By Michael Chaffin, MD

A Word From the Medical Directors

KFHP and the PMGs: A History of Partnership

As we begin 1998, Kaiser Permanente has passed the three-quarter mark of arguably the most tumultuous decade in our 50-year history—on course for the 21st century—and very likely, more of the same. At some point after that notable passage, economists will reflect on the history of 20th century health care in transition. Business schools will develop "case histories" reflecting the decisions (and their consequences) of the participants in what, from our vantage point, appears to be a time of chaotic turbulence but which, in retrospect, will all appear to have been a predictable and logical transition. The business student of 2010 will see none of the insomnia or anxiety experienced by those of us charting the currents of marketplace turbulence—the relentless, dispassionate, and inevitable change described by Adam Smith more than 200 hundred years ago. In that academic context, there will be little of the deep sense of conflict that clinicians experienced as they tried to navigate the treacherous straits between humane, ethical care, medical legal pressures, and economic "reality." One wonders if there will be a "patient perspective" anywhere in this exercise. It will be known as the period during which medical economics was turned upside down—or perhaps from another perspective—turned right side up. It will be noted that during a time frame beginning in the middle 1980s, the supply/demand equation began to shift in favor of the purchaser, who was not actually the consumer, in a time when consultants began to apply statistical concepts to a very intimate and personal science. Most of us will still be around then; the questions are: What will we be doing? What will health care look like? and—more important—How will Kaiser Permanente have fared during this transition?

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It's interesting to reflect on the organization for which I've worked for nearly 20 years. I've read the history, and I've lived a small part of it. The question I've often asked myself is: "How did we become so successful?" (Though, at the moment, not all would share the notion of success.) We know that prophetic founders did not design this organization in one brilliant, sweeping act of creation. Rather, hardworking visionaries who made mistakes and were not afraid to regroup and try again forged Kaiser Permanente out of compromise and pragmatism—with just enough idealism to attract providers who could see a different future for medicine.

Why then are we still unique today? What evolved was an integrated, group practice—but that's not unique to Kaiser Permanente. The concept of prepayment is important but does not guarantee quality or success; in fact, it's a fairly standard approach to health insurance. There is, however, one attribute that ties them together into a package that has created the most successful, private health care delivery system in the world—the partnership.

> **partnership** 1: the fact or state of being a partner (as in action or in the possession or enjoyment of something): participation ... 3: a relationship resembling a legal partnership and usually involving close cooperation between parties having specified and joint rights and responsibilities (as in a common enterprise ...)*

It's difficult, but occasionally necessary, to revisit the roots of our structure and culture. In times of change, we're obligated to reevaluate organizational tradition and dogma to assure ourselves, to the extent possible, that we are not blindly tied to anachronistic concepts that will eventually weaken the organization. As I survey the managed care landscape, now littered with the financial and socio-political debris of the relentless marketplace, I'm struck by the fact that those who have failed lacked nothing that we have except for the cooperative working relationship shared by Kaiser Foundation Health Plan and the Permanente Medical Groups. We all understand that "cooperative" is an overarching concept here. It isn't always amiable, and it certainly isn't always easy, but, we find ourselves honoring and rebuilding the partnership simply because like any other relationship built on principle, it exceeds the capacity of any other model we've seen to create a context of affordable, ethical, quality medicine.

It probably sounds naive to acknowledge at this point, but when I joined Kaiser Permanente in 1978, I, like many, had no idea that it was an organizational partnership. This admission is probably less one of ignorance than a tribute to William Dung and Ronald Wyatt and their commitment to nurture the working partnership in Hawaii. I now understand that it was not always easy nor intuitive, but I've also learned what experience must have taught them: however imperfect, it is better than the other options that have been tried by our colleagues and competitors over time.

At the time of my election as Medical Director in 1990, my first task was to review the Medical Service Agreement. There were no particular surprises; it was a legal rendering of the mutually exclusive and interdependent partnership that has existed at Kaiser Permanente since 1953. I've really not had occasion to refer to it since that time, although we

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make minor modifications annually to suit the legal and contractual demands of regulatory watchdogs and a changing environment. The partnership has evolved—in my estimation—to a relationship. To be sure, it can be terminated, it can be modified substantially, and it can be filled with endless incentives and levers. No legal contract, however, can substitute for the mutual trust, respect, and support implied in a relationship—even when it seems strained to the breaking point by internal or external pressures.

> **relationship:** 1: the state or character of being related or interrelated : a connection by way of relation 2 : ... affinity 3 : a state of affairs existing between those having relations or dealings ; ... *

In the 10 or so years since Mr. Smith's marketplace sent the "change" message to medicine, Kaiser Permanente has tested every historical concept and tenet held by this organization since its inception. Not surprisingly, when turbulent times descend with their challenges to the status quo, partners often reflect on the relationship—wondering if their fidelity to a person, an organization, or a contractual tradition will be the seed of their ultimate destruction. Kaiser Permanente is no exception. I doubt that there is one manager or leader that hasn't engaged in the "what if" discussion: "How would the Permanente Medical Groups fare on their own? How successful could Health Plan be without the weight of the Medical Groups?" Perhaps more to the point, who hasn't considered the question of whether or not a stronger partner would have helped the other to avoid some of the chaos and pain of wrenching change. Such conversations are inevitable when a partnership is in the breech, but it is important to remember why partnerships exist in the first place. It can be summed up in one word—synergy.

> **synergy:** working together ... combined action or operation ... cooperative action of discrete agencies ... such that the total effect is greater than the sums of two or more effects taken independently.*

Partnerships form when the task at hand is too large for individuals or even small groups to carry out successfully. (Actually, the best partnerships become teams, but more on that another time.) Virtually anyone who objectively assesses this organization understands that we have developed an interdependent expertise that would leave either partner significantly diminished in the event of a rupture of the relationship.

We can take one of two views then. On the one hand, Kaiser Foundation Health Plan and the Permanente Medical Groups have become irrevocably linked and lack the flexibility to adapt readily to change—remember, the survivors in Mr. Smith's marketplace are not necessarily the smart or the strong, but, above all, they must be able to adapt to change. In this view, the significant market transformation we are now experiencing will disadvantage Kaiser Permanente, and ultimately we will not survive. In this type of scenario, the partnership has evolved into an inescapable pact of mutual destruction. Alternatively, the balanced and mutually supportive nature of our relationship is a nonreplicable strength which, when exercised by competent, responsible partners who are committed to common values and goals, will be the source of our success.

How does this case study end? The outcome is not a given; perception and desire can and will become reality in this case. At the risk of sounding simplistic, the decision rests in our hands. We can choose success—but do we have the motivation and focus to do so?

First we need to reassess the reason for our existence. In a nutshell, I believe that Kaiser Foundation Health Plan with its not-for-profit status and the Permanente Medical Groups with their salaried approach to reimbursement have created the most balanced, rational, and ethical model for health care delivery in the country and, arguably, in the world.

Second, our idealistic approach to the partnership has to be linked to a commitment to excellence in the three basic areas that have become the mantra for all health care systems: Quality of Care—without which, who cares if we survive? Service—the member's view of quality. And finally, Efficiency and Productivity—if we cannot compete, the first two are academic. Failing any of these three imperatives, we become a historical footnote.

Third, we are compelled to recognize the strength of the partnership model. It simply makes more sense than anything else does to accomplish the goals defined above. This is a choice. It is easy to become so distracted by the short-term success of our competitors or the complications of managing the relationship that an organization (like an individual) can be panicked into poor decisions or—perhaps worse—no decisions at all.

Finally, we need to recommit ourselves to the principles that created the partnership in the first place—bringing our very best to the table. The goal is not to create a relationship based on legal principle. It is rather to have our partners awake every morning thankful that they have the exclusive and committed services of the Permanente Medical Groups, the best

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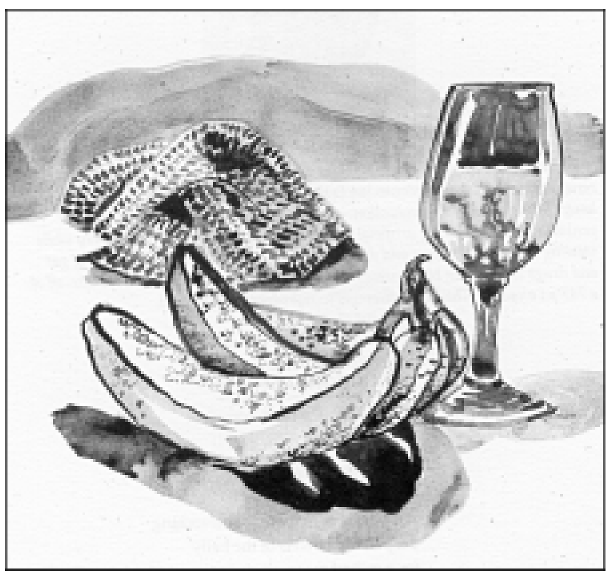
team of physicians anywhere. If this seems to stop short of assigning a similar accountability to Health Plan, there is a reason. First, commitment to quality and principle begin at home; one has control over one's own actions and no other's. Second, I believe that our colleagues in Health Plan share these values; it is certainly the case in Hawaii.

If we dedicate ourselves to these tenets, Kaiser Permanente will establish itself as the preeminent health care system in the 21st century. To be successful, we will need to find the solutions to difficult economic questions without destroying idealism. It will require, in turn, the kind of idealism that brought us to medicine in the first place. Finally, it requires a commitment to excellence that will test our ability to demonstrate intrinsic professional values. Parenthetically, my own view is that this is best accomplished without need of extrinsic incentives that inevitably distract us from the goals at hand—it is an issue of character that will not lend itself well to financial manipulation. If all of this sounds like we are being called to step up with the vision, dedication and pragmatism of our predecessors, it should—success will require nothing less. We can and shall accomplish our goals—and it will be great reading for future business students and physicians alike. ❖

* *Webster's Third New International Dictionary*



"Still Life with Bananas" by Stephen Bachhuber, MD