

Discovering the Enduring Principles of Group Practice Medicine



Dr Ray Kay, 1902-1995

The following article is an edited version of a lecture delivered by Dr Ray Kay, founding Medical Director of the Southern California Permanente Medical Group, to the annual meeting of the American Group Practice Association in 1984. Dr Kay was honored on that occasion as the corecipient, with Dr Sidney Garfield, of the annual Russell V Lee Award for outstanding contributions to group practice.

In introducing Dr Kay, SCPMG physician Irving Klitsner called him one of the “pioneers, in the truest spirit, who paved the way” for prepaid group practice medicine. “Ray isn’t very tall in inches,” said Dr Klitsner, “but he’s a giant in a world that requires vision, strength, and knowledge, as well as desire and drive to accomplish difficult and worthwhile tasks. Nothing has ever been too tough for Ray Kay to tackle.”

— Jon Stewart, Associate Editor

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I thought it might be of value to review the development of our prepaid group practice program and reemphasize some important principles that we have come to value.

The thinking that gave rise to our medical care program began in an era very different from the present one. In the 1930s, when [Dr Garfield] and I were in training, there were no social services, no Medicare or Medicaid, no health insurance, and certainly there were no HMOs. When people became ill or needed medical care, they had two options: expensive private practice or the county hospital. It seems that we were at a point of social change, where the Great Depression and the innovative policies of the Roosevelt Administration began to emphasize the need to help those who could not help themselves. So the thinking and actions of Dr Garfield and myself were a product of the times and really represented the feelings and the desires of many young doctors of our age.

The Attractions of Group Practice

Many fundamental concepts of the Southern California Permanente Medical Group stem from the early experience and reactions some of us had while young physicians in training at the Los Angeles County General Hospital. As interns and residents, we recognized the importance of being able to provide all necessary medical studies and treatments with no economic barriers. We also appreciated the fact that we were able to develop professionally through sharing patients and learning from the other physicians with whom we worked. We really enjoyed being doctors; it was fun.

But when we went out of the practice, we discovered the full extent to which economic barriers presented obstacles to good patient care. We also realized that we no longer had the satisfaction of the

continued professional growth that resulted from the sharing of many interesting patients. It was at this time that some of us began to visualize and remotely dream of practicing as a group of doctors where we helped each other and learned together and where there were no economic blocks.

Origins of Prepayment

About 1933, Dr Garfield completed his surgical residency and set up a 12-bed hospital in the [Mojave] desert. This hospital was established for the workers on the Metropolitan Aqueduct, which was to bring water from the Colorado River to Los Angeles. However, Dr Garfield soon had financial difficulties, and for two reasons. First, the insurance companies would leave the industrial patients with him but only until they could be moved to the company's industrial surgeons in Los Angeles. To prevent this, the President of the Industrial Indemnity Exchange suggested that [Dr Garfield] offer to furnish total industrial care for a specific share of the insurance premium. When this proposal was accepted, it gave Dr Garfield a predictable and dependable income. It was now to his advantage to prevent accidents and to get the men back to work as quickly as possible. The results were very gratifying to Dr Garfield, the workers, the employer, and the insurance company.

The second problem was that the workers with nonindustrial illnesses and no money to pay for their care also came to Dr Garfield's hospital. Because the prepayment plan for industrial cases had worked so well, Dr Garfield applied the same principle to the care of the nonindustrial cases. For such nonindustrial health plan coverage, he proposed to the construction companies a charge of ten cents per



day per man. This proposal was accepted by the construction companies and the employees, and thus our prepaid Health Plan was born.

When the Aqueduct was completed, Dr Garfield planned to get additional surgical experience, but Edgar Kaiser [Henry Kaiser's son] convinced him that he should assemble a staff and set up a prepaid health plan for the workers and their families at the Grand Cooley Dam [construction site], which the Kaisers had just taken over. This was done, and when the new medical center was well established, Dr Garfield left it and returned to the LA County Hospital for a teaching residency in surgery.

Opportunity Out of Crisis

At that time, I was in private practice, but I spent most of my time at the LA County Hospital as an instructor of USC (University of Southern California) medical students. Dr Garfield and I were now again together, and we resumed our thinking and planning to utilize his industrial connections to develop a series of clinic hospital centers to make prepaid medical care available throughout California. At about this time, 1940 or '41, I was called up by the Army as a reservist, and Dr Garfield was later activated with the USC unit. However, because of Dr Garfield's experience of caring for industrial groups, Mr Kaiser asked him to establish a prepaid group practice plan for the shipyard workers of Northern California and Oregon.

The Kaiser proposal looked to us like the opportunity we'd been waiting for. After much discussion and planning, we agreed that in addition to affording good

care for the shipyard workers, the project could form the cornerstone for establishing our statewide prepaid group practice when we all returned from the Army. To accomplish this, we proposed to Mr Kaiser that with real economy of operations, money could be accumulated in a tax-exempt foundation where it would be available to start our new medical centers when the war was over. Thus, the Permanente Foundation was created with this as its main objective.

When we returned at the end of the war, the shipyards had closed, and Dr Garfield [who had obtained a service waiver through Henry Kaiser's intercession] and a small group of physicians were struggling to continue the plan in Northern California. They were trying to accomplish this in an urban area with an uncertain membership since they no longer had members from a large industry or construction job. As a result, we in Southern California were unable to depend on the financial support from the established Permanente Foundation. It paid for the facilities in Northern California, but they hadn't been able to make enough to help us get started in Southern California.

Nevertheless, Dr Garfield and I had our roots in this area, and we were determined to find ways to establish the Southern California medical care program. There was a small, prepaid group practice plan established by Dr Garfield in 1942 at Fontana for the steel mill. In February of '49, when there were problems involving the medical group and the union in Kaiser management, Dr Garfield asked me to serve as his representative and to start developing our program for Southern California. Of course, I accepted the opportunity, and gradually we supplemented the Fontana staff with well-trained physicians, built additional clinics and hospital facilities, and increased and diversified our membership.

Establishing Permanente Principles

During this period, in addition to getting our program started, we learned and established several principles.

In 1949, when I started Fontana, I was committed to the group prepaid program, but I had real concerns about the possible interference with our medical care by the unions, industry, consumers, and especially the Kaiser organization. Our first test came when the head of the steelworkers' union insisted that we retain an optometrist that our doctors felt was inadequate. When we refused, he insisted that he would win this one as he would go to Mr Kaiser.

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Dr Sidney Garfield and Dr Ray Kay.

We assured him that any interference from Mr Kaiser or anyone else would only result in all of the physicians leaving. So he says, "Oh, you're going to strike," and we said, "Yes, we will." Needless to say, we had no intervention, nobody bothered us, and we established the one principle in which there could be no compromise: medical care must be the responsibility of the physicians and their medical group.

Also, early at Fontana, all night duties and walk-ins

were handled by temporary physicians who were never members of our staff, and their medical care did not meet our standards. We replaced them with well-trained, full-time staff, and we altered turns during the nights and weekend duties. Thus we recognized [another principle]: that the practice of any physician in the group represented all of us and that we cannot allow physicians of questionable caliber to care for any of our patients.

By Tom Janisse, MD

This poem was inspired at the 1991 Southern California Middle Management Development Program, where the physician and manager students listened to Dr Kay recount Kaiser Permanente history as a fly buzzed about his head. He showed us then, as he had in the past, the persistence of greatness in the face of adversity—a message to help us now as health care changes. While this poem is on the lighter side, it attempts to capture, by contrast, the brilliance of Dr Kay.

I am honored that this poem was read, in 1995, at his funeral following his death at 93 years.

No Flies on Ray Kay

Ray Kay, a giant of health
fits in a small chair
sits low behind the table,
has the presence of an enormous stone
high on the rimrock.

A fly, no eagle, dives for his head
smooth for a soft landing,
as Ray explains how,
to a like group with wonder,
he started on a dream
against great resistance
but with patience and persistence.
Ray shifts mid-sentence,
the fly misses, dives again,
shift, miss.
Dive, shift, miss.
Ray, at 89, smiles softly,
he's faster than a fly.

The fly dives buzzing in his ear
nearly crashing in a tuft.
Ray swipes his hand before his face
muffling words about Sid and Irv.
Ray, so mildly annoyed
but with a large smile of new purpose says,
"I'm going to kill that damn fly!
If I can catch him."

Dive fly.
Swipe, swipe!
Ray dislodges his hearing aid,
now perched and teetering.
Disabled, he can't hear the buzz.
"Get the mic back, Irv.
I'll smack it!"

Ray readdresses the group
and chuckles undisturbed.
"Have to say I liked Henry Kaiser
though he took his shoes off."

After terrorizing the front row
of dutiful students,
the fly dives for Ray.
Ray shifts and smiles, says,
"He sure loves me
doesn't he.
That fly's going to feel bad
when we finish here."

Ray ends,
the crowd roars!
Ray Kay smiles triumphantly.

No fly
ever landed
on our Ray Kay.



The first expansion outside of Fontana was at Harbor City to care for the Longshoremen's Union members as part of the Coast-wide plan [a deal struck with the Longshoremen's Union]. With the hope that we could give our members good care without upsetting the medical community, we tried using physicians in private practice on a part-time basis. It didn't work. The association and care was good, but the other physicians in the community put so much pressure on the doctors working for us that they finally had to terminate their association. As a result, we had to develop our own full-time staff and eventually build our own hospital. We thus came to realize that we must build a medical staff whose sole interest was our medical group and our type of medicine. Our experience forming the group also convinced us that the most important element in forming a group of physicians is a stable core of dedicated doctors.

Joint Decision Making

In early 1951, the large retail clerks' union asked us to expand our program to the Los Angeles area to care for its 25,000 members. With this membership we were able to borrow sufficient money to plan and build clinic and hospital facilities. We leased hospital beds all over town until we completed our own 200-bed hospital. We assembled an excellent staff consisting of key members of our Fontana and Oakland groups and a number of physicians who were well established in the Los Angeles community. But with the establishment of our Los Angeles center, there was a rapid growth of the Health Plan membership, and the efforts to support this growth with adequate staff and facilities has been the story of our organization ever since.

During this early period of rapid growth, it became evident that if physicians and facilities could not keep pace with membership, we could not maintain our desired quality of medical care. Thus, the principle was established that the extent of Health Plan growth, though a Health Plan responsibility, must be subject to medical group approval. Hence, it really became a joint decision.

Preserving Physician Management of Medical Care

The final subject I wish to discuss is the relationship between the Permanente Medical Group and the Kaiser entities. As I listen and hear what's happening throughout the country, I feel this is particularly important. As medical care has become a major

industry, increasing numbers of corporate organizations have become involved in selling medical care. Relationships between such corporations and groups of physicians are of paramount importance.

We started as a physician organization, and, throughout our existence, we have continued to believe that the physician group must control and be responsible for the medical care, and to do this they must maintain the administrative responsibility necessary to ensure this control.

By 1948, the health plan had grown financially secure and was established as a separate organization—the Permanente Health Plan. Also in 1948, the doctors in Northern California formed the first partnership, The Permanente Medical Group, which had always been [Dr Garfield's] and my dream. By 1952, the [old organizational form] was replaced by the present structure, with the hospital corporation, the Health Plan corporation, and the partnerships of doctors in each area.

With these changes, there was deep concern [about preserving] our basic concept of locally integrated operations of clinics, hospitals, and health plan under physician management. In fact, [with the rapid growth of the program in the early 1950s], Henry Kaiser became increasingly interested and involved in the medical care program. Some of his actions and his repeated statement that the doctors should take care of the patients and leave the business management to knowledgeable business men of industry caused grave concern and a great deal of unrest in all the medical groups. Thus, early in 1955, a very critical and traumatic period, disagreement and struggle broke out between the Permanente Medical Groups and the Kaiser management as to who was to control the program.

Basics of the Tahoe Agreement

As none of the problems were being resolved, a summit-type conference was held in mid-1955 at the Kaisers' estate at Lake Tahoe to decide whether it was possible or even desirable for the entities to continue working together. After three days of continuing exploration by key representatives of all the medical groups, Henry and Edgar Kaiser and key men of the Kaiser staff, several fundamental decisions were made.

The main and basic decision was that the medical care program was of such value that it must be preserved. It was also recognized that all the entities and their expertise were essential, and that a work-

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ing relationship based on partnership rather than control or domination must be developed.

An advisory council made up of key members of the Health Plan, the hospitals and the medical groups was formed to develop an organization plan that would retain the medical group's responsibility for the medical care, delegate the roles and responsibilities of each entity, and cover major problems by contract. In seven months of formal and informal discussions, we tried to explain to each other the essential elements of our respective concerns. With the understanding resulting from these advisory board discussions, Kaiser staff presented a reorganization plan that the medical group in Southern California felt could serve as a basis of a contract to be known as the medical service agreement. Thus, the medical service agreement identified those areas in which the authority and responsibility of the medical group would be primary and others in which the authority and responsibility of the hospitals and Health Plan would be primary. In addition, we recognized that responsibility and control would have to be shared and that no entity should make unilateral decisions on matters of importance to the whole program. Health Plan membership growth, Health Plan dues, Health Plan coverage, and needed facili-

ties were all to be joint decisions. In other words, we all had to agree on those parts.

Kaiser As Boss

I want to set the record straight as to our feelings about Mr Kaiser. It's true that, at times, we were concerned about his speaking on behalf of doctors. However, he believed in what we were doing, and whenever we were threatened, he would send in the "first team." But to him, the "first team" was Mr Kaiser. We didn't want that, and we gradually got him to realize it; and every once in awhile, he'd say to me, "Ray Kay, you think I want to boss the doctors and that I want to run the doctors." And I would say, "No I don't, but I've got to let you know when you do things that make us think you're trying to [run the doctors]."

[Henry Kaiser] felt strongly and he fought hard, but he and his people also listened. As a result, we developed a healthy working relationship. I'm sure he felt that the part he played in establishing the Kaiser Permanente program was his greatest contribution to society. And I think it has become his monument. We all respected and appreciated his imagination and vision, and we learned that if your objective is right, nothing can stop you. ❖

Teach Them

If you want to build a ship,
don't drum up the men to gather wood,
divide the work and give orders.
Instead, teach them to yearn for
the vast and endless sea.

*The Wisdom of the Sands, Antoine de Saint-Exupery, 1900-1944,
pioneer aviator, poet and novelist.*