

# **Kaiser Optical Services and Local 535, SEIU Interest Based Negotiations**

## **A Brief Case Study**

### PART 1

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#### **Background**

Kaiser operates optical laboratories in Glendale and Berkeley, California. The labs process orders for optical lenses received from Kaiser's network of optical centers and dispensaries in California. Lab employees produce lenses to the required specifications by grinding, sizing, applying coatings and performing quality checks.

The majority of the employees in the Berkeley lab are represented by Local 535, SEIU. Local 535 also represents the opticians and fitters at the optical dispensaries in Northern California. In early 1998, Kaiser retained a consultant to analyze several scenarios for producing optical lenses in California. The consultant's report indicated that savings of approximately \$800,000 per year could be realized by closing the Berkeley lab and consolidating operations at the Glendale lab. Kaiser subsequently advised Local 535 that it had developed a business case for consolidating optical manufacturing operations in Southern California. The union voiced concerns and Kaiser did not immediately press the matter. Several months later, in discussions leading up to general contract negotiations, the lab consolidation issue resurfaced and was identified as the central issue in the negotiations. Given the significance of the issue and the apparent difficulty of resolving it, the parties agreed to use an interest-based process in the negotiations. RAI was chosen to facilitate the negotiations and train the parties in the Interest Based Negotiations (IBN) process. The group met for seven days in August and September of 1998 with a scheduled ten-day break between days three and four.

#### **Participants**

The Senior Business Representative who normally represented the union in negotiations with Kaiser, the Unit President and five representatives from the optical lab and the dispensaries formed the bargaining committee for Local 535. The company committee consisted of the HR representative assigned to the optical unit, the Regional Medical Group Administrator, the Director of Optical Manufacturing and a staff assistant from the regional medical group.

#### **Training**

Participants received a day and a half of IBN training and an orientation to the Kaiser Labor Management Partnership. The training consisted of a comparison of IBN and traditional negotiations, an introduction to the IBN model, brief lectures on active listening and feedback skills and lectures/discussions on discovering interests, consensus decision making, brainstorming and multivoting. Approximately five hours of the total training time were devoted to a facilitated simulation that allowed participants to practice IBN skills. Participants found the simulation to be a particularly helpful way of understanding how the IBN process worked.

#### **Process**

Participants developed groundrules and formulated a tentative statement of the lab closure issue following the conclusion of training on day two. The initial statement of the issue centered on the party's differences; keep the Berkeley lab open or close it. Additional discussion the next day revealed that the proposed issue statement reflected the positions of the parties and offered no real basis for problem solving. This led to an agreement to use the partnership principles as the context and the roadmap for the negotiations. When attention was refocused on the issue statement, the group was able to agree quickly to revise it to "how can we decrease costs and increase revenue consistent with the principles of the partnership?" The restatement of the issue and the discussion that preceded it had a positive and dramatic impact on the process. Tension diminished and openness and trust increased. Participants began to see themselves as partners rather than competitors.

Identification of interests was done in separate caucuses to enable the groups to talk openly about their needs and concerns, to ensure that all interests were surfaced and to allow input from the facilitator. When the full group was reconvened, interests were explained and discussed. Participants clarified the interests of the other side by restating them in their own words. Most of the interests were identified as mutual. This also helped the process a great deal as the parties saw that they were approaching the problem with concerns and needs that were essentially the same.

The process of brainstorming possible solution options was free flowing and very productive. The final hour of day three was devoted to developing a joint communication to be sent to union and management constituents describing the process and progress. Brainstorming continued for several hours on day four. The group ended with about 265 options. The remainder of day four and most of the next day were spent clarifying and categorizing the options. Criteria were also developed and agreed to by consensus on day five. This was the first significant trouble spot in the process. As group members offered potential criteria, positions began to reemerge (e.g., no layoffs, no loss of income, no capital expenditures). An examination of the partnership principles and an agreement to include them as criteria were instrumental in getting the group to consensus on the criteria. The final hour of the day was spent outlining a joint communication.

The group spent several hours on day six, reviewing each option against the criteria and sorting them into four groups: 1) doesn't meet criteria, 2) meets criteria, but can't be implemented in the short term (primarily because of need for capital expenditure); keep for future consideration, 3) meets criteria; looks promising for implementation in the short term, 4) needs data/information. The sorting resulted in further clarification and also spawned more options. There was lengthy discussion and significant disagreement over whether the option of consolidating operations in Southern California met the criteria. The process was put back on track by an agreement to table the option and refocus on the options that would save/make money if the lab were kept open. The group then re-reviewed the cost savings and revenue generation options, determined if data was needed, and selected the most promising options for implementation. This took the remainder of the day.

Day seven was devoted entirely to fashioning a comprehensive solution to the issue built around a keep the lab open scenario and dealing with the tabled, but not yet rejected, lab consolidation option. The following potential solution was developed in an hour or so:

1. Keep the Berkeley Lab open
2. Work jointly to:
  - a. Implement production standards and incentives
  - b. Implement a labor-management partnership to jointly manage the optical division
  - c. Implement other cost saving/revenue generating options identified as promising
  - d. Implement flexibility measures that had been identified as promising, such as an expanded Utility Worker classification

Dealing with the tabled lab consolidation option required several hours. Much of the work was done in caucuses. The active involvement of the facilitator, both in caucuses and full group sessions and the willingness of the parties to focus on interests and explore options kept the process from becoming adversarial. The consolidation option was finally rejected in exchange for an agreement that the parties would accept the above solution and jointly review progress in 18 months. If the parties did not agree that progress was adequate, management retained the right to reopen the collective bargaining agreement and again raise the consolidation option as a bargaining issue. The union agreed to this approach reluctantly but most members of the union committee believed that the options to be implemented would be successful and that the 18-month review would be favorable.

Other contractual details were resolved in short order and a comprehensive tentative contract agreement was agreed to by consensus. The group concluded its work by outlining a joint communication for constituents and setting up a meeting schedule for the group that would work to implement the solution.

## Results

- Participants reported that they were very satisfied with the interest-based process and the outcome.
- The collective bargaining agreement was ratified by union members and approved by management.
- The implementation group developed and implemented an incentive plan with revenue, quality and member satisfaction performance measures. The plan was implemented in March of 1999.
- The implementation group broadened the Utility Worker Classification in the Lab. The revised classification will change the skill mix in the lab, increase flexibility and reduce costs.
- The implementation group is working to implement a labor-management partnership in the Berkeley lab and the dispensaries.
- Management reported in February of 1999 that productivity in the Berkeley lab had increased by more than 8% and turnaround time had decreased from an average of 2.7 days to 1.7 days.
- Equipment was purchased that will enable the Berkeley lab to manufacture polycarbonate lenses. The additional volume should add jobs.
- Management reported in February of 1999 that savings are expected to exceed any gain that could have been realized by closing the lab.
- Management and union representatives reported in February, 1999 that the process had:
  - Improved the labor-management relationship;

- Increased trust and communication throughout optical services;
- Increased business understanding; and,
- Improved worker attitudes in the lab. ("The lab is a whole different place to work".)

## **Part I Case Study Addendum**

### **Learnings and Challenges**

#### **Learnings**

- One and one-half days of training is about right. Participants (management) are likely to become impatient if more time is taken; participants will probably be unprepared if less time is taken.
- The IBN simulation is helpful. It's a no-risk, but realistic orientation to the IBN process that usually clicks with people and let's them know what they're getting into.
- Having decision-makers in the process was a key to success.
- Facilitation is critical. Participants need help to stick with the process and work through the inevitable rough spots.
- Caucusing to develop interests builds comfort with the process and allows the facilitator to work with each party and get to know their needs and concerns.
- Clarification of interests through discussion should not be rushed.
- The commitment to frequent and substantive communication was helpful. It allowed members to work together as a team and it kept a widely dispersed constituency informed. Outlining the communication points in full group and detailing in an off-line subgroup worked well.
- The development of a goal-sharing plan took longer than anticipated.
- Participants were asked at the start of each day if there were other issues that needed to be addressed. Dealing with these issues took time away from the process but kept the process from breaking down over unresolved, tangential issues.
- Participants make a huge difference in whether the process succeeds or fails. This group trusted and followed the process, responded well to interventions, was very productive at option generation and worked well together.
- The Partnership Agreement provided a useful framework and resource.

#### **Challenges**

- Getting partnership buy-in and commitment from fitters and dispensers who would not be adversely impacted by closure of the lab.
- Improving communication between the lab and the dispensaries.
- Working out the details of the optical partnership and involving the other unions (Locals 250, 20 and 29).
- The incentive plan has a high payout hurdle. If it doesn't pay out, there may be some consequences in terms of partnership buy-in and participation.
- The team members who designed the goal-sharing plan had varying degrees of familiarity with the business information that was reviewed prior to developing the plan's performance measures. Although considerable time was spent in discussion, some team members may not have gained a full understanding of the details and nuances of the business information. Consequently, misunderstandings could arise regarding plan design and intent. The on-going communication and business education that is planned may close any gap that exists.

## **Part II IMPLEMENTING THE LABOR MANAGEMENT PARTNERSHIP**

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March, 2000**

With the incentive plan completed, the steering committee focused on education of the workforce on the targets and measures of the incentive plan along with implementing the Labor Management Partnership throughout the Optical Division. Over the next few months the steering committee worked to develop an issue resolution process, provide training to support the Partnership, and to monitor the operations throughout the Division.

## Labor Partners

The union identified "labor partners" in the lab and at every branch whose initial responsibility would be to work with the manager to share production and incentive plan information in a timely manner with the employees in their workplace. Managers are expected to involve their labor partners in all major decision making, share all pertinent business information and work collaboratively to resolve issues.

## Education

In February of 1999 the steering committee brought Labor and Management Partners together from the whole Division for mandatory meetings to discuss the details of the production standards and incentive plan, the Labor Management Partnership and their new roles as "Partners." A plan was now in place to keep all employees informed of current performance.

The commitment to the Partnership was further endorsed at the work site in March of 1999 when Steering Committee members visited every work site in Northern California. During these mandatory meetings, the members of the steering committee explained principles of the Partnership, the targets and measures of the incentive plan and began the practice of sharing financial data with the rank and file.

As part of ongoing business education, all employees took part in an all day Saturday training session in Sales, Marketing and Economics in the summer of 1999. The curriculum focused on Market Comparison, Sales Techniques, Customer Satisfaction, and Addressing the Needs of the Patient and the Business.

To support the Issue Resolution Process, all Labor/Management Partners in the lab and branches attended a two-day program in Interest Based Problem Solving. The Federal Mediation and Conciliation Services presented this program for all locations throughout Northern California. The Divisional General Manager, Local 535 Senior Business Representative and Local 535 Optical Division President opened the two-day program with a presentation on the State of the Organization and the commitment to the Labor Management Partnership, setting the stage for a new way of doing business.

## Strategic Planning

For the second year in a row Labor has been included in the Strategic Planning Process. In 1999 that included input into the redesign of the Management Structure. In 2000 representatives of Labor and Management worked jointly to reaffirm their goals and set the direction for the coming year. Labor partners will join with the Steering committee to set the action plan to achieve goals and objectives.

## Results

Labor and Management continue to work together to enhance performance throughout the division. Some examples follow:

- **Laboratory Production Team.**  
Labor and management work jointly to address all areas of production. The team has worked together to expand hours of operation, redesign work flow, reduce outside vendor costs and are currently piloting a self directed work team in the lab.
- **Steering Committee**  
Labor and management leadership meets regularly to address all aspects of the business in Partnership, including cost savings and revenue generating initiatives. Consensus is used for decision making. This group is responsible for overseeing the jointly developed goals and objectives of the business.

Included in their discussion and decisions:

- The parties have agreed to bring work previously performed by outside contractor in to Kaiser Permanente, Oregon.
- Work to develop new product lines. Anti-reflective coating was previously outsourced. This new product line will increase revenue by \$1.2 mil/year.
- Increased Trunk Shows to increase revenue
- Continues to explore partnering with Optometry and Ophthalmology. (Steering committee members met with local 20 to discuss new incentive plan for Local 20 Optometrists)
- Labor representatives are included in the interview Process for new managers. (Input, with the final decision being a management responsibility)

- As a result of Interest Based Negotiations the bargaining unit received a 3% pay increase each year of the contract and maintained existing fringe benefits.
- All branches have increased hours of operations.
- Worked jointly to develop inventory management processes
- Sharing Financial Data. On a regular basis, education on financial data, performance targets and measures is provided to all Labor Management Partners who in turn, share that information with staff at monthly meetings.
- At year end, 1999, the steering committee reviewed the targets and measures for the incentive plan. The Division had consistently met their goals. A 2.7% pay out was achieved with the incentive program for all Optical Division Employees. In an effort to continue making improvements in Service, Quality and Revenue, the Steering Committee agreed to increase the targets for the year 2000. The committee also agreed to change the pay out to be twice annually rather than once.

In relationship to the goals of Increased Revenue, Improved Quality and Improved Service the following results are noted for 1999:

- Net income increased by 19.3% in 1999
- \$5.5 million (9.8%) increase in gross revenue from 1998 to 1999
- 6% increase in average sales per employee
- \$250,000 savings in reduced breakage and rework
- Turnaround time for delivery of eyeglasses has decreased from 2.7 days to 1.3 days

The year 2000 begins with a strong commitment to the Labor Management Partnership. The Lab remains open. The steering committee is expanding to include members of Local 29 and 250. Employees increasingly understand how they affect the success of the business. Morale continues to improve throughout the division. A consultant is available to work on team development both in the lab and at the branches. Employees are recognized for their contributions to the success of the business. Recognition for attendance has been acknowledged. The Optical Division was recently awarded a plaque from the Senior Partnership Committee in recognition for their "Outstanding performance and achievements obtained through commitments to the Labor Management Partnership principles." The learnings and successes of the Optical Division Partnership are being shared in many forums from National Conferences to department meetings.

### **Learnings and Challenges**

#### **Learnings**

- There are great benefits of Partnership in the success of the business and that is evident in our business outcomes. Much effort has been put into the challenge of maintaining efficient sales and production operations as we build the foundation for our Partnership.
- Sponsorship and modeling of Partnership by Leaders set the stage for a new way of doing business.

#### **Challenges**

- Incentive plan-Comprehension of the complex issues of administration of the plan, financial details and payout. This process is new and challenging for both partners.
- Labor Partners - Requires time in identifying partners and obtaining commitment. Need to understand the principles of the Partnership and separate interests of labor. Need to develop a constructive relationship with management partner and co-workers.
- Building internal constituencies, both Labor and Management. Getting buy-in to the Partnership Process and its Outcomes.
- Resources for training sessions and meetings
- Release time for attending meetings

### **Part Three**

### **EXPANDING THE LABOR-MANAGEMENT PARTNERSHIP**

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In May 2002, the Berkeley Optical Labs (lab, production, and administration) moved to a brand-new lab in Richmond, CA, designed and opened under the "Power of Partnership." The plant continues to achieve performance results through employee involvement, and a highly involved joint Partnership Committee oversees and addresses most issues at the plant. The successful move and reopening of the plant are credited to the labor-management partnership.

On receiving word that the Lab would be moving from its 17,000 square foot facility to a new 40,000 square foot facility, the joint Partnership Committee engaged joint teams of labor and management employees to get the job done. Seven teams, including the Design Build Team, the Floor Team, the Stock Team, and the Production Team had evolved out of joint labor-management workgroups that began with the start-up of a joint Production Team in 1998. As a result of the work of these seven teams, a whole new production system was designed to be implemented at the new facility. The new system was designed to maximize productivity and communication among work teams.

At the employees' planning and request, the move to the new facility began on a Thursday night with intentions of being up to business on Monday - an ambitious goal. Discussion had taken place about outsourcing work during the move and transition, but the employees had decided "No." They wanted to keep their profits up and keep the work in-house. As a result, they opted on their own accord to design "action plans" that would allow this all to get done with only minor temporary delays.

Diane Easterwood, Director of Optical Manufacturing and Plant Manager sees this move as "the real proof in the pudding for the partnership." She feels a whole new culture now exists at Kaiser Optical Services thanks to the Partnership, of which she was "an original naysayer". In her view, employees and line managers at Kaiser Optical Services have had a full paradigm shift in attitudes "from compliance to ownership." For example, Easterwood says, when discussion began several years ago about the move, employees were focused on meeting their own needs. Now, during this weekend move, they were "showing up by the carload" on personal time "to see what was going on and how they could help." Their commitment to the performance of the plant had been strengthened by the partnership and their involvement in the design process. Easterwood continually refers to her own conversion and how she has been "so bowled over" by the change in the union-management relationship over the past four years..

Another success Ms. Easterwood totally credits to the Partnership is the recent introduction of the automation system at the plant. The suggestion for this automation system came out of the Interest-Based Negotiations (IBN) session in 1998. In 2001, a joint labor-management group wrote the business case for and received labor-management partnership funding to implement the system. The last piece of the system was implemented February 9, 2002, and "everything has been running smoothly". In fact, *California IT* magazine recently lauded this successful integration - and credited the labor-management partnership for its success.

The move to the new facility took place May 1-6, 2002. An open house entitled "The Power of Partnership" was held June 7, just three weeks later. Kaiser Permanent Labor-Management co-chairs Tony Gately and Peter DiCicco addressed the crowds and applauded the partnership's success.

When asked about plans for the future, Easterwood refers to new equipment that will be introduced shortly, altering processes and replacing 7 employees per shift. The Lab plans to engage both labor and management in a joint problem-solving and decision-making process to decide how best to use this freed-up manpower and further improve productivity and efficiency at the plant. Lab leadership, especially Kevin Powers, the new Director of Manufacturing and Sales, and Preston Lasley, local union President, are interested in discussing new roles and more "new ways of doing things" at the plant, including self-directed work teams. The union-management leadership at Kaiser Optical Labs have goals of being "state of the art" and a true high-performing organization.