inception in 1997 to its present point, January 2002. We present it as a "mid-course assessment" both to document and learn from experiences to date and to serve as a tool for the parties to discuss and take action on the key challenges that lie ahead. Our research team was asked by leaders of the partnership to conduct this case study both to provide an outside, independent review and analysis of their experience to date. We also hope to provide the parties with a learning tool that they can use to move the partnership forward.

The data reported here are drawn from interviews conducted between June and January 2002 with a wide range of partnership participants, from top management executives and union officers to local leaders on the front lines. In addition to conducting the interviews, we are working with the parties to design studies to measure more precisely the effect of the partnership activities on health care, financial, and workforce outcomes. Here we present only our initial

qualitative data and findings. Future reports will focus more specifically on quantitative assessments of particular partnership projects as well as providing more detailed case studies of partnership activities.

In presenting this case, we draw on evidence from a wide variety of prior labor-management partnerships we have studied and/or participated in directly.[1] Throughout the report we will note key "pivotal events" in the evolution of the partnership that previous studies have identified as generic challenges that labor-management change efforts tend to encounter. Each of these pivotal events has the potential for either significantly reducing or reinforcing the likelihood of a partnership continuing or succeeding.

KAISER PERMANENTE: Two Complex Health System Organizations

Kaiser Permanente is America's leading not-for-profit health maintenance organization, serving 8.6 million members in 18 states and District of Columbia. Fully 80% of its operations are located in California, where it began. As an integrated delivery system, KP organizes, provides or coordinates members' care across a full range of services including hospital and medical services, screening diagnostics, wellness care and pharmacy services. As a not-for-profit, KP is driven by its mission to meet the needs of its members and its social obligation to provide benefits for the communities in which it operates.

In 1933, Henry Kaiser asked Dr. Sidney Garfield to provide health care to the 6,500 workers and their families engaged in building the Grand Coulee Dam. Together they created the nation's first pre-paid group health care practice and insurance program. Then, during World War II, Kaiser and Garfield, together with the unions representing blue-collar workers, formed an association to provide health care to Kaiser's expanding steel and shipbuilding businesses in California. Shortly after the war the plan gradually expanded, in large part by adding other union health plans to its customer (they call their customers "members") base. Union pension funds helped provide Kaiser with money to build the first Kaiser-owned hospital.

In 1952 the organization was re-named Kaiser Permanente and split into a partnership between two organizations: (1) Kaiser Foundation Health Plan and Hospitals, and (2) the Permanente Medical Groups. The latter is composed of the physicians and related health care providers, while the former is made up of the health maintenance organization (HMO) insurance plan and the hospitals owned by Kaiser. The various Permanente medical groups operate as a for-profit organization, contracting services solely to Kaiser health plans and hospitals; at the same time, Kaiser Foundation Health Plan and Hospitals retains its not-for-profit status. Not

[1] For reports on a number of prior partnerships conducted by members of our research group, see, Joel Cutcher-Gershensfeld, "Tracing a Transformation in Industrial Relations: The Case of Xerox and the Amalgamated Clothing and Textile Workers Union," Washington, D.C., U.S. Department of Labor, 1988; Thomas Kochan and Joel Cutcher-Gershenfeld, Diffusing and Sustaining Innovations in Industrial Relations, Washington, D.C. U.S. Department of Labor, 1988; Thomas Kochan and Susan C. Eaton, 1996, "New Ideas on Resolving Workplace Disputes," Negotiation Journal. Saul Rubinstein and Thomas Kochan, 2001 Learning from Saturn, Ithaca, NY: Cornell University Press; Robert B. McKersie " Lessons from Partnerships," Transfer, 2001, Susan C. Eaton, Saul Rubinstein, and Robert B. McKersie, (Academy of Management Paper), forthcoming 2002.

surprisingly given its origins, Kaiser Permanente workers (including nurses, technical workers, and service and maintenance staff as well as many clerical workers) unionized shortly after the non-profit organization was created. The union membership and Kaiser Permanente grew together, and today unions represent most eligible workforce members.

Today KP employs approximately 90,000 workers, of whom about 75,000 are eligible for union representation and 67,000 are represented by one of seven different international unions and one independent union. Since KP's operations are highly decentralized, so too has been collective bargaining for most of Kaiser's history. Traditionally, bargaining has taken place separately with more than 30 different local unions and bargaining units, each of which was governed by a separate contract with different expiration dates.

MOTIVATING FORCES AND INTERNAL DEBATES

Kaiser-Permanente was founded in partnership with labor. The organization's leaders also worked to develop positive relationships with the unions representing its workforce. While labor-management relations have had their ups and downs over the years, they have been mostly positive for most of KP's 50-year history. Part of the reason for this was that until the 1980s, KP could use some cost-plus pricing, and thereby pass on the costs of improvements in its labor contracts to its customers. Unions also found Kaiser attractive as a service provider. It was one of the lowest-cost health care providers during that period and as an innovative HMO it focused on preventive services that worked especially well for families. In the late 1980s and early 1990s, KP began experiencing severe competitive challenges in its markets, particularly from for-profit health care providers aggressively seeking to increase their market share. With these new pressures came a new, tougher labor relations strategy from management that produced a series of layoffs, strikes, collective bargaining concessions, and an increasingly demoralized workforce. "This is not the Kaiser we came to work for" was a comment often heard from front-line workers.

By 1996 a crisis was building. The largest single national union at KP, the Service Employees International Union (SEIU), began to convene its local unions with KP members to discuss strategy. The SEIU then turned to the Industrial Union Department (IUD) at the AFL-CIO and asked it to call a meeting of all the unions representing workers at KP. The SEIU was joined in this request by nurses represented by the American Federation of Teachers (AFT). The IUD had many years of experience in coordinating bargaining efforts of its member unions and so Peter diCicco, then President of the IUD, was pleased to set up a meeting to address the critical problems at Kaiser.

Below, diCicco describes how they got started:

We took our normal approach. We called an initial meeting of all principal unions. More than 100 people attended. We knew from experience that we had to get all the unions on board with a clear strategy for how to deal with Kaiser. It became evident, given the negative attitude of the public toward strikes in health care, we had to consider other options-- and so we began looking at other means to achieve bargaining strength—corporate

campaigns[2] and such. I went to the international unions for a supplemental budget to fund the corporate campaign. They accepted the supplemental budget and we staffed up and started the corporate campaign—a successful one. For example, we found a very negative quality report on KP from one region and began making it public to demonstrate we were ready to move in this direction if we didn't see a change in Kaiser's behavior. And we examined the whole question of the not-for profit status of Kaiser.

But it became clear to us if we unleashed lots of these data we would lose control of all this. The government might step in and we would all lose. So I went to the international union presidents and told them these guys [Kaiser] are not the worst of employers we deal with, and we might do permanent damage to them and to our 75,000 union members if we mount an all-out corporate campaign or use the information we amassed for short term advantage or leverage. Was there an alternative?"

One union activist, Oregon Federation of Nurses leader Kathy Schmidt, remembers those days, after concession bargaining for thousands of union members had reduced or frozen wage and benefit packages.

We formed a coalition to keep from getting killed in bargaining. We didn't even know the P-word (partnership). We came together for bargaining expertise. We wanted to kill these people. They brought in these McKinsey people, who were going to close all the hospitals (seven in California alone), take out the integrated care system, and maintain their competitive position by lowering their labor costs. A round of bargaining started in 1994-5 that was just brutal—we intercepted some business plans and faxes and emails – they were just going to kill us. After that round of bargaining, we said 'never again', and we started building a corporate campaign capacity to kill them. Then we realized, here is the most unionized system in the country, why don't we try to help them? We learned more about trying to have a partnership.

Peter diCicco continues,

My background was in Lynn [Massachusetts where Peter headed the local union representing employees at General Electric] where we had started a job enrichment process. And the AFL-CIO had developed a document outlining principles for labor management partnerships.[3] So we had some options. Perhaps we could use our bargaining strength at the table or offer the option of a partnership approach with Kaiser.

We had John Sweeney, who at that time was President of the SEIU [later to become President of the AFL-CIO], make an overture to David Lawrence, KP's CEO and that started the process. It took Kaiser six months to consider the idea. The Board of Directors discussed it at length. Fortunately, the former chair of Northwest Natural Gas was on the board and he had a very positive experience with a labor-management partnership in his

[2] A corporate campaign is a coordinated research and public disclosure initiative undertaken by unions to bring public attention to a company in an effort to change the company's labor relations practices.
[3] The document referred to here is the 1994 AFL-CIO Future of Work Committee report.

company. After consulting with him and other board members, Lawrence came back to Sweeney and said, "Let's explore this idea."

We asked John Calhoun Wells, Director of the Federal Mediation and Conciliation Service (FMCS) to convene a meeting of top executives and labor leaders in Dallas. We went to that meeting ready to blast KP for its behavior. At the top of our list was patient care—that's where the frustration was the greatest among our members. But Lawrence started with a statement that disarmed us. He said all the things we were prepared to say. It was clear that there was almost total alignment of objectives. So from that point it was just a matter of walking through the steps.

Dr. David Lawrence, CEO of the Kaiser Foundation Health Plans and Hospitals, describes the inception of the partnership as follows:

At some point Al Bolden [a labor relations official at KP] and Pete talked about the need to get together and try something different. And I was willing to try anything at that point because it was clear that the path we were on…was a dead end. We were going to be facing labor strife in every corner of our organization. We have 54 labor contracts, 36 unions, and if they go south on us, similar to what happened -- at the same time we were in a fair amount of conflict between the Medical Groups and the Health Plan -- what I saw was an organization that was starting to balkanize in very serious ways. A lot of this was being driven by external things, a lot of it was being driven by changes we were trying to make in the organizations at a strategic level.

So what ended up happening is that I agreed … that we would meet with labor representatives privately at Dallas-Ft. Worth airport. It was almost a make-or-break meeting. What I remember thinking about at that meeting was: We've got nothing to lose about being forthcoming about what I believed needed to happen in terms of the relationships…[and] about the kind of collaboration that I think is required to deliver modern medical care in all of its complexity. We had nothing to lose in acknowledging the fact that there 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 in terms of how you best organize.

So John [Wells] asked me to say my view first. And I said these things. Peter said I took away all of his thunder because he was prepared to say all of those things. And it turned out that there was almost a revelatory session....

One of the first things the parties did after agreeing to pursue more collaborative strategies was to look for a consulting firm with significant experience in facilitating labor management partnerships. After interviewing a number of candidates, they chose the Washington D.C.-based firm Restructuring Associates, Incorporated (RAI). Seasoned facilitator and consultant John Stepp leads RAI's efforts. Stepp brings a wide range of experiences to the process, as a former mediator from the Federal Mediation and Conciliation Service (FMCS), and a former Deputy Under Secretary of Labor and head of the Department's Bureau of Labor Management Relations and Cooperative Programs. He is a national expert on how to design and sustain labor-management partnerships. Stepp gradually brought in a number of other facilitation

experts to the project. The FMCS also made available twenty of its commissioners to help provide facilitation and mediation services.

"Walking through the steps" to produce an actual partnership agreement was actually an intensive negotiation and problem-solving process in 1996 and 1997 led by senior executives and union leaders, with significant assistance from RAI's John Stepp and Tom Schneider. The toughest issues involved employment security, union security, and the scope of shared decision making. An approach to shared decision making was proposed by RAI using a continuum ranging from at one end, management informing union leaders of actions to be taken, to full participation and consensus decision-making on the other end. Union security was addressed in an agreement providing for management neutrality and card check procedures for future organizing of nurses and other bargaining unit staff (but not for physicians). Employment security proved to be the toughest issue. The language finally agreed to said that one Partnership Agreement goal was to "provide Kaiser Permanente employees with the maximum possible employment and income security within Kaiser Permanente and/or the health care field." This was later to require further clarification.

Once the labor and management leaders agreed on the key provisions of the partnership, it was submitted to a vote of the rank-and-file membership of the unions. Before this vote, however, an intensive process of education of the rank and file (front line workers) took place. Most union members had never heard of a labor-management partnership, nor did they have any idea how it would affect their interests. The unions held a national teleconference to brief local and regional union leaders, and produced videos describing the partnership that featured AFL-CIO President John Sweeney describing his vision for what a partnership of this size and scope could mean for the future of labor relations in America and for the labor movement. The partnership was approved by 92% of the local union members voting, with high turnout. The only major union choosing not to join the partnership was the California Nurses Association (CNA) representing approximately 8,000 nurses; the leaders of CNA chose to withdraw from discussions before the partnership was negotiated in final form, in part because of ongoing disputes with Kaiser-Permanente managers in northern California. A bargaining unit in Hawaii that has a partnership program of its own and nurses' units in Oregon and Ohio initially chose not to join and has since voted to do so. Overall, of the approximately 75,000 unionized employees, 67,000 would initially come under the partnership, and this has now increased to 70,000 of nearly 78,000.

Figure 1 lists the key provisions in the agreement ratified by the parties in June1997. A reading of these provisions illustrates the breadth and extent of the Partnership. The six objectives outlined in **Figure 2** below address the key bottom-line concerns for improving the quality of health care, expanding KP membership and market share, and improving its performance as well as key employee and union objectives of providing job and income security, making KP a better place to work, and involving employees and union leaders in decision-making.

Figure 2: Six Common Goals of the 1997 LMP Agreement and Benefiting Stakeholders

Kaiser Permanente and the undersigned labor organizations agree to	**Benefiting**

establish a Partnership in pursuit of our common goals:	**Stakeholders**
• improve quality of health care for KP members and communities we serve;	Plan Members, Patients, Physicians
• assist KP in achieving and maintaining market leading competitive performance;	Management
• make KP a better place to work	Unions
• expand KP membership in current and new markets, including designation as a provider of choice for all labor organizations in the areas we serve	Management
• provide KP employees with the maximum possible employment and income security within KP and/or the healthcare field	Unions
• involve employees and their unions in decisions	Unions

The Labor-Management Partnership structure is depicted in **Figure 3**. The top two dotted boxes represent the two separate governing bodies for KP and the unions: the Kaiser Permanente Partnership Group (**KPPG**) and the Coalition of Kaiser Permanente Unions (**CKPU**), respectively. VP for Workforce Development Leslie Margolin is a member of the KPPG, along with top officers of the two parts of KP, the Permanente Medical Groups and the Health Plan and Hospitals Group. Peter diCicco chairs the CKPU. The National Labor Management Partnership Strategy Group (known as the **Strategy Group**) is the top joint governing body, co-chaired by Leslie Margolin and Peter diCicco. A staff organization, the Office of Labor Management Partnership (**OLMP**) reports to both Leslie and Peter.

[Insert Figure 3 about here]

This setup means that in effect there are two partnerships at KP. One is between two divisions within management that have their separate histories and governance structures: the Hospital and Health Plan side and the medical practice side, or Permanente Medical Groups. In 2000, following considerable internal conflict and debate, a new governing body (the KPPG) was created to oversee and coordinate these two divisions. This group now meets several times a month. While no union representatives are formally part of the KPPG group, CKPU leader Peter diCicco attends when agenda items involving the labor partnership are to be discussed.

The KPPG was created to overcome severe conflicts and rivalries that had grown up over the years between the medical and the health plan groups. It remains a work-in-progress. Some members still approach the meetings in a traditional bargaining mode. For example, the medical group members generally meet in caucus prior to the joint meetings and in some cases are bound to stick to positions agreed upon in advance. Whether or when diCicco eventually will become a full-fledged member of the KPPG is an open issue, and one that continues to be a source of some disagreement. As we argue later, this question will need resolution in the future.

The second partnership is the Labor-Management Partnership **(LMP**). The top governing body of the LMP is the **Strategy Group**, consisting of twelve union leaders and senior operating managers, which meets monthly and is the key decision-making group for the

labor-management partnership. The **National Partnership Council** (see Figure 2) meets eight times a year and brings together approximately fifty union and management officials to hear and give reports and to enhance coordination across the many parts of the KP organization.

The Strategy Group seems to be the key working body of the Partnership, while the National Partnership Council sometimes serves more for information sharing than for decision-making, at least based on observation of its Denver meeting in July 2001. The union-only group, CKPU, had met the previous day to exchange information and to strategize about priorities, and some members noted that they were hearing basically the same thing at the Partnership Council meeting. Also one member suggested that the joint meeting was "light on management" representation, partly because some key managers had been delayed by a KPPG meeting. The parties delayed a subsequently scheduled November 2001 meeting and instead met in January 2002 to discuss whether an alternate structure would serve all parties better. No decisions have emerged as of the date of this writing, but clearly the governing structures for the Partnership are still a work in progress.

Pathways to Partnership

To direct and support the implementation of the above six goals, the Pathways to Partnership five-phase plan was developed. The pathways document highlights seven key elements and describes in detail the following five phases of implementation for of each them: traditional, foundation building, transition phase I, transition phase II and vision. The seven key elements are: performance targets and measures, union's role and management's role in decision making, employee role in the workplace and decision making, labor relations, compensation, employment security and quality. **Figure 4** provides a summary of descriptions and activities under each of the five phases. The Pathways to Partnership represents a major effort towards developing a labor management implementation strategy with the understanding that attempting organizational change would take a staged approach over a number of years.

Figure 4: Five Phases of Pathways to Partnership

Traditional	Foundation Building	Transitional I and II	Vision
• Adversarial • Rule Based • Problem Settled Not Solved • Decision Making Seldom Shared	• Education & Training • Issue Resolution • Establish Teams • Involve Employees and Physicians in Decisions	• Consensus Decision Making • Trained in Conflict Resolution • Collective Bargaining • Business Education	• All Employees and Physicians with full Understanding of the Business • Union Leadership Integrated in to Decision Making • Interest Based Bargaining

			• Accountable Teams

Employment Security: A Critical Issue

Another important issue that was resolved by the parties in 1999 was deciding how to mutually reach the parties' goal of employment security. Issues had arisen regarding the redeployment of bargaining unit staff, and more clarity was needed. The Council and other union and management leaders met to discuss this. Here's what one top management negotiator had to say about the 'internal bargaining' within management:

That [employment security] was another cornerstone. First, I persuaded them that they had confused employment security with job security. They thought employment security meant no flexibility for redesign and no flexibility for performance. It was a huge step forward, and we garnered a lot more support when I persuaded them that wasn't the case. Then the second worry was, what if something horrible happened, we can't have our hands tied, if there's an earthquake or a flood or a hospital closing, we can't guarantee everyone jobs. And our labor partners weren't talking about that, something horrible. So you see in the language, there is some exception for huge horrible events, and it is still defined by management. So that solved that problem. Really I was mediating. Third, they said, we can't afford it. I spent countless hours, talking with people. I was in the same room with the managers. But I asked the management people to figure out… how many vacancies we have. Typically, we always have an 8 to 10% vacancy rate. So it's not a question of having too many people. We can be creative in retraining and redeploying people… That was critical. The leaders and managers just needed that time and to understand

Finally, with leadership from Kaiser's Vice President of Workforce Development Leslie Margolin as well as John Stepp, Peter diCicco, and others, the parties crafted a separate agreement on employment security dated October 20, 1999, that clarified their understandings and laid the groundwork for ongoing partnership. The clarification covers five pages and lays out in some detail the commitment to "re-deploy, not lay-off, employees who are displaced." Both parties would need to behave differently than in the past, as with so much of the Partnership—with unions permitting increased flexibility and management engaging in proactive problem solving and planning ahead for long term workforce needs.

Negotiating The 2000 National Agreement

After the Partnership Agreement was signed, the parties made a decision to keep the partnership activities separate from collective bargaining. Peter diCicco felt to do otherwise would risk losing local union support for partnership activities. This has been a standard, widely accepted tenet for how to start joint, labor-management efforts. It is common to start with a principle or written rule that essentially says, "none of the changes that will be implemented will infringe or modify terms and conditions of existing collective bargaining agreements." This helps take the first step and gain support of both management and labor leaders who are skeptical of joint efforts and fear those efforts will erode hard-won gains or managerial control. Yet, as RAI consultants pointed out, the dilemma that all partnerships face at some point is that if they want to tackle the critical issues facing the business and the workforce, they have to find an appropriate and effective way of integrating their joint efforts with the collective bargaining process and the provisions of their labor agreements. This is often the first test of a partnership; those who can do this in a way that gains the support of elected union officials with bargaining responsibilities and key managers who control bargaining strategy and decision making within management, can move joint efforts on to the next phase in the change process. Those who cannot overcome this hurdle often fail at this point because they cannot get at the key issues facing the parties.

The Portland Strike

It did not take long for the KP Partnership to experience a pivotal event that raised this question. Shortly after the partnership agreement was signed in 1997, a strike in Portland, Oregon forced the parties to address this issue. It showed how vulnerable the partnership could be to local conflicts and convinced the partnership leaders that a new approach was needed. Peter diCicco describes this event:

> *One critical point was after the partnership agreement was signed we had a strike by the SEIU local in Portland, Oregon. The nurses (members of AFT) then started a supportive sympathy effort and participated in a sit-down activity. When 10-12 nurses went out in sympathy management threatened to fire them. If management followed through this would have been an all out war. I ended up working hand in hand with Dick Barnaby [then President of KP] to avoid this. I personally went up to Portland to help the local negotiate a settlement.*

While this pivotal event produced recognition that a new approach to bargaining was needed, the question was: How could this be done? Since the various local unions had gained experience working together in negotiating the initial partnership agreement, their inclination was to propose that everyone negotiate together and create a single national agreement with supplements that dealt with specific local issues. (Such agreements are common, for instance, in the automobile industry.) But KP officials initially were strongly opposed to this, fearing that a single common contract deadline would greatly increase union bargaining power by threatening

a system-wide work stoppage. The question, therefore, was: Could some new approach be developed that would address the need for more coordination that either avoided a common expiration date for all contracts or addressed management's concerns in other ways?

Designing a Framework and Process for Negotiations

A joint task force was created to explore this question. The initial idea favored by the union coalition and proposed by the task force was to negotiate a single national master agreement, similar to the approach used for years in the auto industry and by many other large companies with multiple locations. When this idea was first proposed to Kaiser's top management governing body, the Kaiser Permanente Partnership Group (KPPG) in 1999, it was rejected, primarily out of concern that units that were in labor market areas outside of California would be unable to pay higher "national" rates, and secondarily out of fear on the part of some executives that negotiating a master agreement would create considerable vulnerability to a system-wide strike by all the unions. The existing local agreements had different expiration dates, and management felt thus safeguarded from a major strike across all the jurisdictions.

The rejection of this proposal created a crisis that could easily have led to the demise of the partnership. But soon after this setback, Jay Crosson, Executive Director of Permanente Federation, recognized that the KPPG could not "just say no." David Lawrence was also important here, as he insisted on continuing to work to resolve the differences so that the Partnership would not fail. John Stepp worked with Crosson and other KPPG leaders to fashion an alternative approach with various "gates" that the parties would move through before negotiating a national agreement. Either side could exit the process as it passed through these gates if they felt it was not moving in a constructive fashion.

In view of the primary reason for the initial rejection of the national contract idea, an important "gate" was agreement in principle that local labor market rates would continue to govern. Another critical step involved training of all the potential participants in national and local negotiations in the concepts and skills of Interest Based Negotiations (IBN). Another key "gate" was that either party could pull out of the process at any point. (As it turned out, neither party found it necessary to exercise this option). The task force eventually came back with a revised proposal that called for extensive use of IBN problem-solving principles and the necessary training to prepare the parties for this very complicated process, a single integrated national negotiation that also allowed local agreements to retain their respective deadlines (thereby addressing one of management's fears of a common expiration date), and a series of decentralized task forces that would focus on particular issues. It would be a single, integrated national negotiation but would not have a specific deadline for an agreement.

This revised proposal was approved by the KPPG and the leaders of the union coalition in February 2000. The actual negotiations structure and process will be described in detail in a separate case study. For our purposes here it is sufficient to say that these negotiations will be recorded as the largest and most innovative and successful experiment with interest-based negotiations processes conducted to date in U.S. labor-management relations. They involved nearly 400 union and management representatives and more than a dozen neutral facilitators. The negotiations included eight international unions with 26 locals.

Seven decentralized bargaining task groups (BTGs) were established to address (1) wages, (2) benefits, (3) work-life balance, (4) performance and workforce development, (5) quality and service, (6) employee health and safety, and (7) work organization and innovation. Each group engaged in an interest-based process of joint study, problem solving, and negotiations. These task groups reported their recommendations to a centralized Common Issues Committee (CIC) co-chaired by Peter diCicco and Leslie Margolin. Facilitators from RAI and FMCS assisted each of the groups. In addition to negotiating a national agreement, new local agreements would be bargained, even though most were approaching their expiration dates. The CIC would sort through those issues and recommendations that needed to be forwarded to the local tables and those that applied uniformly across the system and therefore needed to be negotiated centrally by the CIC.

Most of the important issues were tackled (except for the negotiations over money) within the seven BTGs. Consider the experience of one sub-committee within the BTG that tackled the subject of performance and measurement. This group consisted of approximately twelve people and included a person from Operations at one of the hospitals, a vice president from one of the nursing unions, and other management and union leaders with direct experience with and responsibility for the issues within this group's mandate. The schedule involved meeting for long hours for three consecutive days every other week. During the interlude, members of the committee reflected on what had happened, consulted with constituents, and accomplished behind-the-scenes liaison work that was necessary. Guidelines from the CIC urged the BTGs not to propose specific language but to produce guidelines and statements embodying concepts and principles.

The BTGs were staffed with two facilitators, one from RAI and the other from FMCS. They intervened, especially when the parties got stuck, by asking them to go back to the fundamentals of IBN: identify interests and generate new options. The facilitators also managed the lists from the flip charts, prepared notes, and during the intervening night after each day's session produced a summary to help launch the next morning's session.

Figure 5 lists the chronology of key steps in the negotiation process. Between February and September 2000, the parties worked on these issues within their sub-groups. They met for several days at a time and then disbanded to consult constituents. When a group reached consensus, it presented its recommendations to the CIC. The national committee, in turn, passed on these recommendation to local unit bargaining committees for them to adapt and fine-tune the recommendations to fit specific local conditions. Members of the CIC were assigned to each BTG. Their role was stated as follows: *"They are not to be co-chairs; they will play a leadership role and model the IBN principles and behavior; they will help keep the BTG on task and on target; and they will serve as the eyes and ears of the CIC".*

Figure 5
Chronology of the Negotiations Process

March 2000	Management and unions separately solicited proposed issues from their constituencies

April 2000	0 Local unions and 300-member Union Bargaining Council approved process; 1 Common Issues Committee members went through training; 2 Management and unions separately, and jointly through the Common Issues Committee, determined there were sufficient common issues with potential for agreement.
early May 2000	3 Common Issues Committee chartered Bargaining Task Groups
May-June 2000	4 Bargaining Task Groups underwent training, met to identify issues, mutual and separate interests, develop options and recommendations
early July 2000	5 Bargaining task Groups presented options and recommendations to the Common Issues Committee; 6 Common Issues Committee determined there were sufficient common issues with potential for agreement, triggering additional local bargaining by all 26 local unions
July-August 2000	7 Common Issues Committee determined guidelines for which issues were to be negotiated nationally or locally; 8 Common Issues Committee bargained national issues while local unions and local management negotiated local issues
late August 2000	9 Framework for a national agreement was tentatively agreed to by the Common Issues Committee, approved by KP's senior management, and endorsed by the 300-member Union Bargaining Council; 10 additional guidelines for local bargaining were released to local unions and local management
September-October 2000	11 Tentative national agreement and tentative local agreements submitted to membership of the 26 local unions for ratification

By late July 2000, the BTGs had finished their work and were ready to report back to the CIC. Early in August, all the BTGs came together with their reports. Approximately 300 people from the BTGs assembled, sitting in bleachers, with the CIC down in the "pit". There were also people on hand from the KPPG. Each BTG presented its work. The scene was incredibly energizing; according to one individual; everyone came away from the session on a real "high". By September, the national and local agreements were ready for being presented to and voted on by both KP management and rank-and- file members of the participating local unions. The approval process alone was a logistical marvel.

The Importance of Leadership

A key factor in the Partnership throughout negotiations was also decisive in gaining initial buy-in from union leaders, namely, the credibility Peter diCicco brought to the process. Peter was widely respected by his union peers for his thirty years of experience in negotiations with General Electric as president of the International Electrical Workers' Local representing GE workers in Lynn, Massachusetts as well as his success in leading coalition bargaining for the AFL-CIO's Industrial Union Department. Moreover, he had led the effort to bring together the union coalition at KP and managed the process that led to the signing of the Partnership Agreement.

It is clear that diCicco played a key role on the union side in managing the many pressures that could easily have brought matters to an impasse. The presidents of the large locals knew they could do just as well by going back to the format of separate negotiations. And in fact some leaders played "hardball" toward the end of bargaining and threatened to pull out of the effort to reach a national agreement. As one observer stated the challenge:

> *If we had not had the three years of experience with the coalition working together under Pete's leadership, we never would have reached agreement. Pete had the confidence of this large group of individualists and he knew how to keep them focused on the objective of reaching a master agreement. He knew how to spell out the advantages of working together and when a leader went the other way ("let's shake the trees and see if we can get something better"), Pete stepped back and let some of the other leaders who were committed to going forward apply a little collegial arm twisting.*

Similarly, on the management side it was critical to have a leader who had the respect of the line executives and physicians on both the Kaiser Health Care and Hospital and the Permanente groups. Leslie Margolin provided this leadership. She brought line management experience to the negotiations and she is a member of the top management committee (the KPPG). Margolin was just as instrumental on the management side of the table in bringing about agreement as diCicco was for labor; in fact they worked closely as a team to guide an extraordinarily complicated process. Significantly, she was frequently asked to attend union caucus meetings to explain management proposals and to answer questions. (However, diCicco was not afforded the same opportunity to sit in on management meetings.) The important bridge role that Margolin played is captured in this observation:

> *Leslie's leadership was instrumental on both sides of the table. She enjoyed complete trust with the union leadership and when she said that management had "emptied its pockets" they believed her. In many ways her toughest job was keeping her management colleagues on the same page. Often when she would return from a union meeting, she would find her teammates embroiled in tense discussion and in the process of backing away from positions that they had put on the table. For example, toward the end of negotiations the legal office came back to the management team and said that the commitment that had been made to transmit COPE funds could not be done. As soon as Leslie went to the union with this change it opened the door for some union presidents to press anew for agenda items that had been dropped. She really had her work cut out for her in managing closure and achieving consensus on the part of the management group.*

Facilitation was also critical in making the negotiations successful. This negotiation was facilitated by John Stepp and his colleagues from RAI. By now they knew the parties very well and were able to provide training and also to help keep them on a mutual interest agenda, using interest-based problem solving techniques. Many union and management leaders praised the RAI consultants. An important innovation that RAI brought to the effective pursuit of IBN is

the notion that at the critical stage of focusing on agreement the parties should be urged to identify their "make or break" agenda items. In their experience, RAI consultants have found that bargainers find it difficult to agree on the standards or criteria recommended in most educational programs. Rather, they find that the parties can identify the agenda items that must be resolved before agreement can be reached. So it is against this list of "must items" that any tentative agreement must be evaluated.

Training of the participants involved in the negotiations was conducted by both RAI facilitators and FMCS mediators, and much initial training took place over a three-day period in early May 2000. To capture the flavor of training, consider this perspective:

> *During the training, people were excited yet apprehensive. They did not know what to expect. A lot of questions came from the audience. People wanted to know what was going to happen to the issues after the national negotiations — when would local bargaining teams get underway? What would be their input? What would be the ratification process? There were loads of questions. Every question was answered by Leslie Margolin and Peter diCicco. There was very good, open communication at these meetings, and a very positive atmosphere.* (FMCS official)

Concrete Results

The substantive terms of the national agreement included a five-year contract with across-the- board wage increases between 4% and 6% for each of the five years of the agreement (RNs received higher increases than others because of labor shortages), creation of performance targets to produce savings sufficient to offset additional wage increases of 1%, 2%, and 3% in the last three years of the contract, and numerous specific changes in practices designed to redesign and improve business systems, quality of patient care, and work processes. Kaiser agreed to recognize requests for union representation with a majority showing of support but without an election in new locations. Further, employment security was pledged—not simple job security but needed retraining and redeploying of workers if it proved necessary. The agreement also created a new trust fund financed at five cents per hour from employee wages after the first year to support training and other efforts needed to advance the partnership in diffusing throughout the organization.

One of the substantive terms in the agreement as discussed in section one under finance theory on self-enforcing contracts was a provision for performance sharing. The document specifically states, "performance sharing is intended to recognize that, through the Labor Management Partnership, employees and their unions have a greater opportunity to impact organizational performance and employees should, therefore, have a greater opportunity to share in any performance gains...Performance targets will be set by Region and may be based on quality, service, financial performance or other mutually acceptable factors. If targets are met, performance sharing is based on the schedule below:

Year 3 - 1% payout at target to be paid out in First Quarter 2003, based on 2002 performance
Year 4 - 2% payout at target to be paid out in First Quarter 2004, based on 2003 performance

Year 5 - 3% payout at target to be paid out in First Quarter 2005, based on 2004 performance

The agreement stated that a joint Labor Management Work Group would be appointed to develop a National Performance Sharing Program. At this point, Workplace Safety has been identified as the key performance criteria for Year 3, and Joint Staffing as the key issue for Year 4.

In return, KP gained five years of labor peace—a major achievement given the record of numerous strikes during the preceding decade. Also, the promise of new HMO members was a significant gain. Here, union leaders of the partnership would promote KP as an "HMO of choice" to their affiliates. And of course, the most innovative opportunity was the improvement of patient care and the ability to deliver it in a more participatory, cost-effective manner as a result of the joint activities fostered by the partnership.

Dr. Lawrence summarized this agreement:

> *The obvious benefits to both parties, in my mind, first of all have to do with the value of stability, in economic terms and dislocation terms, for individuals and for entities. We have created a framework that allows for productive relationships and labor-management peace and stability for a period of time. So we're not rehashing conditions of work, conditions of employment, economics, every period. That has enormous benefit to the labor members because there is a certainty now, there is a predictability. And it has great benefit to us. The cost of instability is high for both parties, I think. And it has economic implications; it has reputational implications..*
>
> *That's what labor-management relations do now. Labor craps all over the company that employs them. And the company craps all over the union and tells the world what lousy, unproductive people they are. And the consumer sitting out there says, "What in the world is going on with this organization in the long run??"*

What about the cost to launch the partnership? During the first year, before the trust fund would be operational, it was estimated that the commitment to train workers (up to 40 hours per individual), plus added staff both on the management side and union personnel who would receive their regular pay while performing partnership duties, would amount to approximately $12 million per year. On an ongoing basis, the trust fund would generate approximately $5 million per year, so after the first year labor and management would move toward a sharing of the costs of the partnership.

IMPLEMENTING THE PARTNERSHIP INTO ONGOING OPERATIONS

The successful negotiation of the national agreement is likely to go down as a watershed event, both for the KP partnership and in the larger context of American labor relations. But, while this agreement broke new ground on a number of fronts, it was still just a blueprint for embedding the partnership into KP's culture and vast operations. The real work of doing so still lay ahead. In fact, as Peter diCicco noted, the key architects of the agreement recognized the significant challenges they faced.

> *The agreement to create the partnership had only limited sponsorship. It was ratified by the key management groups at Kaiser but was not widely owned. There was bound to be cultural resistance. The longstanding conflicts between the Health Plan and the Permanente Groups would clearly be an obstacle. Involving and engaging the physicians would be a challenge. Some in management thought it was just a way of mitigating the unions and a labor relations strategy not a cultural change. For this reason we made it a point to keep it from being managed by labor relations so it wouldn't become a labor relations ghetto. And some in the unions felt this would just be another "flavor of the month program" that wouldn't be sustained.*

Two strategies are often used to go from agreements to build a partnership to building deep and broad-based support within the management and labor organizations and with front line employees. One is an incremental, steady, planned diffusion across an organization that is guided by extensive investment in education and training of managers, union representatives, and employees. This approach requires considerable planning, internal negotiations over who pays for training budgets, consulting services, and other associated costs of taking time away from "normal" work activities to learn how to integrate the partnership principles into on-going day to day work. The second option is to pick specific projects or "naturally occurring" events or crises that occur and use the partnership principles and processes to address the underlying problems. The KP Partnership has used both approaches. We will discuss examples of both types of diffusion efforts. We start with examples of two such 'naturally occurring' opportunities.

Baldwin Park

In early 1998, KP decided it urgently needed to open a new hospital in Baldwin Park, California. Normally, it would take approximately two years to plan and open a new hospital of this size (approximately 240 beds). The new facility was needed to come on line quickly, however, because KP's membership had grown in this area to the point that members had to be sent to non-KP hospitals for lack of capacity within the system. This was a very expensive option. Top executives at KP determined that the new hospital needed to be brought on line before the next winter's flu season began in the late fall.

Because the Partnership existed, and provided the opportunity for a new way of working together, a decision was made to give this problem to a joint task team made up of a broad cross-section of physicians, managers, nurses, technicians, and other employees with specific expertise in how a new hospital could work. They were given a clean sheet of paper and urged to use the consensus-based principles built into the Partnership to design a hospital that all parties would

experience as a positive working and healthcare environment.. In April 1998 more than 150 employees, co-led by Leslie Margolin (an attorney and experienced line manager who had recently been recruited from Aetna to become KP's Senior Vice President for Hospital and Health Care Operations) and Dave Bullock, Kathy Sackman, and other key union leaders, took up this task. They brought in employees and managers from other medical centers who were considered leaders at their particular specialties. They engaged in training on problem solving and interest based decision-making, visited GM's Saturn and other innovative organizations to assess different models of joint participation and co-management, and participated in what they called a five day "Blitz Week" of intensive discussions about how to design the flow of patient care. They designed a hospital that focused on patient-centered care, so that much equipment was available at bedside rather than in specialized areas that required patient transport and coordination. For instance, telemetry units, often located only in critical care units, were installed in every room, making the hospital's capacity both greater and more flexible than many other hospitals. In the end they were successful in designing and opening an innovative, staffed, and well designed, functioning hospital in a virtually unheard of eight months. By opening in October, they beat the onslaught of the winter's flu season. Dr. Oliver Goldsmith, medical director for the Permanente Medical Group's Southern California region, remarked:

> *This is probably the most significant venture we will do inside Kaiser Permanente over the next decade. It will serve as a building block for what lies ahead.*

The Optical Laboratory

In early 1998, KP received a consultant's report indicating that $800,000 per year could be saved by closing its Optical Laboratory in Berkeley, California and consolidating its activities into its other California lab in southern California, Glendale. The regional laboratory does 72% of all the lab tests in the Berkeley facility, more than 30 million a year. The Optical Division consists of 32 optical shops. The glasses are made in Berkeley. They are the 7th largest optical operation in the US, said one manager. So this was not a small decision ; dozens of jobs and families were affected.

Union and management officials in the Berkeley lab quickly recognized this would be the most difficult, indeed, **the** issue in their upcoming contract negotiations. Consistent with the Partnership principles, the parties agreed to try interest-based negotiations and chose a facilitator from RAI, Charlie Huggins, to train and support them through the process. The key management decision maker, Tony Gately, said candidly, "[At that time] I was not a proponent of the Partnership. I guess it's because I had been working with labor for 24 or 25 years in KP management." Senior management of the lab the Optical Lab union counterparts were to get together to try to start the process when Tony Gately decided to join them. "We needed a decision maker there to feel the pain. If I were not at the table, it would have been much easier to just say, close it down, without facing the consequences in a personal way." All of them subsequently participated in interest-based training and were charged with the task of drafting an initial statement of the issue for bargaining. However, their initial statement "Should the Berkeley lab be closed or kept open" essentially restated each of their prior "positions." After considerable tense discussion and reminders of interest-based principles, the parties returned to

the drafting process and restated the issue as: "How can we decrease costs and increase revenue consistent with the principles of the partnership." This left both options on the table—keeping the lab open or closing it.

The parties then went into separate union and management caucuses to make sure they identified and put on the table their key interests. They then reconvened as a full group, outlined their interests to each other, and engaged in a process of clarifying each party's interests by having the other side restate it in its own words. This proved to be an eye-opening experience. As Tony Gately stated:

> "*We realized that there was really 80 or 90% overlap in interests—the differences were all in how we might get there. "This was based on the employment security agreement, we had agreed to full employment security, no layoffs, but we would retrain or move people. When we got into the third and fourth days, we began to craft some options. That was when we began to ask, what could solve the problem? The dynamics in the room were changing by then. We had come in on opposite sides of the table, and by this time we were sitting at mixed tables. The relationships were beginning to form.*

When the parties began to brainstorm options, they came up with a remarkable list of 256 ideas for change and improvement in operations, many of which could save costs. "It was amazing," said Gately. A Union leader, Preston Lasley, agreed, "They were really creative. For the first time, management and union were working together."

Some now suggest that generating the ideas proved to be the easy part. The ideas had to be consolidated into a workable number of options. Then the parties had to agree on criteria for evaluating the options. As they worked on this phase of the process, they began to fall back into their old positions as they discussed whether the option of consolidating operations in the Glendale site could meet their criteria (one of which was employment security, another of which was saving $800,000) and therefore should continue to be considered. They ultimately put the process back on track by agreeing to table this option, keep it in the background, and evaluate whether the others being considered could meet or exceed their required cost-savings. After several days of additional intensive, heavily facilitated, negotiations, the parties agreed to reorganize operations to incorporate the ideas and options generated and to review progress against cost and revenue targets after an 18-month trial. If the parties did not agree that progress during this time was adequate, the agreement could be reopened and the issue of consolidation put back on the table.

Among other things, the agreement called for an incentive gain-sharing plan based on revenue, quality, and customer satisfaction performance criteria; a change in job design and classification to create a broader utility worker job that would both increase flexibility and lower costs, and a plan to implement the Partnership principles and activities in the day to day operations of the lab. Implementing the agreement required more training and education, especially of the frontline union employees, more than 210 of them. Lasley recounts:

> *Well, we never had any financial information. So when Kaiser said they were losing money, nobody believed it! All of a sudden, we got the financial data! But we did not know*

how to read it. So we had to take finance classes. That was a very wise move. You have to know how the business actually works, the intricacies and dynamics.

So for instance, take measures. We have three basic measures we base everything on. The "RE-DO" includes breakage, what has to be done over. "TURNAROUND TIME" is how long it takes to get it back from the lab, once we send it. There is a higher cost if the turnaround time is longer, and the member doesn't get the service. And "NET INCOME." Those were the three 'drivers' of the business. So, we set goals. A reasonable turnaround time. A breakage percentage. We compared ours with outside vendors. And net income. We had to meet $800,000 savings and produce more.

[In choosing the measures]… they had to be things we had an ability to influence, but once we chose them, we said, however you want to reach them is OK. We track all the information, and keep track of how we are doing on them all the time. Right now we have an incentive program, with those three issues. We did not want to set outrageous goals, but we did want an incentive so that it was more than normal.

Four months into implementation of the reorganization, management reported an 8% increase in productivity, reduced turnaround time from 2.7 to 1.7 days, and cost savings that exceeded what could have been realized by closing the lab. As a result of these savings, new equipment that could expand the product offerings of the lab (production of polycarbonate lenses) and would produce new volume and likely result in adding jobs, was purchased.

Tony Gately, summarized the results of these changes at the end of their first full year of operating under the reorganized processes:

- Net income was up 19%
- Gross revenues were up by $5.5 million (9.8%)
- Average sales per employee were up 6%
- $250,000 savings were realized in breakage and rework
- Turnaround time for customer delivery had declined from 2.7 to 1.3 days
- Overall productivity of the lab increased 8%
- The incentive plan produced a 2.7% payout for employees
- 'No shows' decreased from17 percent to 12 percent

"We did a review, and 21 of the 32 facilities had increased their capacity by more than 1%, which added two and a half million dollars to the bottom line. It also brought more jobs into Berkeley." He then summarized his views of the role the Partnership has played both in the negotiations and in the day-to-day operations of the lab since 1998:

It is very performance focused. I was impressed, and am impressed, by how much labor knew the business. They were never allowed to engage fully in improving the business… they had ideas, but they never surfaced, or if they did, they never went anywhere…It may be minor, or it may be major. Twenty or thirty of the ideas that came up in 1998 were major, major things. It was a learning process for me, to engage a knowledgeable workforce, and it

was possible if management was ready to listen…We are still in 2001 in the process of implementing some of those ideas!

Other Examples of Partnership Accomplishments

The Baldwin Park and Optical Lab projects stand to date as among the most visible and substantial uses of the Partnership to address major strategic and operational challenges and decisions. Some less visible but still impressive responses to specific problems or crises also surfaced in our interviews. Consider this example from a local union leader of the advantage of bringing the union into a problem solving or decision-making situation right from the beginning:

I [a union vice president] got a call at home one Friday night [from a hospital executive] saying that the Department of Health Services and the Fire Department were going to close the hospital on Monday. Within a couple hours, I had 50 people lined up, and at 10:00 a.m. Saturday morning we had the union leadership involved and we brought together a team [to work with managers]. We charted the problems. One of the union leaders used his influence with the Governor's office to gain an extra two days. We put every single person through rigorous training, and we got a 30-day extension about sprinkler systems in the ceiling. Although there were tons of problems, we did it. Nobody lost any pay or hours, and there was no sub-standard care. We really worked hard. We moved the staff along and transferred people temporarily as necessary to other facilities. We broke every seniority rule in the book to get this done.

Consider also this example of an OB-GYN departmental success:

What we can do, though, is to grab those pockets or those opportunities where physicians, or physician-leaders, whomever, engage in a more team-like way and solve problem in collaboration with their labor partners. I saw an example of it in Fresno in the OB-GYN Dept. where that operates as a partnership arrangement. The Chief of OB does not have this need to control, he's clearly a highly respected individual so he de facto becomes the leader of the discussions, but the whole intent is to bring the points of view of everybody in that department to bear on solving the problems of that department. And they have. Their data suggests that patient satisfaction has gone from being in the low tercile to the top tercile in Fresno. Their wait times have dropped to almost nothing. All the different measures have improved dramatically over the last two years they've done that. (an administrator)

Some examples come from process improvements such as how grievances are handled:

One success is our issue resolution and corrective action program. Before, we used to file and dispute grievances. Now we go through an issue resolution process that occurs before grievances are filed, thereby reducing the number of grievances that actually get filed. We also have corrective action that is much more solution-oriented rather than punishment. Before, it was an adversarial, unproductive process; now we take a much more problem-solving approach. Training is very important for this, and we need to do more. (from an administrator)

And some benefits are from realizing common interests, as one union leader pointed out:

The unions are very committed to the partnership. The employees have gained from job security, pay increases, job satisfaction, and more control over their work environment. The nurses think this will result in improvement for the patients…The results unions want are the same things management wants: basically a reduction in workplace problems and improvement in the "People Pulse" survey [a regular survey of employee attitudes]. KP has been an excellent employer in terms of wages, benefits, and working conditions, so this partnership can only lead to better results for the unions.

Another benefit of the partnership is on the legislative front. For example, the KP and its unions jointly endorsed needle stick legislation in California that mandates self-sheathing needles in every healthcare workplace; indeed, some believe this could serve as a standard for the nation. KP also supported Coalition-sponsored legislation creating staffing ratios for nurses and patients. California governor Gray Davis just signed such a law into effect in early 2002, setting a potential standard for the nation. It requires a 1 nurse to 6 patient ratio normally, with 1:1 ratios in intensive care and certain other key areas, and is the first state law in the nation mandating nurse staffing levels in hospital settings.

It is important to think about what kind of relationship with organized labor we need to have. Also, we can work with labor on public policy issues in a more directed way, and the partnership serves as a way for us to do this. In California, 20-30% of all employees are organized. Kaiser has 70-80% of its employees organized. (a management executive)

These focused efforts have demonstrated the potential of the Partnership to solve particular problems or to respond to immediate crises. Yet for any partnership to be sustained over the long run, it must change the way both leaders and workers and supervisors on the front lines do their work on a day to day basis. As one staff member of the Labor Management Partnership Office put it in late 2001, this is the task that now lies ahead:

While we accomplished some significant foundation-building in 2001, the LMP has yet to achieve break-through changes in the way most employees and units work. Our aim this year is to engage many more employees and managers in jointly examining, restructuring, and improving work processes in their own areas.

INCREMENTAL DIFFUSION: BUILDING THE PARTNERSHIP INFRASTRUCURE

Incremental diffusion, by its very nature, reaches some parts of the organization faster than others, often creating a tension between those involved and those who continue to manage their relationships in more traditional ways. Our analysis suggests for example, that the rate of progress varies significantly by region, function, local union, and perhaps among employees. For example,

- California is further ahead than the rest of the country (known as ROC or Regions Outside California)
- Operations is further ahead than Support functions such as information technology
- In-Patient services are further ahead than Outpatient services (including clinics)
- Some unions are fully on board while other unions are just beginning to embrace partnership
- Long-service employees appear to be more involved than new employees.

Thus, the next key challenge facing the partnership lies in engaging managers, union leaders, and employees in those parts of KP not yet involved. An organizational learning strategy is needed, as well as trained internal facilitators, highly educated (in the business sense) health care union leaders, and managers at all levels who know how to lead a consensus-building process. All these things are much more easily said than done, and require ongoing investments of time and resources.

To help understand the nature of the journey ahead, we use the voices of key stakeholders interviewed this summer. They capture both the range of perspectives that will be encountered in future efforts and they illustrate the internal capacity issues that need to be addressed if the partnership is to accelerate the diffusion process and be sustained for the long run.

VOICES OF KEY STAKEHOLDERS

Top Executives and Union Leaders. We have observed very strong commitment to the partnership at the top of both management and union leadership. Both cite the trust that has developed. The strongest support for the partnership is voiced by executives who have had the most involvement in specific partnership activities or projects. Consider, for example, the perspective of an executive who reflected on the imprint left on those most intensively involved in negotiations.

> *You had 200 leaders throughout the organization with different responsibilities, spending several months with each other understanding that they were not all dragons trying to take advantage of one another, and they did share a lot of common interests and opened up communication pathways that had never existed before -- I don't think you shut that down too easily.*

Other senior executives who have been less directly involved in specific projects but participate in one or another aspect of the partnership's governance processes learn what's involved by observing how top leaders are changing the ways they manage. Consider the following comment from a physician.

> *The interactions at the senior-most level are enlightening. Dale Crandall [now President] shares the same financial information with labor leaders and shop stewards as he does with organizational leaders. That is a huge culture change. They are open*

with all the books. Sometimes in national partnership council meetings, I can't tell who is management and who is labor.

Yet these views are not uniform across senior executives. Our interview data captured a range of perspectives from the enthusiastic ones noted above to several more skeptical or cautious views among senior managers who were not ready to share decision-making power with union leaders. Consider, for example this comment from a senior executive:

[A] manager's mind-set is to be in control. Our managers do not want to involve unions in decision-making. They just do not have that level of trust in union employees. For this partnership to work, there needs to be a high degree of trust.

We know from prior studies that labor-management partnerships are especially vulnerable to turnover of the initial champions within senior management and labor organizations. The KP Partnership will experience this transition and be tested by it relatively soon. Within the next two years the Health Plan's CEO, Dr. David Lawrence, will retire in December 2002. Other changes in top leadership positions will likely occur when the new CEO takes over. This will be another pivotal event in the evolution of the partnership since no organizational change process, labor-management partnerships included, can succeed or be sustained over time without sustained commitment and support from top management. How to ensure this commitment continues through the leadership transition is therefore a critical question of the moment.

One question is how much input the Coalition of Kaiser-Permanente Unions will have in the selection of a new chief executive officer. David Lawrence expressed his confidence that Peter diCicco would be consulted, along with other important stakeholders. Exactly how the transition will play out is unclear, but the details and the symbolism alike will be very critical.

Physicians. Building support among the physicians is a particular challenge, one that has not been achieved fully to date:

The relationship between the physicians and unions is non-existent, because we have told physicians to keep out of the business because they do not understand unions and they would just muck it up for us. So don't get involved with it. (a medical director)

MDs have an interest, and sometimes need training in the partnership, but have no time to be involved in workplace restructuring. You cannot take MDs out of the office for 16 hours of basic partnership training. (a doctor)

The amount of money needed for training, for structure, for union release time is incredible. There is no good structure to involve the MDs because they have to see the patients all the time. (a union official)

The direct improvement of the delivery of healthcare is not discussed as part of the labor-management partnership. Also, the drivers of healthcare are physicians and they have not been engaged. (an administrator)

Physician involvement is variable. Some physicians are really eager and want to be involved; others could care less. Can it succeed? Don't involve all of them, stick with those who want to be involved. Get some success, whatever we do will be built on one small success and another success. There are enough physicians who want to be involved. (from an administrator)

*The physicians really do not know about the partnership. The ones who do know, I think are favorable if they see it as an easier way of getting their own work done. And others I think feel they are losing some power and authority. This will be a struggle for us because they tend to distrust unions and think we have ulterior motives. Many of them want to continue acting paternalistic. …The results they would need to see are improvements in the clinical setting and better patient outcomes. They also would probably like financial viability. I think some of them are also interested in significant policy-making results from improved clinical outcomes. (*union leader)

Middle Management and Local Union Leaders. Lower down in the organization, the picture is even more mixed. Consider this assessment:

The partnership is not going at much speed, but it's moving. People are starting to talk about the partnership in different terms. We keep talking, but it's a slow process. The unions need the competency to know something about the business. We teach them a little about management, and we teach the management a little about unions. We're going to change the way we do work around here. You keep saying it over and over again and pretty soon the Hawthorne effect takes over and you start seeing people behave differently. (from a local union official)

On the other hand, we have this point of view:

A few of us are out on a limb challenging members, and in collective bargaining the members always say "What have you done for me lately?" Partnership could end up being a lightening rod. "Could you have done more for us?" they say. Some of us have not figured out how to have a partnership given what members want in the way of aggressive representation. (from a local union official)

As far as management goes, I think some have bought in, some are on the fence with a wait-and-see attitude, and some just don't get it. Those who support the partnership think they can gain a lot through promotions, raises, and financial bonus incentives. Those who don't support the partnership think they may be giving up power and authority…. The results they would need are improved financial performance, reduction of sick leave of union members, reduction in the number of grievances, reduction in the number of patient complaints, and improved service and quality. (union leader)

And union leaders are not the only ones feeling pressure:

> *This cannot be a one-way street. There are many people who feel this has been a one-way street. Management has been giving to the union all the time and not getting anything in return.* (administrator)

The quote above illustrates a concern that surfaced in a number of management interviews, namely that the collective bargaining agreement gave workers quite a bit—good wage increases, employment security, and neutrality in union organizing, among other things. Now management is looking for the workforce and for union leaders to step up to the significant cost and competitive problems facing KP and at least some do not see enough of a return for management's "generosity" in negotiations.

> *Part of the partnership should be flexibility. Privileges and responsibilities need to be balanced. There has to be give-and-take. Unconditional employment security needs to be offset by performance.* (from an administrator)

On the other hand, many union leaders also believe they have made sacrifices, putting their political future with union members on the line by supporting the partnership and they have yet to see strong support for the partnership principles coming from some managers. Again, variations are many, whether regional, level of KP experience, medical care role, or personal and individual. One leading union representative said,

There are individual managers out there who have taken this and run with it, because they are good people. Managers have had no assistance in knowing how to do this. Kaiser hasn't spent near the time with their leaders as we have with ours. We have a cohesive organization with which to deliver skill building, thinking through issues, and resolving, planning for ourselves. Our steering committee is very solid, the union steering committee for the coalition, meets at least quarterly, one principal officer for each union. We've brought in people to teach us, we plan, we budget, we try to head off trouble. We are a pretty tight group at this point. Management kind of relies on us to know what's going on. Management hasn't invested.

This dual but different perception problem is a common feature of partnership efforts. Parties on both sides often believe that it is indeed a "one way street" where their side has made all the contributions or taken all the risks with little return. Overcoming these perceptions by making significant and visible progress on performance and on broadening and deepening management support are obvious challenges that need to be addressed. One manager summed up the shared challenge facing management and union leaders this way:

> *Something has got to happen between now and the end of 2002. It doesn't have to be a big something, but a success we can look at and say "We accomplished this together."*

Particular concerns were voiced about the need to build greater capacity for managing change within the unions involved in the partnership:

> *One of the biggest impediments right now is lack of capacity on the union side. There is only one [name of key union leader]. He has not developed an infrastructure that allows for any decision-making to take place without him. Things get frozen until he gets involved. On the other hand,[another key union leader from a different region] has an infrastructure and they do things without her. But she's not out of the loop.* (from an administrator)

> *We have stewards and we are utilizing them for partnership structures. But we only have 250 or 300 stewards for 12,000 members. We will not have a steward for every department and shift. We may recruit more, we will have members involved in the partnership who have no other active role in the union. Our union has added some staff, but we have only 5 or 6 people for the whole country.* (from a local union official)

> *This brings us to the problem of union bench strength. Union stewards are stubborn and do not change easily. They need to pick up a lot of new skills. These skills have to be reinforced. They also need a higher level of learning and understanding that is currently missing in most cases.* (from an administrator)

One of the union leaders interviewed acknowledges the problem and links it to the political roles of union leaders:

> *The local chairs and officers are elected. There are some good ones and some problem ones, and that affects the partnership. You have to train them.*

> *...the time frame[for local union leaders] is the next 2 and half to three years, or there will be problems because of negotiations[of the next collective bargaining agreement]. I am not politically vulnerable, but others are.*

Related is the danger of getting too close to management:

> *Union people have to get much more sophisticated for the union members to share management responsibility or we will be seen as selling out.* (from a union leader)

In terms of how to proceed, consider this:

> *Capacity has to be built at the local level. One flaw I see with the labor-management partnership is that I don't believe this process can be accomplished centrally. You cannot mandate it from the top down and have people work differently together. You have to build the structure locally.* (from an administrator)

A number of interviewees hoped union leaders could begin to represent each other in key meetings. To the extent that union leaders can do this, there would be a cadre of individuals ready to take over from others when they retire. Yet this is a complicated political issue since

particular union members expect to be represented by the leaders they elect. Consider the following different points of view on this question:

> *Unions are not comfortable with representing each other. To convene one meeting with 12 unions and 10 managers could take months. We need labor partners at our decision-making tables. The goal is to have a labor rep in every key management decision making in the U.S.* (from an administrator)

> *The partnership structure and participation has led to competition among labor leaders for participation. There are just not enough resources to give everybody a voice.* (from a union officer)

> *At our regional labor-management council meetings, there has been tension in the room among union partners. The person who is the chair wanted to resign from that position because she felt the larger unions were dominating and not cooperating with her.* (from a regional union leader)

> *The unions don't get along with one another, and they have their differences, and sometimes they are very significant differences. They have to learn to accommodate one another because their structures are different.* (from an administrator)

> *We sometimes feel that we are on their[other unions'] skirt tails, they have the power and numbers. There was a lot of distrust among the unions when the Coalition was first made, they would promise things and then leave us out in the rain. We had to do a real leap of faith when all this started… That's why I like to look at people like Peter and Leslie. You have to check your baggage at the door with this [Partnership]. The trust factor was important, because we had to build a whole new relationship.* (leader of a small local union)

And the problem extends to those who are responsible for facilitating partnership activities. Skilled facilitation is absolutely essential to making partnerships work. This was abundantly clear in negotiations when RAI facilitators and FMCS mediators played such important roles in supporting the interest based negotiations and problem solving processes. The partnership design calls for the designation and training of internal consultants—KP employees who are assigned the task of facilitating partnership activities on a day-to-day basis. The prevailing view, however is that for the most part, these consultants are playing a limited role:

> *The labor-management partnership consultants are very ineffective. They are political. The vision was that they should be experts. But what are they doing? They are seen as belonging to the program office and they are not owned locally. They are also seen as spies.* (from an administrator)

Going Beyond "Cooperation:" Balancing Partnership and Representation. One of the key leadership challenges lies in educating labor and management representatives on how to effectively work together and balance their traditional roles and responsibilities. Two aspects of

this challenge have come up in the KP Partnership, just as they did at Saturn and in other partnership settings. One issue that always requires clarification is the distinction between *cooperation* and *partnership*. The distinction is easy to articulate but more difficult to put into practice. Partnership does not mean that people will always agree or that all the parties focus on a single common goal. Instead, it means that each party respects the legitimacy of the other's goals and concerns and seeks to engage in a problem solving process that addresses these various concerns. Union leaders in the KP Partnership have sought to instill this perspective into joint decision-making processes. Managers, however, often see partnership as simply workers and union leaders cooperating with management's tasks and objectives. Consider this comment from a mid level manager:

> *Most of our management does not understand the difference between cooperative labor relations and partnership. I was very skeptical of our ability to reach an agreement that we could live up to and that could use the union's definition of partnership. As a technician, I felt compelled to try to clarify this in the minds of our leaders.*

One senior management leader has developed his own distinctive way of working in partnership but at the same time demonstrating his resolve to pursue his interests and responsibilities in the partnership:

> *I learned I had to change my behavior in how I interact with [union leaders]. I could not interact with them the same way as my general management style, because they are sort of in your face. So I learned to be in your face. It was very interesting because they respected me for that. I had to stand up to them when they made demands of me. For example, the union wanted a particular individual to serve on the steering committee, and we felt that person did not add value. So, I said no it was not going to happen. The suggestion was made that the person of the particular union meet with me off-line. So he and I met off-line. He said, 'this is a real political problem for me.' And I said, 'don't you understand it is a real political problem for me too?' And as we talked about what our needs were it became very clear that we were coming from the same place. We had similar needs and we needed to accomplish something and we both needed to save face. The fact that I stood up to them and was in their face when they were demanding this thing from me…caused them to go through a another route where the two of us sit-down and figure out what to do and discuss alternatives. So, we decided to appoint an alternative person. They were satisfied and I was satisfied and everything worked out well. If I had acted in a traditional way and given in, this would not be acceptable. I realized that I had to make a statement early on there were issues that were important for me. I was setting boundaries, and it was good learning for me and for them.*

At the same time, union leaders have to engage the business problems of their management counterparts and accept accountability for the results of the joint decisions. Unless there is an alignment of business and partnership activities, management and workforce commitment will eventually wane since the key problems they face are not being addressed. Our interviews suggested that the parties have a long way to go in this area, but in some casese, this appears to be happening.

We don't want to see the labor-management partnership as something separate, but rather as a part of the way we work, integrated with everything else that we do. (from an administrator)

It's just slow going. There are starts and stops, I have to remind myself. It is on a positive track, but I have to not lose the significance of what we have done, and remember where we were. We have to celebrate the progress, and where we have progressed, be honest about the successes. What "has" worked about it, what we could achieve. It's a single message, that we need to continue (senior Partnership leader)

And we can cite two specific examples of skeptics who are nonetheless engaging in partnership:

I would not be in favor of anything that diminished the ability of the physician to decide what is in the best interest of the patient in terms of providing care. In a collaborative process, the union employees and nurses can make the care experience better by us welcoming them to the table in terms of improving service. We have to integrate the people in decision making that will yield positive results. There are small groups that need to talk about how to improve the operating room in their own areas. I have gone to several meetings where physicians, administrators, and employees are talking about what are improvement opportunities, listening to suggestions, and sending up small teams to implement possible solutions.(a medical administrator)

One meeting I went to, there were three medical group administrators and the doctors did not want me to be there. But the chair of the meeting insisted I should be there, and said she had total confidence in my discretion. So now I go to those monthly meetings and I have a good handle on what is going on. There is no other service area where we are included at that level. (a union official)

Finally, decentralization presents challenges for the unions as well. One union activist said:

When we bargained centrally, we had one team with skilled negotiators. As we decentralize, what will take care of the same things as negotiations did, instead of one bargaining team, we will have one in every facility. And the issues have to be dealt with very effectively, if not more. Because they are more detailed. We have a huge range of effectiveness—we have people who are going and doing things that are really harmful, and people who are going in and doing things that our people care about.

So the challenge, given the political realities, is how union leaders can play a co-management role, strengthen their consistency and capacities, encourage management to do the same, and at the same time remain independent and maintain the confidence of their membership.

Rank and File Employees**.** What about the rank and file employees? How much exposure do they have to the partnership? Again the picture varies considerably. At places like

Baldwin Park and the Optical Laboratory, the partnership is highly visible to the workforce because it was instrumental in starting the hospital and reorganizing the laboratory as well as adding incentive payments for performance there. But throughout our interviews there were many who agreed with the following assessment from a medical center administrator:

There is a danger, that it [the partnership] has not moved down to the rank and file.

Data from a system-wide survey conducted prior to national bargaining in March 2000 reinforce this concern. Only 22% of the KP respondents reported they had received information or had knowledge of what partnership activities were underway in their workplaces. This, therefore, is another challenge facing the partnership. No partnership can be sustained in the absence of a high level of knowledge, direct involvement, and perception that tangible benefits are coming to the workforce.

Most models of union-management partnerships or joint change efforts stress that in the end rank and file employees will judge the effort by whether or not it produces tangible economic gains. This was recognized years ago by Joseph Scanlon, inventor of the Scanlon Plan, a labor-management program that originated at MIT in the 1940s. It also is built into what Saturn calls its "risk-reward" program. The KP Partners also recognize this principle. The 2000 collective bargaining agreement calls for a gain-sharing program to be put in place by 2002. One executive put it this way:

> *... employees were very excited at first but now they feel let down, the reason being that many expectations were set, and union employees are not seeing the results. Many union employees do not fully appreciate the national partnership agreement. They do not recognize the value of the non-financial gains in areas such as joint staffing, quality input, and joint decision-making. They only want to see more dollars or wages.*

The question is how will these gains be generated? Should they be system-wide? Should different regions or operations be allowed to develop gains sharing projects/metrics/formulae on a decentralized basis to fit them to their particular operations and problems? Can non-labor costs be a source of savings for the performance dividend?

Experience with gain sharing plans studied at MIT's Institute for Work and Employment Research raises the possibility that if attention can be focused on economizing on non-labor costs (materials, doing things right the first time, better relationships with supervisors, harvesting the results of employee participation, etc.), that savings can be generated without any threat to employment. We heard of examples where parties had gotten together using the principles of rapid cycle deployment, only to realize that the productivity improvement that was in the offing would come at the expense of reduced staff, because unlike the Optical Lab, in many cases an increase in productivity cannot be translated into more outputs and instead results in a reduction of inputs (labor).

What conditions need to be met for local gain sharing to be authorized? We have studied several locations, such as the Optical Lab and a call center, where a local gain sharing program

has been put in place. Could more of these be encouraged as a way of providing a local incentive and a very strong linkage between participation, achievement, and rewards?

METRICS

Part of the challenge lies in generating an agreed upon set of metrics to evaluate the partnership. While the six goals outlined in Figure 1 provide the basic outcomes for specifying metrics and subsequent staff work has generated a long list of specific measures to consider, the parties have yet to codify a concrete set of metrics suitable for evaluating the partnership.

> *We use metrics, but we have not separated out the metrics for the labor-management partnership because we have incorporated the labor-management partnership in our day-to-day activities so it does not stand alone, which means you cannot measure labor-management partnership by itself.* (from an administrator)

Some metrics are more easily set and measured at the local level. In the case of the Optical Lab, the members will get whichever is higher of the local or the national program measures. The members of the unions feel more comfortable with measures they have developed in consultation with management.

The LMP has given this policy direction: "To ensure workplace and performance improvement is visible to employees and physicians, we expect each work unit to have easy-to-understand barometers of progress. Sponsors have committed to making sure all employees and physicians get monthly updates on the impact of their work as it relates to workplace safety (the priority for the first year of the partnership). Adjustments to plans will be made as learnings are shared across regions. Anticipating unparalleled workplace and performance improvements, employees should economically share in the performance gains of 2002."

MOVING TO FULL PARTNERSHIP: CURRENT AND PLANNED INITIATIVES

How should the diffusion process proceed? Some prefer a blanket approach to educating and training people about the partnership—speeding up the incremental process of reaching the full workforce and management structure. One union leader proposed a concrete suggestion for doing so:

> *I think it would be worthwhile to rent the LA Convention Center for one week and have meetings in the daytime, evening, etc., with food, music, and presentations by key leaders and managers. Even if we only got 3,000 or 4,000 out of 20,000, the message would be sent. Now people are focusing on the written word and meetings, and relying on supervision. The training is supposed to be joint.*

Others favor taking advantage of additional pilot projects or naturally occurring change opportunities similar to the Optical Lab or Baldwin Park examples:

How will progress happen? We will do a pilot or two and learn and design it. We cannot partner everything. It is an opportunity to show how, and that we can work together to give experience and to generate successes. (a union leader)

The notion is that we pick out small discrete units and give them a lot of intensive attention. Our plan is to do this lock step across the region, with 45,000 people. We want to pick areas in the early fall and begin to experiment with 3-4 moderate size medical offices. We want to have a few jewels in our crown. (a manager)

Recognizing the need to achieve measurable and tangible results and to accelerate the speed and broaden the base of diffusion of partnership principles, the parties have chosen to focus efforts on two priority initiatives in the next two years: reducing worker compensation costs and introducing improvements and changes in staffing (both in number and composition of personnel).

The Workers' Compensation Initiative

For the first year, safety and savings on workers compensation costs have been chosen as the target. In the official words of the LMP:

Achieving breakthrough gains in workplace safety must become the top priority for everyone in 2002. KP and partnering union leaders believe that improving workplace safety for all employees and physicians will make all other goals, objectives, and visions more achievable. Vastly decreasing the number of workplace injuries will benefit employees directly, while also building their workplace redesign skills, improving organizational performance, and demonstrating the power of the partnership.

A focused campaign is now being planned to address these costs on a system-wide basis. The LMP has developed a new logo that reads, "Labor and Management to the Power of Partnership," complete with T-shirts and stationery. Health and safety planning efforts are getting under way in several regions. Any savings that go to workers in gain-sharing have to be self-funding, in other words, achieved by reducing costs currently spent on workers' compensation or other 'after the fact' measures. However, a number of objections have been raised to using this domain to generate savings (e.g. labor has a concern that workers may not report injuries as a way of making the targets) and so this has to be explored and implemented very carefully.

Joint Staffing Initiatives

For the second year of gain-sharing (2003), the parties have chosen to focus on a controversial and ambitious effort to engage in joint staffing processes. Some within management are very skeptical and concerned about trying this, believing it is not a subject that should be turned over to the labor-management partnership since they believe management must maintain control and unilateral authority. Others are more hopeful:

> *We are starting this year [2002] with nine or more pilots with respect to staffing. Workers should have an input as to whether there is sufficient staffing or not. It is not going to be a simple solution because of the financial realities.* (from a union executive)

Regardless of whether on is skeptical or hopeful, the task will be difficult and will require careful development and planning:

> *There is a whole lot of pre-work needed for joint staffing to be successful. It will take a lot of education, especially for the unions. There are various methods to do it, there is current practice, there are budgets that fence it in, and they need to work and solve system issues. They have to be prepared to look at the totality of the problem. It will be a huge effort! The unions need to buy in that the solution is not necessarily more bodies. It will be a failure for both if the fight is over bodies. (from an administrator)*

A union leader who is also a registered nurse sees the challenge of joint staffing in the following way, thus not entirely depending on 'more bodies:'

> *I view it as having the right people at the right time at the right place to do the right thing for the patient. How do we figure that out jointly? It's pretty revolutionary for the health care industry to do this…[Usually] it's pretty top down. The people making the decisions don't see the outcome of their decisions. It's set up so that we get incorporated into the budget work that determines allocations for departments at the top level, and we develop facility level groups that will then figure out how many people they need of what job title, and … more often than not, before you even know if you need to add staff—you have to figure out the system problems. So, if the drugs are not on time, and I have to look for meds for 2 hours, then I am likely to feel short staffed. But if they are on time, I don't feel short staffed. All these silos…[the challenge is] trying to get them to talk to each other.*

And Optical Lab union leader Preston Lasley points out that Joint Staffing means different things to different unions, employees, and locations at Kaiser:

> *Here in Optical we are working on our own joint staffing. We told the other unions we were not going into the national Joint Staffing …We didn't want to offend anyone, but just to be practical. Their concern is that it will weaken the Partnership. You have to do your own agenda. We will do some group trainings, but keep our own identity at our own levels. Traditionally, there has been one optometrist for one optician. But that does not always work. We want to look at the statistics to see how productive each office is per Full Time Equivalent (FTE) employee. It may be that we need two opticians per optometrist. We looked at the productivity, and found it was in the medium range. We know there are some different issues, like language barriers, and ethnic issues, in the different offices. It takes longer to fit someone if you have to get an interpreter. In another office, that might be no issue. So you have to take that into account. It's also true that we have a much broader range, within the Kaiser members. We have more handicapped people, and they take more time. You need to factor that into the system. So*

we need to staff San Francisco and San Pedro differently. Before, we never thought about these things.

Joint staffing initiatives also will be affected by the lack of participation of the California Nurses' Association, which represents 37,000 nurses, more than 8,000 of whom work in Northern California for Kaiser-Permanente. CNA fell out with other unions, especially SEIU which represents allied healthcare workers in the SF region, at the very end of the partnership negotiations, when CNA was still in hostile negotiations with Kaiser over staffing and wages. The union staged a series of one-day strikes over three years between 1996 and 1998. At the beginning of that period, 90% of non-nurse employees honored their picket lines. By February 1998, when the Partnership was underway, only 5% did, according to C.N.A. representative Jim Ryder. This and a variety of other disagreements have left the C.N.A. bitter at the other unions as well as Kaiser, and hostile to any idea of partnership. In this situation, what possibilities exist for resolving joint staffing, including nursing, in Northern California? It remains to be seen.

Challenges Ahead

Dr. Lawrence, the CEO, sees the Partnership as being one of the two biggest challenges facing KP. The other is the implementation of a new Clinical Information System (CIS). He sees these two challenges as tightly interconnected, and as a possible opportunity for joint leverage:

CIS is an executive support system for clinicians [that will provide evidence-based assessments of what the current science supports in the way of caring for patients with a particular condition].The coming together of that effort -- and it's a $1.5 billion effort over the next 3-4 years -- is huge. That, plus the labor-management partnership in redesigning care organization processes. -- those two are the huge bets [our organization has made for the future.

Now, the big issue for us, which will be a very important test of the labor-management partnership, is how effectively we are able to retrain people and redeploy people who may be displaced by the streamlining of the data management and the care delivery processes. That's going to be a major test.

And the other major test is: we have no idea yet how the combination of the recession and the problems of Sept. 11 are going to impact on our membership It could be quite dramatic. We think because of COBRA (Coordination of Benefits Redesign Act), we're likely to be protected for a period of up to 12 months following severance. You know, say United lays off 30,000 people; Boeing 20,000; whatever else is coming, either recession-driven or terrorist-driven or some combination of the two, it's going to have an impact because we are the major provider of medical care to large and medium-size groups, and everyone is taking these kinds of actions.

California is being hit with a double whammy with the general recession and then the technology downturn. So Agilent has laid off nearly 5,000 people, HP has laid off people for

the first time in its history in the last year; these are radical changes in the economic situation. And again, the test of the labor-management partnership is, on the positive side, as we redesign and continue to turn our chassis into a 21st century chassis, there will be redeployment requirements and retraining requirements, especially given the context of our labor-management partnership. As we deal with the economic realities and the losses of membership, which are likely in the next 12-24 months, there will be some downsizing in KP. That's going to test the partnership very very hard. .

One union leader, when asked her assessment of the likely success of the partnership, said:

I remain optimistic because Kaiser management, for all their weirdnesses, are pretty good people. And they don't get up in the morning to say, how can I make the most money possible and I don't care about the patients and how can I screw over my workers? They do get up in the morning trying to do the right thing. And the union members are the glue, and they're dying to do the right thing. So it should work.

CREATING A LEARNING SYSTEM

Other organizations that have implemented fundamental change programs have often found it effective to bring together those who are making good progress with those who are struggling to get started. Various techniques are used, from forums that describe experiences to field trips where those considering change visit and learn directly from their counterparts who have been through a change experience. Indeed, some of those involved in change efforts are eager to open their operations up as learning laboratories for their colleagues. Here is an example of an opportunity still to be exploited:

We have the best center here, and we feel rather disappointed that we do not have a forum to share our partnership learnings from this center more globally. We have excellent performance, and we don't make a big deal about it, we just do it. We have a regional steering committee. Why was I not asked to share our experiences with them? (a medical center administrator)

ACTIONS, OBJECTIVES, AND VISION

The Strategy Group, with staff support from the LMP, has devoted considerable time to developing a well thought through set of guidelines for Year One (2002), Year Three (2004), and Year Seven (2008). **Figure 6 (added separately)** captures the elements of this plan and shows some of the specific objectives agreed to by the parties at the operational levels. Figure 7 (attached below) show key elements of the Partnership Agreement.

Next follows an assessment of the Partnership, a more analytic and evaluative draft of the key challenges and opportunities we see facing the parties. It is called "Perspectives on the Journey to Partnership" and should be viewed, as this entire case, as a confidential work in progress.

PERSPECTIVES ON THE JOURNEY TO FULL PARTNERSHIP

INTRODUCTION

The forgoing case study describes the evolution of the KP Partnership as reported to us in the interviews conducted with direct participants over the past six months. In this addendum, we offer our analysis of the current status of the partnership and the actions needed to move it forward to realize its full vision and objectives. In doing so we will draw on lessons from a variety of labor-management change and partnership building initiatives we have studied and/or been involved in directly over the years.[4] Specifically, (1) we will emphasize the need to apply the partnership principles consistently at all levels of the organization and labor-management relationship—in individual workplaces and day to day decision-making, in formal negotiations processes, and in strategic decision making at the top levels of the organization; [5] (2) we will stress the need for both management and union leaders to be willing to mix forcing strategies to insist on use of the partnership principles throughout their organizations with fostering strategies to coach individuals and facilitate joint efforts in the use of the principles;[6] and (3) we will identify a set of upcoming pivotal events that, as in similar cases before, will strengthen and accelerate progress of the Partnership if handled well, or lead to its demise if handled poorly.[7]

GENERAL ASSESSMENT

The partnership represents a remarkable achievement on the part of all parties. Necessary structures are in place, and skill-building education to prepare individuals to pursue processes of collaboration is also in place. These provide the necessary infrastructure for building the partnership. We will comment on how to continue to move them forward to build partnership principles into the everyday, standard modes of management and union leadership practice. But, these structures and processes are far from sufficient to achieve sustained progress. More examples are needed of concrete and measurable benefits to the workforce and to the bottom line performance of KP similar to those achieve in several of the projects discussed in the case, such

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[5]This framework draws on some of our prior work. See Thomas A. Kochan, Harry C. Katz, and Robert B. McKersie, The Transformation of American Industrial Relations. Ithaca, NY: Cornell ILR Press, 1994.

[6] For elaboration on the need to mix forcing and fostering in a strategic partnership see Richard E. Walton, Joel Cutcher Gershenfeld, and Robert B. McKersie, Strategic Negotiations. Ithaca, NY: Cornell ILR Press, 1994.

[7]For a discussion of the make or break effect of predictable pivotal events in the life of a partnership see Joel Cutcher Gershenfeld, Tracing a Transformation in Industrial Relatioins: The Case of the Xerox Corporation and the Amalgamated Clothing and Textile Workers Union. Washington, D.C.: U.S. Department of Labor Bureau of Labor Management Relations and Cooperative Programs, 1988.

as the rapid and successful opening of Baldwin Park and the turnaround and sustained high level of performance of the Optical Lab.

There is a clear urgency to accelerate the pace and broaden the base of progress toward full partnership. Clearly, the "honeymoon" period for the partnership is over. The partnership agreement has been in place since 1997, and the negotiation of the national agreement occurred well over one year ago. The next several years of the five year agreement will be crucial – it will be important during the second, third, and fourth years, specifically, for the partnership to deliver important benefits for all stakeholders. In this respect, the KP Partnership parallels the experience of other labor-management change efforts. The expected "half-life" of prior efforts is about three to four years. The biggest challenges normally come when confronted with events upcoming for the KP Partners—when key leaders who championed the creation of the partnership turnover, economic crises intensify pressures for short run cost reductions, or managers and/or union leaders who have not yet bought into the partnership principles and continue to manage or represent their constituents in traditional ways block integration of partnership principles into the daily interactions and ways of doing things throughout the organization.

KP faces each of these challenges. In the following sections we will discuss a number of pivotal events the parties will soon face and steps to consider for addressing them. Then we will discuss actions needed to continue to expand and to capitalize on the infrastructure and base of training more fully integrate use of the partnership principles in ongoing management and union practices and interactions.

UPCOMING PIVOTAL EVENTS

CEO SUCCESSION

If the trustees and top management are not convinced of the value of the partnership, it will not be perpetuated. Therefore, one clear imperative is the selection of a new CEO of the health plan, the successor to David Lawrence, who is enthusiastic about the partnership and is well prepared to carry it forward. The experience from other partnerships is that one of the most serious threats to continuity is the arrival of a CEO with a different view about labor-management relationships. Of the cases we have studied, Xerox has done the best job in managing to sustain their partnership through CEO successions (four over the course of a twenty year time period). Each time active steps were taken by top human resource professionals and labor leaders to educate new CEOs to the features of the partnership and the key role of the CEO in sustaining it. Union and management representatives introduced the CEO jointly to key middle managers and union leaders and coached them on how to show their support for continuing and growing the partnership. In other cases, union leaders had an opportunity to participate and influence the actual choice of a new CEO. Clearly, the careful handling of the CEO transition at KP will be required for the partnership to pass successfully through this upcoming pivotal event.

RESTRUCTURING AND THE NEW PATIENT CARE TRACKING SYSTEM

Another upcoming pivotal event and challenge lies in the introduction of the new digital patient care tracking system in an economic environment that may require restructuring, workforce redeployments, and perhaps downsizing. If the introduction of this new system is handled jointly, in ways consistent with the partnerships principles, it could serve to reinforce and speed the diffusion of the partnership. But if handled in what is or what appears to be a unilateral, top-down management fashion, it will serve as a clear example of the gap between the vision and reality of the partnership and could provoke a partnership-ending crisis. Other labor-management partnerships, such as one in place at Boeing in the 1980s used moments of technological change similar to this to accelerate progress and achieve substantial benefits to the organization and workforce. In that case the parties eventually put in place a joint training fund that now is used for career counseling, job-specific training, and investments in life-long learning for both production and professional employees. The introduction of this new system at KP could, if implemented in a joint fashion, serve as a similar opportunity to more directly engage the workforce in tracking and improving patient care. Since it will be implemented first in Los Angeles and then in other sites, it provides an ideal opportunity to design a roll-out process that learns from these initial pilot experiences.

Another challenge on the horizon is the possible need for redistributing the workforce in the face of the current recession and a consequent drop in patient loads. To the extent that the structures and processes that have been put in place for the partnership enable the parties to handle these major changes in an effective and fair manner (comparable to the way in which the partnership brought the Baldwin Park hospital on-line both ahead of schedule and on budget), the future of the partnership will be much more secure.

THE CALIFORNIA NURSES' NEGOTIATIONS

Another potential pivotal event in the near future is the negotiations with the California Nurses Association (CNA) next year. If these negotiations produce economic gains that are seen by the signatories to the national agreement as much better than their own agreements, then the partnership will be tested. Also, should negotiations with CNA go down to the wire, with the possibility of job actions, then how the rank and file of the signatory unions to the partnership handle the choice of whether to cross nurse picket lines will represent another major test. Advance discussion of how to address these contingencies would appear to be essential. The long run objective must continue to be to bring the CNA into the partnership.

BUILDING PARTNERSHIP PRINCIPLES INTO ONGOING ACTIVITIES

DECISION MAKING: SHARED OR TRADITIONAL

Decision making has been shared in the deepest sense at the level of collective bargaining between the parties. However, at the strategic level and more importantly in day to day operations at individual worksites, the rhetoric and language of the national agreement and the reality are still very much at variance. We see this as the biggest question that needs to be solved by the parties, that is, what should be the role of union representatives and employees in decision making at both the strategic and operating levels?

At the strategic level, representatives from the coalition of KP unions are not involved in any meaningful way. The chair of the coalition is allowed to attend meetings of the KPPG when agenda items relating to the partnership are on the table. This is far short of shared decision making. A recent example that illustrates the continued presence of traditional management is the manner in which a consulting report concerning the institution of a new model of organization that involves shared services has been handled. This reorganization, if implemented, will have profound consequences throughout KP. Union leaders were not involved in discussing the consultants' report, or more importantly, at the early stage when the problem was identified to which the consultant report was directed.

Turning to the operating or workplace level where the future of the partnership will be made or broken, some managers are bringing union representatives and employees into decisions before they are made. Some go so far as to involve key employees in a discussion of the problem that leads to the formulation of alternatives and the taking of decisions. However, our interviewees reported that these instances are rare. As one management official put it: "Our managers are too used to a control mentality in which everything is done in terms of a hierarchy. We have to spend considerable energy reorienting our management style."

The prevailing view is captured by one of the medical directors we interviewed, who commented as follows: "The partnership is a relationship, not a process." By this he meant that the partnership should produce better understanding on the part of employees for the challenges faced by KP, and that they would cooperate with management as management moves forward to make decisions for the benefit of all concerned.

While this notion of "cooperation" may be an improvement over past situations where union leaders had little or no information or opportunity to influence management decisions, it is not the vision of the partnership held by union leaders. Nor is it consistent with the language written into the partnership agreement. Therefore, the parties need to reach a clearer and more broadly shared understanding of when or over what issues different levels of shared decision-making are expected. The partnership would be well served by clarifying what issues are to be subject to consensus decision-making, when management should consult with union leaders prior to making a decision, and what issues management and labor should each decide on their own with simple information sharing to their counterparts.

For the more advanced stages of joint decision making and shared governance to be embraced by the skeptics and confirmed in practice, evidence will need to be amassed that better decisions are made, and implementation of these decisions is more expeditious..

At some stage, it may be necessary for the parties, as they reflect on the experience of what has worked and not worked with respect to shared decision making, to refine the national agreement to bring the language of the contract into closer conformity with what is in place or able to be realized on a reasonable timetable.

BRINGING KEY LEADERS ON BOARD

While the choice and behavior of the next CEO is critical, the success of the partnership will also depend broadening the base of managers, physicians, and union representatives who are enthusiastic champions and skilled leaders of partnership activities..

Key Levers for Enhancing Management's Role. Several tools are available for moving management away from the command-and-control style to one of fully utilizing the potential of the partnership. Certainly, training and coaching on an ongoing basis would be useful. The concept of mentoring is another concept that brings into a helping role those managers who have learned the fine art of consultation and partnership - to guide those who are just beginning to add these skills to their repertoire.

A more potent way to induce key managers to adopt new behaviors is to build into performance appraisal and other evaluation steps (e.g., promotion decisions) metrics of the extent to which they are "walking the partnership". Another tool is the use of survey information such as People Pulse to provide benchmark information about the extent to which supervision is engaging their employees in shared decision-making.

Throughout the organization examples exist of leaders who have developed the confidence of union reps and the rank and file while at the same time are seen by top management as very bottom-line in their orientation. These examples or role models of how individual managers have handled the classical dilemmas of administration need to be analyzed and showcased for emulation throughout the organization.

Bringing the Doctors on Board. Based on the experience of a program that emphasized participation and organizational achievement at Beth Israel Hospital in Boston, the time span for changing the outlook of doctors is anywhere from five to seven years. Despite this rather long interval for bringing about such a fundamental shift in orientation, several actions steps can be taken to foster as quick a changeover as possible. They include identifying specific chiefs of services who can serve as “champions” and, through a cascade effect, inducing other doctors to support the partnership. Most importantly (and this would be true of any stakeholder group), to the extent that the partnership meets key interests, then people will become supporters. In the case of doctors, a way to enlist their support would be to target as a high priority the reduction of errors in the delivery of medical care.

Increasing Union Leadership Capacity. The though has already been introduced about the need to increase the number and readiness of union leaders to participate effectively in the partnership. The readiness requirement was emphasized in several interviews with several senior union leaders who made the point that for shared decision making to be a reality, union leaders must have sufficient background and experience to participate intelligently in the discussions leading to decisions.

Clearly, considerable training is needed. Our strong recommendation is that this training be delivered on a "need to know" basis rather than across-the-board training, which has a high decay factor. It is important that training be done both jointly for labor and management leaders,

which sets the stage for shared decision-making, as well as in separate sessions. This is especially important for union leaders who can be exposed to the requirements of the partnership and at the same time educated in the continuing need for maintaining their independence, to wit, their ability to vigorously represent the interests of their members which at times may be at variance with the actions of management.

AGENTS OF CHANGE

Facilitation and process consultation are vitally important inputs for the development and implementation of productivity improvement efforts. To achieve system wide implementation requires resources that can be made available to local groups that have the motivation and the ideas but lack the skills for moving ahead on a concerted basis. The consultants that were selected and trained and are now attached to the Office of Labor Management Partnerships were envisioned as playing this role. Some of them are able to perform the facilitation function, but generally they are more helpful for reporting back to the office on developments in their respective areas rather than serving as change agents.

This means that union and management leaders will have to take on this role as an additional duty and/or additional partnership facilitators and coordinators will need to be identified and developed.

DELIVERING TANGIBLE PERFORMANCE IMPROVEMENTS

Key to a successful journey to full partnership is the development of hundreds, indeed thousands, of projects throughout the organization that deliver value for all concerned. Certainly, the experience of other partnership and productivity-enhancing programs, done on a joint union-management basis, is that without the building blocks of task forces, projects, and experiments, the partnership has no substance.

Ideally a sequence would be followed in which promising projects are targeted followed by some sign-off procedure to ensure central coordination. However, given that KP is a large, decentralized organization, too much central control and a penchant for coherence could stifle local initiative – thereby, creating a feeling that too many initiatives are controlled and developed at the top, leading to the "not invented here" reaction. This has happened with the rollout of the safety program that was developed jointly in northern California. With its diffusion to regions outside of California, the reaction has been "this does not apply to us."

It should be possible to develop what might be thought of as a project protocol, i.e., guidelines for describing the essence of a specific productivity improvement effort so that a coordination office would be in the loop -- not to exercise approval, but to maintain oversight and to provide feedback when necessary. More important would be the dissemination of results from successful projects via the development of videos and site visits so that a learning system would be created across the diverse parts of KP.

Drawing on the experience of other industries, a powerful stimulus for diffusion of the message for everyone to get underway with improvement efforts results when units that are

reasonably similarly situated are brought together to hear reports about progress on productivity improvement efforts. Those who have been lagging quickly get the message and return to their locales with renewed motivation to get underway with their own efforts.

DELIVERING TANGIBLE BENEFITS TO THE WORKFORCE

Improving Safety. The partnership will only be a success if it can deliver substantial benefits to all employees. Certainly, the emphasis on workplace safety and generating savings as a result of diminished use of workers' compensation can be something that touches all employees. In other labor-management relationships, safety serves as the number one rallying point for joint efforts, and lowering accident rates can result in benefits for all concerned.

Improving Daily Worklife Experience. A second outcome of considerable consequence would be achieved when workers experience supervision that is more effective and more engaging of their talents and energies. Given our earlier comments about the penchant for traditional command-and-control style management, this area of potential accomplishment will require substantial attention to a program for changing the culture of supervision.

Resolving Individual Problems and Grievances. Another area for delivering real value to the rank and file is in the resolution of complaints and problems at the earliest stage. The alternate dispute resolution system envisioned in the national agreement seeks to do just this, and it would seem prudent that this new system be implemented as soon as possible as a way of demonstrating tangible benefits from the partnership. The experience of other partnerships is that their Achilles' heel comes from the reality that union leaders who are spending time in joint activities are not able to service as well the needs of their members. Saturn is only one of the more recent cases to experience this common problem.[8] This is another reason for ramping up the new dispute resolution system quickly and effectively as a very concrete way of demonstrating the value that the partnership is delivering on the ground. Another priority entails the expansion of the number of union representatives, so that those who are involved in partnership activities can be backfilled by new reps who can deal with the day-to-day needs of the rank and file.

Increasing Awareness of the Partnership. Beyond the immediate benefits, union members need to know about the accomplishments of the partnership more generally. This suggests a significant role for communications and other ways to demonstrate to constituents that the partnership is making a difference. Ideas range all the way from a suggestion by a labor leader that the Los Angeles Coliseum be hired for a large "show and tell", to a variety of printed and face-to-face communications. Making tangible what is emerging from the partnership will help union members understand what their representatives are doing and that time spent in partnership discussions and decisions is producing benefits.

[8] See chapter 4 of Saul Rubinstein and Thomas Kochan, Learning from Saturn. Ithaca, NY: Cornell ILR Press, 2001.

CONCLUDING PERSPECTIVES

The partnership journey started in 1997 with the signing of the agreement that committed the parties to work together on a day-to-day basis. The next significant milestone came in 1999 when the union insisted on negotiating concrete assurances before any changes could be contemplate – changes that might jeopardize the economic status of their members. This set the stage for the income and employment security agreement, which assured employees that as a result of restructuring and other changes in operations stemming from the partnership, that their income and employment security interests would be protected.

The negotiation of the national agreement in 2000 represented another pivotal event. And as the five-year implementation period unfolds, other pivotal events will occur, such as the ones discussed here and others that cannot be anticipated in advance. The partnership will be tested, and if it is able to meet the challenges posed by these events, then it will be strengthened as a result. In addition to addressing these challenges as they occur, the parties need to continue steadily diffusing the partnership principles to broader settings and integrating them so that they become the standard ways of doing things.

Possible Study Questions for the Kaiser Labor-Management Partnership Case

1. What should be the highest priorities for the Strategy Committee in terms of diffusion and partnership education? Should it follow a general diffusion strategy, an opportunity-driven strategy, or some combination of both? Where should resources be deployed and how in order to maximize the potential learning and success of this partnership process so far?

2. What is the key problem facing management?

3. What is the key problem facing the union coalition?

4. How could the physicians become more involved, or do they need to be? Make an argument both as to whether and how they should become engaged?

5. What is the critical level of leadership where "buy-in" has to become more complete, in both the cases of management and union? Refer to Figure 2 in your answer.

6. What should be the guidelines for developing metrics for the partnership—should they be local, global, or a combination of both?

7. How would you start the "safety" campaign if you were a Strategy committee member? What should you be doing about "joint staffing" at this point, one year out?

8. Update on the Optical Lab Case: A union leader reports: "*We were meeting our goals. Recently we've hit a valley. Some major stumbling blocks. Because, we have gone from a department in an organization that could possibly close, to being approved for a brand new lab, at the end of next year. And they have committed to funding it, and everything. In doing that move, we want to change the technology, we want to streamline. We are instituting a new computerized ordering system. It has lots of bugs right now. That has slowed down our turnaround time. Some jobs will be eliminated because of technology. But the Partnership committee is meeting, and saying, how do we do this so we are not set back? We did not reach our goals for the first six months. But in Berkeley, they are hiring temps, because they knew the jobs would be eliminated. But even for the temps, skills were required. They will only be there for 12 months. <u>But these people were hired temporarily, with the approval of the union</u>. Nobody would lose a job. That was our job security. People were told, you would have a job. The temps have caused a problem with turnaround time, consistency, and quality. We are still working on it. We know we'll work it out. There are twelve new positions posted in the lab now."* What should the partnership leaders do to make sure that the success in the Optical Lab is not derailed?

9. Union education: Here is the update on union training from a Coalition staff member: "*There are a lot of variations in all the locals, as far as capacity and leadership development. Some of the locals are as much control freaks as the management, so they haven't really taken this to their membership. In general, since this is costing up a lot of money and time, there is a pretty good reporting back to the structures in each local, and just now, we are instituting a Cornell University program with rank and file, to build union capacity, it is just starting to reach dozens and dozens of people. That's a program that the Coalition has put together with Cornell. Kaiser is paying the release time for it, we have convinced them it is in their interest to let us build capacity, they don't need weak, head-bobbing partners, they will never get the truth if people don't have the capacity to do their job and be skilled representatives and negotiators."* What should be included in the union capacity-building effort?

10. The problem of schizophrenic labor relations. A union activist tells you, "*We're living in two worlds. They're beating the shit out of us right now, just frontline relationships aren't that much better, and at the same time they want to partner. There is still standard representation stuff that has to happen. All the hue and cry for issue resolution replacing traditional contract enforcement hasn't really happened in my area. I think the grievances and arbitrations are down, but I don't think it's because issues are necessarily being resolved purposefully any better. It's a weird time. Some people hold back filing grievances, and some managers hold back, doing what they might have done otherwise, but I think they are being squelched*." You are a Coalition staff member. What is your response?

11. Some local unions have not told their members about the five cents an hour from each employee that will go to fund the Partnership activities starting in January 2002. These unions want to negotiate other ways to fund their share of Partnership work. If you are a senior manager advising the Partnership Strategy committee on this issue, what would your reaction be?

Figure 7
Kaiser Permanente National Labor-Management Partnership Agreement (Excerpts)

PURPOSE

- Improve the quality of health care for Kaiser Permanente members and the communities we serve.
- Assist Kaiser Permanente in achieving and maintaining market leading competitive performance
- Make Kaiser Permanente a better place to work.
- Expand Kaiser Permanente's members in current and new markets, including designation as a provider of choice for all labor organizations in the areas we serve.
- Provide Kaiser Permanente employees with the maximum possible employment and income security within Kaiser Permanente and/or the health care field.
- Involve employees and their unions in decisions.

PROCESS AND STRUCTURE

- Senior Partnership Committee: Executive level of KP Executives and Union Leaders to establish targets, goals, timelines and to discuss strategic issues, and to oversee implementation and review of the process.
- The parties recognize and agree to hold proprietary information in strict confidence and agree information obtained in the course of the partnership will not be used to the detriment of the other partner.
- The parties will jointly select a third party consultant to assist the Partnership.
- Each business unit participating will establish a Partnership Steering Committee with equal numbers of members from the unions and the company.
- Kaiser Permanente will bear the costs of administering the Partnership. Union officials who are not Kaiser Permanente employees will be responsible for their own costs.

DECISION MAKING AND SCOPE

- Decision-making will vary from situation to situation but should be governed by two criteria: (1) The degree to which the parties' constituent or institutional interests are likely to be affected by the decisions; (2) The level of expertise or added value the parties can bring to bear on the decision to be made.
- If either party's vital interests are likely to be affected by the decision, consensus should be used. If constituent or institutional interests are even marginally affected, consultant should precede a final decision.
- If one party has little, if any interest in the outcome, and no particular expertise on an issue to be decided, informing is adequate.
- In the absence of consensus, mandatory bargaining subjects will be resolved in accordance with contractual and legal rights On non-mandatory and non-contractual subjects, management reserves the sole responsibility and right for the final decision.
- The scope of the Partnership should be broad and should include: strategic initiatives; quality; member and employee satisfaction; business planning; and business unit employment issues.

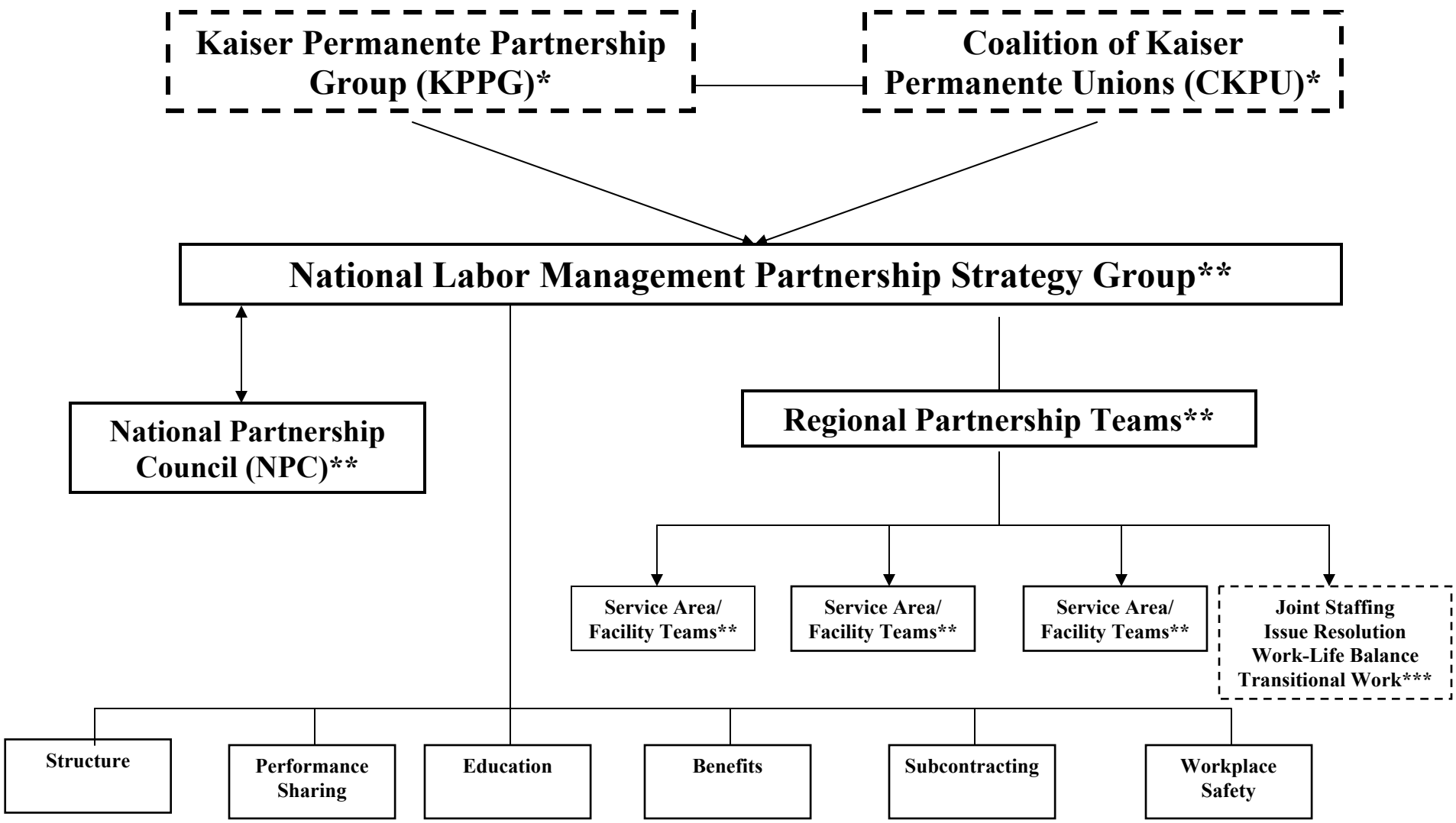
EMPLOYMENT AND UNION SECURITY

- The Parties acknowledge a mutual obligation and intention to maximize employment security for Kaiser Permanente employees. We recognize that that there could be circumstances when such a commitment cannot be achieved. In such cases, the Partnership will make use of attrition, growth of the business, aggressive job matching, short-term training efforts and other mechanisms agree upon by the Partnership participants. There will be no loss of employment to any employee because of participation in a Partnership program or worksite.
- The parties believe that Kaiser Permanente employees should exercise free choice and decide for themselves whether or not they wish to be represented by a labor organization. Where a signatory union becomes involved in organizing Kaiser Permanente employees, the employer will maintain a strictly neutral position.

MARKETING COOPERATION

All parties will make their best efforts, as opportunities arise to market Kaiser Permanente to new groups and individuals and to increase Kaiser Permanente's penetration in existing groups.

Joint LMP Contractual Committees



* Independent Governance Bodies
** Joint LMP Contractual Committee/Team
*** Functional Responsibility