Sidney Garfield, MD, the physician co-founder of Kaiser Permanente (KP) and father of Permanente Medicine, is often hailed as a great visionary and innovator in American medicine. He was the man who joined prepayment to multispecialty group practice and articulated the principles of a new and revolutionary model of health care financing and delivery. But as revealed in his remarks to a group of Permanente physicians (see: Advice to Permanente Physicians from Dr Sidney Garfield, page 60), Dr Garfield’s genius was not limited to grand-scale ideas. He also understood a great deal about the everyday, real-world workings of organizations, partnerships, and power—lessons that are as relevant today as they were 33 years ago and lessons that strongly informed the creation of The Permanente Federation, which observes its tenth anniversary this year.

The unique organization that Dr Garfield and Henry Kaiser created some 60 years ago was based on an uncommon partnership of sometimes-adversarial interests—an independent physician organization and an independent health plan with its own hospitals. Dr Garfield (and probably Mr Kaiser, too) understood clearly that a vital key to making this unlikely partnership into an organization capable of the transformation of medical care that Dr Garfield had envisioned was power—more specifically, a balance of power in the form of financial strength and solidarity of purpose and action. With the security and confidence that flows from such balance, the partners at the heart of the organization could take on Dr Garfield’s “most important” third lesson—the imperative to constantly innovate and open themselves and their organization, KP, to the risks and rewards of change.

Dr Garfield articulated his lessons to the Permanente leadership some 20 years after he and many of his colleagues had had the first two of those lessons branded into their consciousness by the near-death experience that precipitated the Tahoe Agreement of 1955. In that landmark accord (which would become a kind of unofficial “constitution” of KP), the physicians reasserted their challenged roles in the joint management of the overall organization vis-à-vis Mr Kaiser and the Health Plan, which had taken a unilateralist direction. Perhaps by 1974, the year he made his remarks to The Permanente Medical Group leaders, Dr Garfield feared that the memory of those hard-won lessons had lost their edge, or that the great majority of physicians who had joined the Medical Groups since Tahoe had never learned them.

Certainly, as KP neared its 50th anniversary in the mid-1990s, the time was ripe to reassert the lessons of a balanced partnership once again, this time through the creation of a physician federation, as Dr Garfield had urged back in 1974.

It is not necessary to get into the particulars of the problems that beset KP on its 50th anniversary; suffice it to say that the basic partnership of the Medical Groups and Health Plan had once again become unbalanced. The Health Plan management structure, on the basis of large geographic divisions, was seriously out of alignment with the regional structure of the Permanente Medical Groups. At the national level, the Medical Groups lacked a unified voice to negotiate with the more centralized Health Plan management. Fundamental differences of philosophy emerged over the pace and nature of program expansion. In addition, uncertainties arose over the commitment to the core KP delivery model and confidence in the long-term viability of the partnership itself was challenged. To top it off, there were growing indications that a financial crisis loomed over the horizon (which would ultimately bring on another near-death experience). It was not a pretty picture.

Fortunately, as in the early 1950s, leaders on both sides of the organization resolved to work for the partnership rather than against one another. The effort took the form of a yearlong negotiation toward completion, in June 1997, of a new National Partnership Agreement (NPA), which many at the time naturally dubbed “Tahoe II.” At the heart of that agreement was a rebalancing of the power relationship through the formation in early 1997 of The Permanente Federation. Creation of the Federation gave the separate and autonomous Medical Groups a unified and therefore stronger voice with which to negotiate and participate in the management of the program with national Health Plan leadership. The joint management structure took the form of a new high-level entity, the KP Partnership Group (now KP Program Group [KPPG]), consisting of equal representation of Health Plan leaders and Federation/PMG medical directors.

Looking back from the distance of ten fulfilling years, I suspect that all those who were involved in the NPA development and the formation of the Federation must feel, as I do, a great deal of pride and satisfaction in what was achieved—and what was averted. Out of the NPA came not only The Permanente Federation, but the Care Management Institute — a jointly managed entity with a mandate to pursue the kind of programwide quality improvements that Dr Garfield envisioned in his third lesson. Also, the Federation’s venture development process, another product of the NPA, has contributed to the financial strengthening of the overall organization. In the areas of quality and service improvement, IT development, external

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Advice to Permanente Physicians from Dr Sidney Garfield

From remarks by Kaiser Permanente’s founding physician, Sidney Garfield, MD, to a group of Permanente physician leaders on August 14, 1974:

I have been asked to come up with some lessons that I have learned along the way. Those lessons may be enumerated as follows:

Number one, obviously, blind faith has very definite limitations and it should be backed up with a balance of power—at least in business. Blind faith may work in religion, but it has limitations.

Two, there are several kinds of power. One is the power of money, and the other is the power of solidarity of purpose. I think that I would like to pass on to you the lesson that having wealth is an extremely important point in balance of power. I have always felt strongly about this, and I have always suggested that the doctors in this partnership should put away a certain number of dollars each month. I think I suggested about $200 a month. I learned the value of reserves in early years. If you had accepted that idea, you would probably have $20 or 30 million by now. It would be money that would be invested, of course. Just having that wealth would give you gentlemen a great amount of power and respect in dealing with other people. It is one of the things that matters in this world.

The other power you should have is the power of acting together, the power of what I call solidarity. You can fight among yourselves, but as far as the outside is concerned have one common face and purpose just as you would in your own family. I think that if you would have a federation with the doctors in Southern California and the other regions, if possible, you would have all the power you need to control your destiny in the future. I don’t think anything will ever happen again, but it would do you no harm; and it would be wise to build up your strength through federation, or wealth, or both.

Three, most important of all, I think you ought to build up your competitive position in this medical world by innovating and opening up to change. We have been doing the same thing far too long. Some of you have heard the talk I gave on the new Medical Care Delivery System. That may not be the only answer, but it is a move to improve service. You should be getting into that—improving service.

You know institutions tend to become static; they build walls around themselves to protect themselves from change and eventually die. You should fight that by opening up your thinking and your ideas, and work for change …

So in plain words, I give you this advice. Keep your feet on the ground, keep your hands on your purses, make sure your operations are as economical as possible, and build up your wealth for strength. Keep your arms on each other’s shoulders and keep your eyes on the stars for innovation and change for the future. I am not sure that that last point, improvement of service, won’t be your greatest strength, if you really work at it.

* From Advice to Permanente Physicians from Dr Sidney Garfield.

relations, and other endeavors, the renewed partnership between the Federation, Health Plan, and organized labor (through the Labor Management Partnership) has been a historic contribution to maintaining KP’s reputation for excellence and superior value.

With the Medical Groups speaking in a cohesive voice, the new KPPG moved decisively toward development of a national strategy in 1997 that would ensure alignment on the organization’s direction over the next decade. That strategy included development of KP’s first explicit brand strategy as a key to future success in an increasingly competitive marketplace. While the brand process has evolved over the years to the current, highly successful Thrive campaign, it has remained rooted in the original commitment to position KP as a unique and uniquely capable delivery system, built around the core principles of Permanente Medicine as defined by the Medical Group leaders and the Federation.

With alignment on the brand strategy, the new KPPG proceeded to develop and implement new processes for national decision making regarding long-term financial planning; performance metrics; national regulatory, legal and governmental policies; membership growth and geographic expansion; and capital investments in essential capabilities, including new facilities and technologies. Perhaps one of the greatest achievements of the newly strengthened partnership was the KPPG’s ability to commit to, and ultimately to implement, a programwide, cutting-edge clinical and administrative information system—a commitment that is now being fulfilled with KP HealthConnect.

As the Federation, which I have had the honor of leading for these last ten years, observes this anniversary, it goes without saying that I am proud of its role, as well as the individual contributions of the Permanente Medical Group Medical Directors and the Federation staff, in reaffirming the important lessons that Dr Garfield urged upon us 33 years ago. The Permanente Federation, at its best, is the very manifestation of the potential of physician solidarity that Dr Garfield described.

Most important, the rebalancing of the partnership’s power relationship through the National Partnership Agreement of 1996 has enabled both sides to work together more effectively in pursuing that invaluable third lesson, the pursuit of innovation and an openness to the winds of change. It is the safest of all bets that over the next decade, as in the last, we will confront both threats and opportunities that are unimaginable today and that will challenge our long-held and surest beliefs. KP will succeed, as it has in the past, by maintaining, above all else, its commitment to its original mission of “affordable, quality health care for our members and our communities” by whatever means, and in the words of our founder, by “keeping (our) arms on each other’s shoulders and (our) eyes on the stars for innovation and change for the future.”

* From Advice to Permanente Physicians from Dr Sidney Garfield.