



# STANFORD

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## GRADUATE SCHOOL OF BUSINESS

CASE: OB-54

DATE: 02/23/06 (REV'D. 05/22/06)

### KENT THIRY AND DAVITA: LEADERSHIP CHALLENGES IN BUILDING AND GROWING A GREAT COMPANY

In the summer of 2005, Kent Thiry, a 49-year old Harvard MBA graduate, ex-Bain consultant and now the CEO of DaVita, thought about how he and his management team should address a set of emerging and important challenges. DaVita (publicly traded on the New York Stock Exchange under the symbol DVA) was a \$2.2 billion annual revenue operator of free-standing and in-hospital kidney dialysis centers.

Thiry and his senior team were meeting to discuss the next steps the company should take to continue its organizational development and strategic evolution. They were especially focused on how to manage several looming challenges. DaVita was just in the process of completing a \$3.1 billion purchase of Gambro, a large competitor. The acquisition would nearly double its size from 700 to more than 1,200 dialysis centers and from 13,000 to 25,000 people. As such, it would cement its position as the second largest operator of kidney dialysis centers in the United States.

When Thiry came to lead the company in October of 1999, the organization had been beset with financial, operational, regulatory and morale difficulties. “The company was technically bankrupt,” he said. “It was being investigated by the SEC, sued by shareholders, had turnover at over twice our current levels, was almost out of cash, and, in general, wasn’t the happiest of places.”<sup>1</sup> By 2005, the new management team had achieved a complete turnaround. The company’s market capitalization had grown from \$200 million to more than \$5 billion, the clinical outcomes had become the best in the industry, the company’s organic growth was the highest in the industry, and employee retention had improved dramatically with a 50 percent reduction in turnover.

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<sup>1</sup> <http://www.redcoatpublishing.com/spotlights/>

Professor Jeffrey Pfeffer prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

However, this had not been a typical turnaround. Instead, a closer look at DaVita's culture and leadership showed that the DaVita management team's focus had been on creating a strong and positive values-based organization where all levels of the organization had an emotional commitment to its success. The foundation was the Mission and Values, first created by 700 of the company's managers in 2000 and now widely practiced throughout the company. To the management team, the company's rebirth strategy was based on the belief that they had to create something larger than themselves in order to be successful. Thiry commented:

At Vivra [another kidney dialysis company where many of DaVita's senior leaders had worked together], we implemented many people, team, and culture-friendly policies. They were consistent with my basic values, but the extra energy I brought to them was because they were a means to the end of having a successful company. This time it is different. This time the building of a successful company is a means to the end of building a healthy community. Because humans spend more waking hours at work than anywhere else, if you are a leader who purports to care about your team, it makes no sense to create a paradigm which concedes all that time needs to be spent in [a] relatively vanilla values or sterile emotional commitment environment.<sup>2</sup>

Because of this, Thiry and his team flagged several important challenges they believed needed to be addressed if DaVita was to continue its successful evolution of both operations *and* culture. The question was: how could they use the culture to achieve even greater operational excellence?

### ***1) The Gambro Integration***

One immediate task entailed integrating Gambro into the DaVita way of managing and its culture. Gambro was significantly more hierarchical and formal than DaVita, and did not have a strong people-oriented culture. Prior to the merger, DaVita had been disparaged inside Gambro with Thiry described as "a compliance maverick, reckless, and egotistical." Ironically, Gambro had itself purchased Vivra in 1997, then a smaller, publicly traded dialysis company led and transformed by Thiry during the 1990s. As the leader of the combined organization, Thiry's goal was to be respectful of Gambro, its people and its capabilities, while maintaining DaVita's unique culture and way of management.

### ***2) Personal Touch in a Growing Organization***

Prior to the Gambro integration, DaVita operated in 37 states. Its growth, size and diverse locations made it increasingly difficult for Thiry to personally touch the many teammates on a regular basis. This presented a key challenge: how to personally impact teammates as he had during his first five years at the helm. Affectionately called "KT" by many teammates in the company, Thiry was, by everyone's estimation, extremely charismatic and energetic. More than that, Thiry was the primary architect of and cheerleader for DaVita's unique culture and values. The company reflected the vision shared by Thiry, Joe Mello, and a few others such as Doug Vlchek. Mello, DaVita's COO, and Vlchek, DaVita's chief wisdom officer, had worked with Thiry before and had joined DaVita in 1999 to help drive the organizational change initiative.

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<sup>2</sup> Kent Thiry e-mail, November 27, 2005.

### **3) Succession Planning**

Thiry and his senior management recognized that companies with strong values faced the question about the extent to which their unique management practices could be successfully institutionalized after the CEO and others who had been largely identified with the culture had left, allowing the company to continue at the same high level of performance. The board and the senior management group had debated whether or not DaVita was “Kent-centric” and if so, to what extent this was actually a problem. Everyone agreed that succession planning and leadership development, building more management depth and talent, and the institutionalization of the unique DaVita environment were very important for the long-term health of the company.

### **4) Teammate Morale & Compensation**

Maintaining the culture and sense of community within DaVita was not easy, even before the acquisition of Gambro. Taking care of dialysis patients is a difficult job. One out of every five dialysis patients dies each year, creating not only a difficult work environment but also a lot of emotional strain. With the company’s turnaround receding into the past, numerous employees—or “teammates” as all are called at DaVita—had rising expectations for wages and working conditions. The company’s ability to raise salaries was constrained by the high volume of patients—about 79 percent<sup>3</sup>—who were covered by government programs such as Medicare and Medicaid but whose reimbursement rate did not cover the cost of treatment.

Because of financial constraints, dialysis providers could not afford to pay high overtime rates. As a result, many of DaVita’s patient care technicians, who typically earned between \$11 and \$14 per hour, worked two jobs in order to generate sufficient income. One manifestation of the pay challenge was the barrage of questions that Thiry and Mello would get as they traveled the country conducting “town hall meetings.” Town hall meetings were an opportunity for teammates to ask questions of senior leadership, in person. It was quite common for teammates to ask why their wages were not higher and why productivity expectations were so high and always rising. Moreover, DaVita competed for nurses in labor markets with nursing shortages. Many other organizations had chosen to just throw money at the problem of attracting and keeping nurses, something DaVita could not afford to do.

### **5) Operational Efficiencies & Productivity Improvement**

The fifth challenge was to continue to drive productivity improvement and to think about ways to fundamentally reengineer the business. As Mello noted, the company had made great strides in enhancing labor productivity over the past several years. But there was always the looming threat of reduced reimbursement from the government for dialysis services. This revenue stream represented approximately 60 percent of total company revenue<sup>4</sup>. Mello talked about the challenge of doing things that would materially and fundamentally enhance the company’s cost structure so DaVita could be largely impervious to what might happen in its environment.

As Thiry prepared for the meeting with his executive team, he thought about what the company should do about these challenges and maintaining the culture his senior team had worked so hard to build. He wanted the team to come up with some ideas about how to address the challenges

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<sup>3</sup> From 2004 DaVita Annual Report, p. 4.

<sup>4</sup> From 2004 DaVita Annual Report, p. 4.

facing the company, and of course, to do so in a way that was consistent with its values and culture.

### **A BRIEF HISTORY OF DAVITA (1994-1999)**

DaVita was the new name given in 2000 to Total Renal Care (TRC), a company originally founded by Victor Chaltiel. Chaltiel had sold a former company for a good profit with the business model of leveraging cost savings obtained through large-scale purchasing and distribution systems for drugs in the Medicare reimbursement program. Based on his success, he planned to do the same thing in the domain of kidney dialysis centers through roll-ups of smaller chains and individual centers. One of Chaltiel's strategies was to apply strict business principles and reap their rewards upon entering the traditionally not-for-profit domain of kidney dialysis centers (run by hospitals and physician specialists). He focused on growth through acquisition through the 1990s. The internet bubble focused many analysts on top-line revenue growth which provided TRC with a high stock price that allowed it to continue making acquisitions at a fast pace.

Unfortunately, Chaltiel and his team failed to integrate their acquisitions leading to some operational incoherence in TRC. One example noted by Harlan Cleaver, DaVita's chief information officer, was that there was no uniformity to a critical patient data form used to record and monitor patient care during dialysis. When he came to DaVita in 2000 as part of Thiry's turnaround team, Cleaver noted there was little standardization in reporting and work methods across centers. Mello added that this absence of standardization made routine management activities, such as transferring personnel and patients across centers, much more difficult if not impossible.

Cash flow issues created serious problems. Mello commented that another operational weakness of TRC was insurance reimbursement—a critical problem for a company whose revenue was entirely dependent on it. Insurers and the government would frequently question charges and demand additional documentation. They would occasionally unilaterally reduce the reimbursement amount, and delay payment until they received answers to queries and requested documentation. Medical service providers such as DaVita needed to pay close attention to billing and collections to avoid a cash crunch.

Finally, senior executives paid scant attention to the dialysis centers themselves, which were seen more as an avenue of corporate growth where patients and caregivers were economic units in a bigger financial structure. This headquarter-centric, financially oriented operating culture did not win friends among the health care practitioners who worked hard in the field to deliver quality care.

In 1999, Total Renal Care ran into severe financial difficulties, having just recently merged with another large competitor that had also been built in a rapid fashion. The board of directors turned to Thiry, who was in the process of leaving a private-equity funded managed care company where he had been for two years post-Vivra in 1997. He was eagerly anticipating time off with his family. When headhunters called to see if he wanted to interview for another CEO position, he always replied, "No." Thiry was within 90 days of his "retirement" when TRC called:

I still remember the call. After my assistant told me who was on the phone, I picked it up with the intention of giving the same ‘no’ answer. As I started to listen, all the positive memories of my first time in dialysis, at Vivra, came flooding back. It had been the most powerfully positive time of my professional life. I have no idea what I said in that phone conversation. All I know is I went home that night and asked my wife Denise if it was okay to interview. She was livid. What about my alleged interest in more time with the family? What about the fact that this was a turnaround located in another city [Thiry lived near San Francisco and TRC was headquartered in the Los Angeles area]? The difficulty of the decision felt like a terrible burden at the time. It turned out to be a gift. Never before did I have to think so deeply about why I wanted to do something. After agonizing for a few weeks, we decided I would give it a try. There is a saying I love—we use it at DaVita all the time: ‘Begin with the end in mind.’ I started at DaVita with more of an end in mind than any other beginning in my professional life.

Before accepting the job offer, Thiry reached out to a set of people who had been with him in his previous dialysis venture, people whom he trusted, liked, and respected. He recruited Harlan Cleaver, who was now living in Denver, to be the chief technology officer and David Barry to be COO. He reached out to Doug Vlchek, whom he had hired into Vivra, to lead the organizational change and culture building efforts. Thiry recalled, in reference to the Musketeer imagery he loves, asking them something like: “Will you ride again?” They all accepted. When Barry left in the first year for personal reasons, Thiry brought in Joe Mello, who had also been with him at Vivra.

When Thiry arrived at TRC in October, 1999, the company was a mess. It could barely make payroll, was in default on its loan covenants and was paying penalties to the banks. Highly leveraged from its many acquisitions it was essentially on the verge of bankruptcy. The stock had fallen from nearly \$50 to \$2 a share. Systems were nonexistent or in chaos, and the organization’s employees were dispirited and unhappy. It was not at all clear that financial survival was possible.

## **THE KIDNEY DIALYSIS INDUSTRY AND DAVITA’S ROLE IN IT**

Kidneys are twin organs located under the rib cage in the lower back, each about the size of a fist, that filter out extra water, minerals, and toxins from the blood. Normal, healthy kidneys can process 18 gallons of blood each hour and the kidneys can produce as much as seven gallons of urine each day.<sup>5</sup> Kidney failure can be caused by disease, genetics, or accidents, but by far the largest causes in contemporary society are high blood pressure and diabetes. Other causes include drug abuse, AIDS, and various medicines including some over-the-counter pain relievers if taken in excessive doses. Once the kidneys fail, a person has a condition known as “end stage renal disease.” At this point, toxins must be removed from the body through some form of dialysis or patients will soon die. Moreover, once kidneys have completely failed, patients will

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<sup>5</sup> [http://www.fda.gov/fdac/features/1998/198\\_dial.html](http://www.fda.gov/fdac/features/1998/198_dial.html).

invariably remain on dialysis for the rest of their lives, unless they are fortunate enough to find a donor and have a successful kidney transplant.

Today, there are more than 300,000 people in the U.S. receiving dialysis, about 100,000 new people start the treatment each year, and the average cost of treatment (including both outpatient and inpatient treatment) is more than \$60,000 annually per patient.<sup>6</sup> The cost to Medicare for dialysis treatment is well over \$11 billion a year. The remaining cost is borne by private insurers or the patients themselves.

Any casual reading of the newspaper reveals that the two primary causes of kidney disease, diabetes and high blood pressure, are both on the rise in the U.S. population (particularly adult onset or Type II diabetes) so treating kidney disease is, unfortunately, very much a growth industry. Bank of America stock analyst Gary Taylor noted that “the number of reported dialysis patients increased by nearly tenfold between 1978—when the government began tracking the figure—and 2001. Moreover, the number actually doubled between 1990 and 2001 alone.”<sup>7</sup> Although some patients have the option to do a form of dialysis at home, more than 90 percent of dialysis is currently done at a center. While new centers open all the time, patients must often sit on a waiting list to be admitted to the center of their choice.

### **Industry Structure and Dynamics**

In 2005, about 79 percent of all patients were covered under government sponsored insurance programs such as Medicare and Medicaid.<sup>8</sup> Under Medicare policy, all privately insured patients would transition to the Medicare program after three years from the time of starting dialysis. Historically, it was not always the case that the government covered dialysis payments for all patients. Prior to the 1970s, many hospitals established Death Committees that would determine who received dialysis and who did not. As dialysis for kidney failure became more accepted and expected, the government could not sit by and watch as some patients died because they were denied coverage by insurance carriers or lacked insurance coverage completely. So, starting in 1972, Medicare agreed to cover dialysis payments for everyone beginning with a patient’s initial dialysis treatment. Under ever-increasing cost pressures that came from vastly underestimating the potential population of people needing dialysis, Medicare began to require payment for dialysis by private insurers for the first year of dialysis, subsequently extending the time period to two years, and later to 30 months.

With Medicare and Medicaid reimbursement rates set by law, dialysis operators (including DaVita) maintained that current Medicare reimbursement rates did not cover the full cost of treatment; Medicaid, with its lower levels of reimbursement, was even worse. MedPAC, an independent advisory group funded by Congress to provide recommendations relating to Medicare economics, had also concluded that dialysis providers lost money on Medicare patients. Therefore, dialysis companies actively sought private-pay patients who were covered

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<sup>6</sup> These figures can be found in a very moving article about what it is like to be on dialysis: Michael J. McCarthy, “The Choice: Years on Dialysis Brought Joe Mole to a Crossroads,” *The Wall Street Journal*, November 3, 2005, p. A1, A9.

<sup>7</sup> Melissa Davis, “Fresenius Probe Deepens,” *TheStreet.com*, April 6, 2005.

<sup>8</sup> From 2004 DaVita Annual Report, p. 4.

by private health insurance—either under their employer’s or previous employer’s health plan or their spouse’s plan. As Basak Ertan, director of Guest Services at DaVita, described it, companies hoped to make enough profit from their higher-paying, privately insured patients during the time they obtained private insurance reimbursement rates to cover the ensuing years under Medicare, when reimbursement was insufficient to cover costs.

### *Consolidation in the Kidney Dialysis Industry*

Cost pressures contributed to tremendous consolidation in the dialysis industry, as large operators could often obtain economies of scale in purchasing supplies and equipment and training employees, and could also achieve administrative efficiencies in billing, regulatory compliance, and other overhead functions. Larger providers of dialysis services had some additional leverage in their negotiation with payers over reimbursement rates. In the period from July 2003 through the second quarter of 2004, DaVita purchased 26 dialysis centers or companies with a total of about 600 people, and the merger with Gambro represented one more step in the ongoing industry consolidation.

### **Government Regulation and DaVita’s Political Actions**

Thiry himself believed that the reimbursement situation facing the industry was not in long-run equilibrium. Private insurers were consolidating and thereby increasing their market power. They would eventually stop reimbursing at current rates that were well above the government rates, and it was impossible to survive in the long term under a regime of inadequate reimbursement. By the end of Thiry’s first couple of years at DaVita, he had realized the industry needed to dramatically increase its involvement in the political and regulatory process. He also grew frustrated that there were not more dialysis patients and patient organizations advocating for patient needs in Washington, DC.

Therefore, Thiry assigned some of DaVita’s executives and created new positions to build a capability for engaging in grassroots campaigns to advocate for dialysis patients. This included creating a political action committee. This activity was consistent with the caregivers’ goal of caring for their patients, since delivering patient care also meant ensuring that patients could obtain health care services and medicines with reimbursement levels that permitted the providers to remain in business.

Thiry also wanted to encourage direct patient involvement and leadership by assisting patients in advocating on their own behalf, a form of empowerment that had already occurred for diseases such as breast cancer and AIDS. Therefore, DaVita did something that no other provider had ever done. The company underwrote the funding of a new patient organization, DaVita Patient Citizens (DPC), a political action group in which patients would organize themselves, write letters to their representatives, and get others such as friends and family members involved in advocating for kidney dialysis patients. DaVita had actually flown 23 patients to Washington, DC, to meet with senators and Congress people, apparently the first time this had been done. The DaVita Patient Citizens group was the only kidney care organization where a majority of the board of directors were current dialysis patients. The CEO of the other major kidney patient organization, the National Kidney Foundation, remarked that DaVita’s efforts had led his organization to increase and improve its patient advocacy.

The decision to put the DaVita name on the organization was intentional, even though it meant that for the first few years some other kidney care organizations and some government officials would be skeptical because it would be perceived as “a company mouthpiece.” It was done because Thiry thought it would be worse to have anyone think that DaVita was attempting to hide its financial support for the organization. Thiry commented that “it’s better to have them ignore DPC than to have them question our core values.”

## **Dialysis Outcomes**

According to a Food and Drug Administration article published in 1998, dialysis survival in the U.S. after one year is 77 percent, after five years it is 28 percent, and after 10 years it is about 10 percent. Moreover, “since the 1960s, surveillance studies have consistently shown that American dialysis patients do not live as long as those in other countries,” with the U.S. mortality rate twice that for Western Europe.<sup>9</sup>

DaVita’s goal was to offer the best level of care in the industry and to adopt the strategic position that not all dialysis care is the same. The company’s Web site describes the measures of quality of care: Kt/V, a measure of how effective a treatment is in removing wastes, Hct (Hematocrit), a measure of anemia treatment (anemia being a frequent complication from dialysis treatment), and albumin levels, a measure of nutrition for people on dialysis.<sup>10</sup> On all three of these measures, DaVita’s patients did materially better than national averages. DaVita had developed the DQI, the DaVita Quality Index, as a way of combining a number of clinical outcome measures as well as patient mortality into a single index. The DQI was a priority topic that emphasized DaVita’s focus on achieving great patient care. In addition, the company invested considerable resources in improving those facilities that ranked lowest on DQI scores.

## **KEY SUCCESS FACTORS FOR A DIAALYSIS COMPANY LIKE DAVITA**

There were four critical factors for organizational success along both financial and clinical outcome dimensions.

### ***Attention to Detail***

The first factor was painstaking attention to operational details and compliance with government regulations. The kidney dialysis industry, and indeed, DaVita’s predecessor’s own history, was littered with billing problems. For instance, a company that charged the government, through the Medicare program, for services that were not actually delivered and/or were not documented, could face accusations of fraud and suffer financial penalties as well as delays in payment. Legal problems could also arise from actually delivering care or medicines that patients did not need, as well as for improper relationships with drug companies or physicians that might entail kickbacks for patient referrals or purchases of pharmaceutical supplies. For example, Fresenius, a large manufacturer of dialysis equipment and the largest provider of kidney dialysis services, paid a \$486 million fine in 2000 for billing irregularities;<sup>11</sup> Gambro paid a \$355 million fine just before DaVita inked the deal to acquire them; and National Medical Enterprises essentially

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<sup>9</sup> [http://www.fda.gov/fdac/features/1998/198\\_dial.html](http://www.fda.gov/fdac/features/1998/198_dial.html).

<sup>10</sup> <http://www.davita.com/about/?id>.

<sup>11</sup> Melissa Davis, “Fresenius Probe Deepens,” *The Street.com*, April 6, 2005.

failed, its assets absorbed by Fresenius, because of its billing problems. Even DaVita was being investigated. On March 6, 2005, the company issued a press release noting that it had received a subpoena from the U.S. Department of Justice, United States Attorney's Office for the Eastern District of Missouri, which overlapped with an earlier subpoena received from the U.S. Attorney's office for the Eastern District of Pennsylvania. The company maintained it was fully in compliance and behaved in a totally ethical fashion. Proper record keeping and ethical behavior were vitally important to the ongoing success of dialysis companies.

### ***Managing Financial Outcomes***

The opportunity to make a financial difference in operational results rested largely on small but important behaviors and decisions. One such activity was carefully using supplies to avoid waste and maintaining appropriate stock levels so that inventory costs were not unnecessarily high, yet avoiding emergency ordering. Another activity was the reuse of dialysis filters and maintenance of the dialysis machines to ensure both long life of the equipment and lower cost per treatment.

Possibly even more important was the activity of efficient labor hour management, given that the proportion of labor costs in the total cost structure equaled one-third to one-half of the treatment cost. In the South Hayward dialysis center, for instance, it took an average of 2.72 labor hours for each dialysis treatment in the summer of 2005, compared to a budgeted norm of about 2.90 hours. Although that 0.18 hour difference might seem small, the center treated 133 patients, each of whom came for dialysis three times a week, so that small difference in labor hours per patient treatment translated to 71.8 hours saved per week at the center. Multiplied by the 52 weeks of the year and by the 600 plus centers at the company, a lot of money was involved. As Mello pointed out, in 2005 DaVita would do about 7,000,000 dialysis treatments. Each .01 savings in labor hours per treatment achieved across the company was worth about \$1.8 million; this savings went directly to the bottom line.

### ***Achieving Good Clinical Outcomes***

Attention to detail also mattered a lot for obtaining good clinical outcomes. It was important to take care while putting the patient on the machine, monitoring the treatment as it was occurring, and taking the patient off the machine at the end of the session. It was also critical to monitor the patient's health status generally so that treatment issues could be foreseen and addressed. Good clinical outcomes had many positive effects on the company. Since the beginning of the turnaround, the focus at DaVita was on the quality of care. Every management presentation began with the clinical outcomes, including presentations made to investment analysts. On the bulletin board in the centers where results were posted for the team to see, the clinical outcomes, captured in the DaVita Quality Index (DQI), were listed first before the financial measure of labor hours per treatment. The patients were, after all, people's husbands, wives, fathers, mothers, and friends, and it was important to take good care of them. Good clinical outcomes also enabled DaVita teammates to take pride in working in a company that provided the best care in the industry, an advantage in recruiting and retention.

In addition to attention to detail, clinical outcomes depended on the emotional tone and bond between the center's teammates and the patients; another important success factor was the morale and emotional commitment of the DaVita team. The staff attitude and morale were essential to patient satisfaction and comfort because dialysis and late stage kidney disease are

difficult.<sup>12</sup> Patients had to come to the center for four hours or more three times a week, sit hooked up to a machine and endure the pain of having two needles stuck in them. In addition, they faced numerous constraints on their diet, needing to be careful about sugar consumption, intake of protein, liquids (which they could no longer excrete naturally) and even ingestion of various minerals such as potassium.

These scheduling and diet requirements left the patients, in the words of one social worker, feeling as if they had almost no control over their lives. Most patients knew that although there were exceptions, once one went on dialysis, life expectancy was often not that long; patients on dialysis often suffer with other diseases including diabetes and cardiovascular disease. Patients became depressed. Patients sometimes missed their dialysis appointments because they found the treatment and its logistics unpleasant. They might also fail to adhere to the various medication and diet regimens they were prescribed. And patients chose to end their treatment and, therefore, end their lives. According to government statistics, between 1995 and 1999, about 36,000 dialysis patients voluntarily chose to cease their treatments, meaning that about one out of five deaths of patients on dialysis was a deliberate decision by the patients.<sup>13</sup>

Patient compliance with their treatment was, therefore, something that was critical to their long-term health and survival. According to various DaVita clinic teammates, one important factor affecting patient compliance was the extent to which patients felt comfortable with and trusting of the dialysis center and its staff. DaVita centers were typically decorated with pictures of patients and their families as well as drawings made by them, their children and grandchildren. The picture tradition was called the “Wall of Fame.” The goal was to have the centers look pleasant, smell clean, and feel comfortable. But more than that, as one administrator said, “It’s important that the teammates like their jobs and smile and relate in a compassionate way to patients, because that makes the patients feel better about being here.” Emotions are contagious, and to the extent that DaVita could create positive, genuine emotions on the part of its work force, those positive emotions might influence the attitude of patients. This could thereby improve their survival, not only through their positive mental attitudes but also by affecting the patients’ compliance with the difficult regimen of living with late stage kidney disease.

### ***Employee Attraction and Retention***

The final critical success factor was the attraction and retention of teammates. DaVita competed for nurses with hospitals, doctors’ offices, other health care providers, and, of course, with other dialysis companies, and the chronic nursing shortage in the United States meant there were always unfilled positions. Hospitals typically paid more per hour than DaVita or its competitors. Moreover, nursing now attracted people with different motivations than it had decades ago, when nursing and teaching had been among the few skilled occupations available to women. Nursing was now well-paid and offered employment security because of the number of unfilled positions, so people were entering the profession not just from a sense of wanting to take care of others but also for career concerns.

Patient care technicians, the largest category of employees, typically earned less than \$15 an hour. Only about 10 percent had college degrees. Many worked two jobs, with their second job

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<sup>12</sup> For a compelling account of what it is like to live with kidney failure, see McCarthy, op. cit.

<sup>13</sup> McCarthy, op. cit., p. A1.

often being for another provider of dialysis services. PCTs were often tempted to leave for better-paying opportunities, either with other health care providers or to find different occupations.

Retention of teammates was important because turnover was costly, entailing finding and training replacement people, and possibly paying overtime labor rates if a center was temporarily short-staffed. High turnover could also impair clinical outcomes, because a nurse's or PCT's experience in doing dialysis and working in a team enhanced patient care outcomes. Being an employer of choice was not just part of DaVita's mission, but was also important for business success and better patient care.

## **THE TURNAROUND (1999-2005)**

With an acute awareness of these critical success factors, the first thing Thiry and his colleagues did was to begin assessing the talent in the company, moving people out who could not perform, and hiring people who could get stuff done ("GSD" remained a popular acronym in the company; being considered "good at GSD" was the highest compliment a teammate could receive).

### ***Billing and Cash Flow***

A few people were sent up to the billing office in Tacoma to work on billing and collections to fix the cash flow problems. An example of how dire the situation could have become is when the government stopped paying DaVita for laboratory tests because of records and documentation issues. The company had to decide what to do with the patients whose lab tests were not being reimbursed. The team decided to continue performing tests that it felt were essential in delivery of care and to appeal the decision to an administrative law judge to attempt to obtain the denied funds. Four years later, after winning six successive judgments, the government paid DaVita over \$90 million.

### ***Outstanding Debt***

There were also protracted and difficult negotiations with the banks, who essentially wanted the company to sell off parts of the business to pay down debt. Thiry noted at the time that "the banks wanted the capitalistic equivalent of blood—divestitures, operating constraints, onerous penalty clauses, you name it." The management group did not want to buckle under, and after long and difficult discussions, the loans were restructured and the financial penalties for default stopped. The company sold off dialysis centers that were outside of the U.S. to focus its efforts on a more limited geography. To mark the occasion of successfully renegotiating the loans, a celebratory voice mail and video were sent to all of the centers. Sharing information widely, communicating frequently, and celebrating victories and progress, always including references to the Mission and Values even when talking about "business issues," was a way of operating that continues to this day.

### ***Information Technology***

Harlan Cleaver, the chief information officer, began the process of bringing order to the systems chaos and establishing common practices, measures, and information systems across the centers. The information systems building process remains ongoing, and has since included systems to

automate patient registration and to incorporate all of the clinical records and activities—an electronic file cabinet. Cleaver’s first step was to standardize the paper-based system used to keep track of patient care in the various centers. As he pointed out, it made sense to start with that patient record system because the issues were of standardization, common practices and alignment, without the added complication of computers on top of everything else.

### ***Continuous Improvement and Teammate Education***

Doug Vlcek initiated a major change process, using continuous quality improvement (CQI) as the vehicle. At one point, Vlcek said there were at least 1,000 CQI initiatives underway, including at least one at each center and many at headquarters. CQI progress and projects were discussed at each board of directors meeting. CQI training was the first educational activity undertaken by DaVita University, the company’s internal training initiative that Vlcek headed. Each center manager attended training in CQI, and they were then expected to train their own people in quality improvement techniques.

### **On the Road to a New Philosophy**

Thiry and his colleagues recognized that what they said and did in those first months would set the tone for the ensuing years at the company, so close attention to building the kind of culture and organization they wanted proceeded in parallel with the business turnaround efforts. Thiry described early meetings of the executive team in which they would spend time discussing basic issues, such as whether they could make payroll and their ongoing negotiations with the banks, and then they would turn to talk about the core values, culture, and operating philosophy they wanted to instill. When Thiry and Vlcek would start talking about Mission and Values, many of the executives were very skeptical about the value and intent of this activity when the company was in such dire straights. Thiry believed that without a clear statement of Mission and Values, the operational turnaround could not be sustained.

A big part of the new philosophy was to recognize that the centers, where patient care was delivered and where most DaVita teammates worked, were key to the company’s success. To emphasize the importance of the centers, Thiry had all senior managers, himself included, “adopt” a center and drop by occasionally. Thiry’s center was in Hayward, California and long after his last visit, people in the center were still commenting on his attention to them.

The company later replaced the adopt-a-center program with the practice of having everyone hired in or promoted to the vice president level or above go through “Reality 101”, which entailed spending a week in a center helping to do the day-to-day work. Executives participated in activities such as machine set-up prior to dialysis, machine tear-down and disinfection post treatment, helping with blood pressure monitoring, or whatever tasks they felt comfortable in actually performing. As Thiry explained, it was important not to push people to do things they felt uncomfortable or unskilled at doing, but it was also important for people to experience what it was like to get up at 4 o’clock in the morning to get to a center at 5 a.m. so it could be open for the first patients at 6 a.m., and to see what life in a center was about.

Thiry and the senior management group understood they needed the involvement, cooperation, energy, and ideas of the clinic managers, the front-line supervisors who make the centers work.

In May of 2000, more than 400 clinic managers, plus people from corporate headquarters assembled in Phoenix, Arizona, for the first of what has become an annual ritual of a boisterous, enthusiastic, corporate-wide meeting. The choice of location, Phoenix, was intentional, as the phoenix is a bird that rose from the ashes, just as the company was seeking to rise from its precarious condition. At this first meeting, suggestions for a new name for the company were presented. It was the company's teammates, not the board or just the senior management, collectively assembled at this off-site, who voted on and thereby chose the new name, DaVita, which is an approximate translation of the Italian phrases "to give life" or "he/she gives life."<sup>14</sup> Also at that meeting, groups discussed, debated and voted on proposals for the core values. **Exhibit 1** shows the mission statement that Thiry presented at the meeting and the core values decided upon by the Phoenix delegation. Over the years, the seventh value, "fun," was added by another election.

For much of the first 18 months, Thiry and Mello would hold frequent conference calls with the top 800 or so people in the company to update them on progress. As part of each call, Thiry would say, "What is the incremental evidence that we are serious about our Mission and Values?" And then he would provide an answer to that question. Thiry commented, "There were many periods where, absent the pressure of knowing I had to ask and answer that simple question out loud in front of 800 people, in many instances I would not have launched another program, or policy, or communication. They would have been squeezed out by the harsh realities of normal business—like they normally are."

With increased focus and attention to operational details, the commitment of the company's teammates, and the bank negotiations behind it, DaVita embarked on a remarkable transformation in its performance—achieving not only great financial results, as shown in **Exhibit 2**, but also consistent, year-over-year improvements in clinical outcomes and reductions in turnover.

### **THE DAVITA WAY: VALUES AND ORGANIZATIONAL CULTURE**

DaVita did not develop its culture by accident. The culture was a result of what Thiry calls "purposeful actions" that "articulated and demonstrated" what a company could be. First, Thiry created a clear, concise, easy-to-remember mission—that was quickly turned into a song still sung today. Then, he asked 700 colleagues to come to a consensus on the core values. They also used the following question as a benchmark for their own development: What did other great companies do to cultivate cultures—companies like Southwest and Disney?

Employees became teammates, and, if they "crossed the bridge" of believing the company could be special, they became "citizens" of the "Village" (not a company) with Thiry as "mayor." Hugs were common, as were high-fives and laughter, even among the intense ex-consultants and MBAs who populated the business offices. Through what are called "traditions and symbols," DaVita executives brought organizational change concepts to life and made them real.

Cathy Gelb, who ran the DaVita Academies as part of DaVita University and who had been with the company since 2001, commented that one of the things that distinguished DaVita from the

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<sup>14</sup> "Total Renal Care Announces New Company Name," Investor Relations-DaVita, June 5, 2000.

Fortune 1000 companies where she had worked as a freelance training consultant was the tremendous amount of strategic thought and intentionality that went into every single action and decision. She noted that, for instance, all meetings were carefully planned, even to thinking about the particular music that would be used, the sequencing of materials, seating arrangements (for instance, at Academies, should guests be put in the back?), and the specific words and terms that would be employed during presentations. All of this planning was an effort to create the right message and feelings and provide an optimal experience for those in attendance.

Evaluation data were collected about everything, including every meeting and class, and used to make educational activities and meetings more effective over time. Gelb also commented that Thiry did not like the word “culture” because of its association with the word “cult,” and there was already some joking about “drinking the Kool Aid” because of DaVita’s very strong, carefully managed, and inclusive set of management practices.

The DaVita Way of Managing was captured in a set of phrases—short and easily remembered—that encapsulated many of the values and operating principles of the company. These values, and the associated behaviors, were also incorporated into interview schedules used to select new teammates, into all performance appraisals, and into the company employee attitude and satisfaction surveys.

### ***New, Ours, Special***

At DaVita meetings, executives always asked the assembled people to respond to three questions: “What is this company? Whose company is it? What could it be?” The answers, literally shouted back, were “New,” “Ours,” and “Special.” The idea of “new” was not just that DaVita was a different organization after the 2000 turnaround, but with its ongoing acquisitions and new business ventures it was always a new place reinventing itself. “Ours” means that the company is the responsibility and under the control of the teammates who work for it, who have the opportunity to make the company what they would like it to be. This leads to the last question. Note that the executives do not ask what “is” the company, but rather, “What could it be?” The answer, “special,” captures in a word the aspirations for building an organization that is truly unique in its culture and its results for its patients, while “could” reflects the fact that the development of the organization is a journey, and although it has achieved great things, its aspirations are for more, and that being special is something yet to be fully achieved.

### ***We Said, We Did***

Accountability is an important value at DaVita. So is measurement—the company measured not just clinical outcomes, costs and labor utilization, but almost everything that was related to dimensions of performance. In addition, there is an emphasis on systematic, planned thinking and actions. All of this came together in the idea of follow-up, something that began at the very top of the organization. As Richard Fontaine, one of the directors on the company’s board explained, at virtually every board meeting Thiry would present a list of issues and questions from the preceding meeting, and then go through them one at a time and explain what the company and he had done about each. This included, for instance, progress on building a succession planning process and preparing back-up people ready for senior-level positions. Similarly, at DaVita Academies, if the company had made assurances or promises to the

workforce—to get an answer to some question, to address some concern or problem—Thiry would explain what had been done and end with, “We said, we did.”

The implication was that the company and each person in it was accountable for meeting its commitments—for addressing issues and explaining how another important value, continuous improvement, was occurring. As several people noted, if someone was in a position of often having to say, “We said, but we didn’t do,” that person would probably not last long at an organization that stressed accountability and getting stuff done.

### ***One for All, All for One***

This idea, from the Three Musketeers books and movies, was a prominent theme in the company. Thiry’s office at corporate headquarters in El Segundo, California, near the Los Angeles airport, had a movie poster from “The Man with the Iron Mask,” and has hanging in it the sword that Thiry brandishes—in full Musketeer uniform—at DaVita Academies and other meetings. The phrase represents one way of understanding the idea of community and shared obligations and responsibility. “One for all” means that it is the obligation of every DaVita teammate to contribute what they can to the whole, to expend their best efforts on behalf of the collective, and to take responsibility for the company and each of its members. “All for one” means that just as the individual should devote him- or herself to the group, the group has a responsibility to help that individual develop and succeed and surmount difficult setbacks and transitions.

An example of this care and community was a fund called the DaVita Village Network, to which DaVita teammates contributed to help others out with, for example, unexpected medical expenses or other financial needs. Linda Poust, a regional director who was responsible for about 14 clinics in Northern California, provided an illustration:

I’m thinking of a woman in a clinic that is recovering from cancer. She didn’t ask for any money. But we knew things were really tight for her. So the village has money available that we can ask for. Today I saw her for the first time without her wig. And with tears in her eyes she said this is the first MRI that was clean. So, the company helped her along with that. I have another fellow who is 38 years old. He’s been in three times now for stent replacements for his heart. He has very bad heart disease and he’s been out for several surgeries. The company was also able to help him out with several thousands of dollars to get him through those months.

Poust and Thiry also recounted how when there was a fire in a Sacramento clinic, people from all over Northern California pitched in to help find alternative dialysis arrangements for the patients, and other teammates called the patients to tell them about the fire and where to go for their treatment. There are literally scores of stories and e-mails that speak to people pulling together to help each other out—“all for one.” Thiry would often read stories from the DaVita Village Network at Academy meetings, coming close to tears as he recounted how the company had been able to help someone through a particularly difficult time. Teammate contributions to the DaVita Village Network were matched by contributions made by the company out of its profits.

### ***The Village – Not Just a Company, But a Community***

Related to the idea of “one for all, all for one” was the idea of DaVita as a community—represented in the word “village.” Corporate headquarters in El Segundo was referred to as “Casa DaVita” (the house of DaVita), and village language and imagery were used in many ways. Joe Mello would tell a story from one of his favorite books about a man living on a hillside who sees other members of his village below in danger from an onrushing flood, and sets his own house on fire, so that when the people rush up the hill to put out the fire, they are saved from the flood. The word “worker” was never used and seldom was the word “employee”—instead, people were referred to as “teammates” or “citizens” and, consistent with the village imagery, language that evoked the idea of “citizenship” and the mutual obligations of citizens and their community were emphasized. In the words of Gina Randolph, a group vice president, “We think of ourselves as a village where each facility is a neighborhood.” When pressed on how important these distinctions were, she responded, “From the viewpoint of a career that spans several decades, this is the first time I have had the privilege of working for a company whose Mission and Values are so completely alive and not hanging on the wall.”<sup>15</sup>

### ***No Brag, Just Facts***

DaVita was committed to a fact-based approach to management and decision making, to talking to people about the facts, and to using facts and evidence as much as possible for every decision and statement. So, when Thiry stood up at a DaVita Academy meeting and stated that DaVita provides the best care for dialysis patients in the industry—a statement that, on its surface, was not unlike the typical corporate claim about its quality, service, or leading edge technology—he then provided quantitative data showing how DaVita was doing on specific clinical outcome measures, ending with the phrase, “No brag, just facts.” It was a way of cementing the idea that people at the company should attempt to anchor their judgments, their statements, and their claims in quantitative data, not in hyperbole or wishes.

Fact-based decision making was reinforced in the company’s measurement system. Clinic managers received monthly, multi-page reports showing their results along key measures such as patient care outcomes, costs, and labor utilization. They received information showing how their performance compared to goals or budgets, and for some measures, how their results compared to their own prior results and to other facilities in their region, in their division, and in DaVita as a whole. Annual surveys of employees provided information on satisfaction and engagement, as well as perceptions about the extent to which people felt the company was living up to its Mission and Values.

But what was most interesting, and what really reinforced the commitment to a fact-based, measurement-rich culture, was what happened when the company was unable to measure something of importance. Patients who did not show up for dialysis because they were in the hospital, on vacation, or for other reasons made scheduling labor more difficult and affected labor productivity. This was a critical issue for the facilities. But this indicator could not be captured systematically given current management information systems. Therefore, the measure was included in the monthly reports as a blank graph with the notation, “Not Available.” As Joe Mello explained, if there were some important critical data that could not yet be assessed, the company included them anyway on the reports showing they were not available. This presentation of a missing measure, month after month, encouraged people to figure out ways to

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<sup>15</sup> David Robbins, <http://srarchitects.com/health%20care.htm>

measure what might have first been viewed and dismissed as “unmeasurable,” and therefore the availability of data useful for making decisions kept improving.

### ***We Are Here***

DaVita wanted to encourage its teammates to be fully involved and present in the company, not just physically but also emotionally. There were “We Are Here Awards” which were \$1,000 in vacation expenses given to randomly selected non-exempt (hourly paid) teammates who had perfect attendance (no unplanned absences) during a 90-day period. At DaVita meetings, teams would be asked if they were here, and would respond with a cheer, or chant, or yell, or some combination that indicated not only physical presence but also involvement and commitment. In Thiry’s office, painted on the wall was the saying, “This is not a dress rehearsal, this is my Life.” There was an emphasis on having people be fully engaged in their work and with the company, so they could find meaning and fulfillment in their jobs and in their associations with teammates.

### ***The Shining Star***

The “i” in DaVita was dotted as a star, referred to as a “shining star.” Thiry would say that the star lived in a lush green valley and only came out to sit on top of the “i” when a DaVita teammate did something special for a patient or a fellow teammate. Because at any given moment there was always someone doing something special in the company, the star was always “out.” At the national awards ceremony, the highest awards were called “Shining Star Awards,” for people who not only performed their jobs with exceptional proficiency, but who also exemplified the DaVita values and who contributed to the well-being of the team.

## **DAVITA MANAGEMENT PRACTICES**

Values and beliefs, ways of being, and the organizational culture had to be produced and reproduced every day to be real and meaningful. DaVita did a number of things to ensure that its Mission and Values would infuse the day-to-day behavior of its teammates and to help ensure that it operated in ways consistent with its aspirations. Many of its management practices seemed (and were) like common sense. All were products of extensive discussion by people inside the company, and all were talked about regularly, practiced, and were embedded in everything the company did.

### ***The DaVita Way and the DaVita Way of Managing***

DaVita thought that it was beliefs that drove behaviors that, in turn, produced performance. As Thiry explained it, the “DaVita Way” was “what (who) we are: our Beliefs (which have been introduced and articulated over the past few years), as well as the consistently practiced Behaviors (which are derived from those beliefs).” The company articulated and lived its beliefs through talking about its history, its symbols and traditions, the idea of the village, communication, talking about the future, and caring and sharing for members of the community. The DaVita Way of Managing defined a set of behaviors and competencies that the company sought to promote and produce, and which formed the basis of all of its selection and performance management practices, and were reinforced in its educational activities. There were four behaviors critical to the DaVita Way of Managing: 1) gets the right stuff done, 2) fosters team, 3) stewards resources, and 4) builds relationships.

There was one other aspect to the DaVita management approach—an emphasis on execution. When the leadership, including Mello, Vlcek, and Thiry, had been together at Vivra, they had noticed that even though they had an extremely talented executive team of about nine people who were all working hard, things were not happening. They went to on an off-site meeting and concluded that there were four elements critical for effective execution: 1) absolute clarity of purpose, 2) absolute accountability, 3) relentless follow-up, and 4) celebrating successes. These principles and practices helped build operational excellence and an ability to get things done at DaVita, where they were very much a part of the fabric of the management approach.

## **DaVita University**

DaVita had many employees in a large number of centers, and although turnover had been reduced, it was still high enough that—coupled with corporate growth—a large number of new people were entering the company each year. The Gambro acquisition would bring 12,000 new people into the organization. To achieve a higher level of uniformity in understanding, communication, and management practice, a lot of the DaVita way of managing was transmitted through DaVita University. This activity was started within a year of Thiry's arrival in the company even as the financial recovery was proceeding, and the programming has expanded significantly over time.

DaVita University was run out of the Wisdom Department, and the head of the department, who had been Doug Vlcek until mid-2005, was called the chief wisdom officer. Vlcek's nickname was "Yoda," after the *Star Wars* character, an appellation he had been given by Thiry shortly after they first met almost 12 years previously. The name for the department came from Joe Mello. At Vivra, they had a chief knowledge officer, but that was too conventional a name for the department and its head at DaVita. Wisdom seemed to be what the company was trying to impart to its teammates and to continually develop.

DaVita University offered programs in continuous quality improvement (a two-day program required for newly hired facility administrators, managers, and vice presidents that had not taken the class previously), presentation skills, leadership development, team skills, and programs for vice presidents. There were also numerous courses on clinical subjects. But two of the most important programs that reached the most people either directly or indirectly were the DaVita Academy (and more recently, a program called Academy II) and a program called F.A.S.T., which stood for **Facility Administrator Survival Training**.

### ***F.A.S.T.***

F.A.S.T. was a five-day program taken by all new clinic managers. Between 2000 and 2004, there had been 52 sessions conducted with some 948 people attending. The teaching was conducted by a mix of line managers (importantly, for instance, Joe Mello personally did the session on How a DaVita Dialysis Center Works) and by staff from the Wisdom Department. (See curriculum in **Exhibit 3**.) The program consisted of training in managerial skills such as time management, communication, providing coaching and feedback to team members, and interviewing, as well as material on the DaVita culture (The DaVita Way and One for All). On Thursday afternoons there was a town hall meeting with Thiry or Mello so that participants could express their opinions, ask questions, and interact in an informal way with senior executives. The course also consisted of specific technical knowledge and skills necessary for administrators

of dialysis centers. These included such topics as: how to read and use the reports facility administrators received, compliance with federal and state regulations, clinical education about late stage renal disease and dialysis, the importance, attraction of, and handling of higher pay, privately insured patients (“Hippers”), information on the DaVita intranet and voicemail systems, and how to use Microsoft Excel. Evenings were, with one exception, devoted to organized social interaction including group dinners and bowling, to help build friendships and a feeling of team spirit among the 25 to 30 people who typically took this class together.

One step up from F.A.S.T. was a program being revised in 2006. Cathy Gelb noted, “It was called Velocity. It’s now going to be called DaVita Way of Managing. And that will be the next step that our facility administrators and center directors [what Gambro called their clinic managers] will go to.” She also noted that there was a program called The DaVita Way of Team that most of the managers had gone through. Gelb commented that the program had begun with the vice presidents coming with their directors; and then regional teams, which would be the regional director coming with his or her direct reports.

### ***DaVita Academy***

DaVita Academy was a two-day program for front-line teammates (for instance, patient care technicians, nurses, social workers, and the people who serviced the dialysis machines) that by the end of 2005 had been offered some 57 times (Thiry had attended every Academy) with total attendance of some 13,000 people. The program was run at various locations throughout the United States to minimize the travel time for those attending and expense to the company. Originally offered on a voluntary basis to people who were interested in attending, the Academy was evolving to become an activity that facility administrators were encouraged to send new teammates to, preferably within the first 90 days of joining DaVita. Data showed that people who attended an Academy had a turnover rate of about 12 percent compared to 28 percent for those who had not, so attending an Academy was critical for both retention and also for engaging people fully in the DaVita spirit and way of relating to each other.

A typical Academy session had between 250 and 400 attendees, and consisted of a combination of lecture and experiential sessions on subjects such as communications, team dynamics, and conflict resolution. The evening activity between the first and second day was always the DaVita Olympics. When people arrived, they were assigned to a group designated by a color (such as orange, purple, and so forth). The groups were comprised of people from different facilities and different jobs within the facilities. At the DaVita Olympics, teams competed with each other in various indoor light physical activities and also performed skits with songs and music that they developed. After the competitions, there were refreshments including beer and wine, and music with dancing. This informal social interaction, singing together, acting silly together, and working together to compete against other teams helped break down barriers and build energy and spirit.

On the second day, Vlcek would tell the DaVita story and history to the audience in a presentation that could only be described as spellbinding (Vlcek, or Yoda as it said on his name tag, invariably received high ratings and numerous positive comments on the evaluation forms). After material on documentation compliance in the centers, Vlcek would return to tell the story of the Pike Place Fish Company in Seattle, a place where there was energy and fun in serving

customers and fun in working with teammates. The afternoon was a time for Thiry to interact with the group. In the first session, Thiry (having entered dressed as one of the Musketeers and running around the room giving people high-fives accompanied by loud, upbeat music) would talk about the clinical outcomes compared to the average for the dialysis industry and DaVita's own past performance, and other aspects of the company and its progress on various initiatives. Then, in a session called a town hall, he would take any and all questions from the floor. If he did not know the answer to something, he would say he didn't know and would promise to get back with the requested information. No questions were off limits, including questions about pay (e.g., if the company was doing so well, why couldn't the wages and raises be larger?). At the end of the afternoon, there would be a "graduation" ceremony (virtually all training activities ended with a graduation ceremony) and people would then leave to return to their centers or stay overnight and go home the next morning.

**Exhibit 4** shows a typical proclamation of graduation, read by Thiry, at the end of a DaVita Academy meeting. The company's values and beliefs, proclaimed frequently, were reinforced in this "graduation proclamation."

### *Academy II*

Academy II was a newer program attended by all teammates from a specific region, designed to "take facility performance to the next level by fostering mutual accountability amongst the team."<sup>16</sup> Between 2000 and 2004, the program had been run 12 times with attendance of some 2,184 teammates from 131 facilities. In 2005, the program was being offered more frequently and would reach some 280 facilities and more than 5,000 teammates just in that one year. Because the program involved all teammates from a region, centers were completely closed on that day, requiring that dialysis treatments be rescheduled. By emphasizing how to hold difficult and honest conversations among the teammates to resolve interpersonal issues, the course fostered better and more productive interactions. The course also contained numerous team building activities and joint planning for operational improvement at the facilities.

There was every indication that the commitment to training and development at DaVita was increasing in scope and reach. Evaluation of all DVU activities was taken very seriously and the programs and materials were constantly being tweaked to make them better. In June, 2005, *Training* magazine (now *Training & Coaching Today*) awarded DaVita the "Training Top 100 Award" which recognized the company's commitment to learning and performance improvement. The basic structure of the curriculum, although evolving, seemed to be reasonably stable, covering in some way people from all levels and specialties and providing a mix of technical skills, leadership and managerial skills, and team building activities.

According to Vlcek, DaVita was spending well over \$10 million per year on the portfolio of professional and personal development programs contained within DaVita University. At the time this case was written, well over 1.1 million hours of education had been delivered to teammates since the "birth" of DaVita in 2000.

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<sup>16</sup> DVU Course Catalog, p. 3.

## Recognition and Communications

Another way in which people learned about the DaVita way, felt attached to the company, and learned what was going on was through communications and recognition. There were bi-monthly conference calls with all of the facility administrators, more than 10 different newsletters including *DaVita News and Views*, the overall company publication, an intranet and e-mail system, and voice mails and e-mails to celebrate special events and company milestones. Thiry personally answered every e-mail he received from anyone in the company, and he received a number of them, particularly following his appearance at an Academy or training program or a visit to a facility. Facility administrators were encouraged to hold informal meetings with their team on a regular basis to check in with each other, engage in joint problem solving, and to share information about the facility and the company. It was a company-wide policy that a “town hall meeting” had to be held whenever an executive at the level of vice president or director or higher visited with a group of teammates at a facility or business office. These meetings gave teammates the opportunity to interact informally with the executive and to ask questions about whatever was on their mind about the company.

In addition to the Shining Star Awards given to a few people at the national annual meeting, now attended by more than 1,100 people, the company encouraged recognition and praise for teammates who went beyond the call of duty to provide exceptional levels of help to their patients or teammates. Thiry shared a particular e-mail showing dedication of a teammate to a particular DaVita event, and noted:

I think one of the things we have going right is the ‘habit’ of highlighting noble behaviors. I like to say that a community will produce most that which it honors most. Anyway, I get e-mails regularly from around the village. I always respond, and often send cookies or a pizza party with a note to the relevant center, which is read with the noble person in the room. Very little time, very little money, but it creates that invisible web of shared emotional commitment and momentum.

## Recruitment and Career Development

Although there were obviously a number of people who had been with the company prior to late 1999, at least some of those who had joined since its “rebirth” in Phoenix had been attracted by its reputation and unique style. For example, Cathy Gelb recalled:

In 2001, my husband was doing consulting with DaVita and he would come home and just rave about this company and they were so unique and the different things they were doing. I said, ‘Well find out if they need any trainers.’ Lo and behold, they were running this two-day program called The Academy that they had just started in 2001 and they were looking for someone to run it for them. So, in November of 2001 I joined DaVita to be associate dean of the Academy.

Linda Poust, a regional director in Northern California responsible for about a dozen centers, was a registered nurse who had joined DaVita in 2001. She had been a nurse for some 30 years and in nursing administration for 25, in nephrology for virtually all of that time. She joined the company for the culture. She commented:

Kent Thiry is the reason I came here. I knew of him through publications and people who have worked for the company. When you are in health care, and you've been in it as many years as I have, at this point in my career, I'm looking for fulfillment.

Poust also commented on the importance and role of DaVita's values in the recruiting process:

Those values are not just up on a wall. Everybody lives those values. When we have our administrator homeroom meetings, or we have our regional team meetings, the values are talked about constantly. When we interview people, we talk to them initially—these are the values, this is what we're looking for, these are the kind of people that we want to attract. So there isn't a lot of room for any ambiguity.

Many, although not all, of the regional directors and the vice presidents (the people the regional directors reported to) had been nurses and then nurse administrators—they had worked their way up in administration. Of course, people in finance and some of the other staff functions had MBAs and other backgrounds. Recently, DaVita had expanded its recruiting efforts at business schools, including Harvard and Stanford. The intention was to hire people with MBAs who would go fairly quickly into general manager roles such as regional directors, overseeing a number of facilities. Thiry noted that it was important to get general management talent into the company from numerous sources.

### **Benefits and Pay**

DaVita offered a comprehensive benefits and pay package that was somewhat unusual for a company that had a reasonably large number of relatively low-paid, hourly employees. Pay was pegged against competitive benchmarks. At each Academy, Thiry would say: "With respect to wages and healthcare benefits, we intend to be fair and competitive. We must be consistent with the market. With respect to everything else, we want to be superior." There was a broad-based profit-sharing program that covered virtually all team members, based on the idea of sharing the village's good times and success with all of its citizens. These cash bonuses meant a lot to those receiving them. One e-mail to Thiry is reflective of the sentiments expressed:

Good Morning and Happy Holidays! I would like to say THANK YOU for the check I received this morning in homeroom. This was an unexpected gift from the Village. This will help with Christmas for my family. We have many to help and feed that day. I am almost in tears right now writing this to you thinking of the extra things that I will be able to get for my daughter and husband and the extended family that is living with me. This thank you comes from the heart and [I] wanted to express my gratitude for it.

There were also benefits that provided people an opportunity to invest in professional and personal growth. The brochure listing the benefits for teammates was called "Because We Care: Davita Teammate Benefits." Inside it said, "The strength of our team is the foundation of our company.... In our quest to be the Employer of Choice in the healthcare industry, we have

developed a comprehensive program of benefits that are focused on your health and welfare, investing in your future and special programs that are unique to the DaVita Village.” In describing this investment, Thiry noted that “it is not only in education for their jobs, but also in helping everyone advance their leadership skills and their own sense of self.”<sup>17</sup>

Health and welfare benefits included a comprehensive package of medical, dental, and vision benefits, extended illness leave, both short-term and long-term disability insurance, life insurance, and a flexible spending account to set aside pre-tax dollars for health or childcare expenses, and an employee assistance program. Investing in the teammates’ future included a 401(k) retirement program, a teammate stock purchase program, profit sharing, the internal training the company provided, and various forms of educational assistance including tuition reimbursement up to \$3,000 per year, and an RN scholarship program that permitted people to work for DaVita while attending nursing school with all tuition and fees paid up to a maximum of \$5,000 per year.

Unique to the village were also two programs that provided tuition assistance for the children and grandchildren of teammates. The DaVita Children’s Foundation provided some college scholarships for children and grandchildren of teammates, selected on a competitive basis. And the KT Family Foundation, funded by Thiry and others, provided money to be used for educational expenses for the children and grandchildren of DaVita teammates attending grades 6 to 11, again selected on a competitive basis.

## NEXT STEPS

Thiry was a person incapable of being complacent. If you talked to him about what DaVita was doing right, he seemed almost disengaged. It was only when you brought out problems that he seemed really interested in the conversation. Although DaVita had enjoyed a remarkable transformation and success along multiple dimensions since he and his colleagues had arrived in late 1999, he wondered what *else* he and the company could be doing to make it even more successful and special. For instance, the team’s goal had been to make DaVita “The Greatest Dialysis Company the World Has Ever Seen,” an objective that it mentioned on its Web site and repeated in virtually every gathering of DaVita people, whether executives or front-line caregivers.

It was clear that DaVita had gone a long way towards that goal in six years and was a unique organization with a distinct style and approach. DaVita had been largely successful in a quest to, at least for a time, eliminate the apparent conflicts between the interests of shareholders, teammates, and patients. The company had created a management system in which the interests of each were coincident. Led by Thiry, Mello, Vlcek and others, the company’s deliberate culture-building efforts had paid dividends in terms of reduced turnover and improved performance.

However, challenges remained, including integrating Gambro teammates, continuing to improve operating performance, ensuring succession and continuity and growth into the future, managing governmental relations, and maintaining the commitment and passion of teammates doing

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<sup>17</sup> <http://redcoatpublishing.com/spotlights/sl>

difficult work in a very competitive labor market. Thiry looked forward to the discussion about how to tackle these issues.

Exhibit 1

DaVita's Mission Statement and Core Values

**Our Mission**

To Be The  
Provider,  
Partner And  
Employer  
Of Choice

*"he/she gives life"*



The slide features a dark blue background with a white swoosh on the left side. A yellow star is positioned to the left of the mission statement text. The text is centered and reads: "Our Mission", "To Be The Provider, Partner And Employer Of Choice", and the quote "he/she gives life". The DaVita logo is at the bottom right.

**Our Core Values**

Service Excellence  
Integrity  
Team  
Continuous Improvement  
Accountability  
Fulfillment  
Fun

*"he/she gives life"*



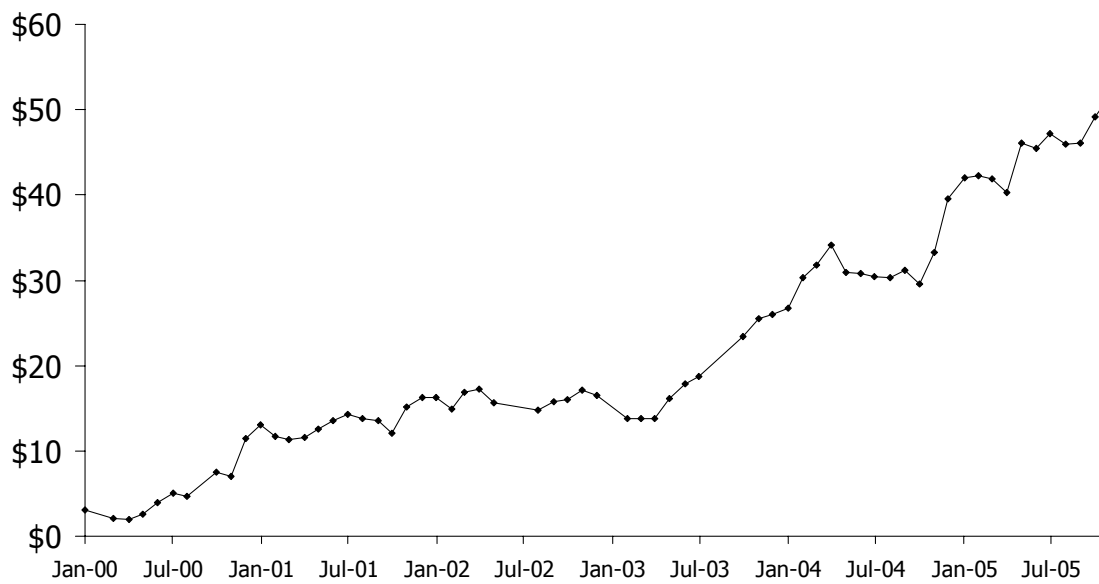
The slide features a dark blue background with a white swoosh on the left side. A yellow star is positioned to the left of the core values text. The text is centered and reads: "Our Core Values", "Service Excellence", "Integrity", "Team", "Continuous Improvement", "Accountability", "Fulfillment", "Fun", and the quote "he/she gives life". The DaVita logo is at the bottom right.

**Exhibit 2  
DaVita Financial Results\***

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Revenues (#millions)	1445.4	1486.3	1650.8	1854.6	2016.4	2298.6
Operating margin	13.0%	19.6%	25.6%	24.6%	28.3%	27.8%
Net profit (\$ millions)	<56.4>	17.0	98.1	147.8	163.2	217.3
Earnings per share	<.46>	.13	.76	1.23	1.69	2.11
Cash flow per share	.46	1.06	1.59	2.33	2.46	3.08

From *Value Line Investment Survey*

**DaVita Split-Adjusted Stock Price**



### Exhibit 3

#### Facility Administrator Survival Training Curriculum (F.A.S.T.)

##### Monday

8-10am	Opening Introduction
10-11:30am	How a DaVita Dialysis Center Works
11:30-12:30am	Lunch
12:30-2:00pm	Communications
2:30-4:30pm	The DaVita Way & One for All
7pm	Group Dinner at a local restaurant

##### Tuesday

8am-12pm	Catch the Wave (a new way of scheduling patients so they didn't all arrive and leave at once)
12-1pm	Lunch
1-2:15pm	Compliance
2:15-3:15pm	Clinical Education
3:15-5:15pm	DaVita IT Systems (e-mail, internet, computer basics)
7pm	Group Dinner at a local restaurant

##### Wednesday

8am-12pm	Time Management
12-1pm	Lunch
1-2pm	Time Management (continued)
2:15-3:30pm	Physician Services
3:30-4pm	Voice Mail
5:45pm	Pizza and Bowling

##### Thursday

8am-12pm	Snapshot Reports
12-1pm	Lunch
1-4pm	Snapshot Reports (continued)
5-6pm	Town Hall Meeting with Kent Thiry
6pm	Dinner at Casa DaVita

##### Friday

8am-12pm	Team Interviewing, Retention, Coaching/Feedback, Supervision 101, Avoiding Unionization
12-1pm	Lunch
1-3:30pm	Continuation of the morning program
3:45-5pm	Hippers (higher revenue, private pay patients)
Free Night	—no organized activity

##### Saturday

8-9:30am	Employment Law
10:15am-12pm	Key Program
12-12:20pm	Reviewing Expectations
12:20pm	Lunch to go & Learning Assessment
6:30pm	Dinner and Graduation at a local restaurant

## **Exhibit 4 DaVita Academy Graduation Proclamation**

Hear ye, hear ye, on this the 14<sup>th</sup> day of April in the year 05 NC (New Company), on behalf of this fair and true company, the company that is new and is ours and could be special, we do proclaim the following:

Whereas, you work hard in your centers, some of you traveled a long distance to enroll in this Academy, and all of you have given up time with your loved ones

Whereas, your job back at home is among the most difficult in healthcare...but can also be among the most rewarding. However, it cannot be rewarding unless you are provided with the right tools and training to grow and to help your team grow.

Whereas, this Academy was created based on the premise that we, the citizens of DaVita Village, never forget that we have accepted responsibility for the essential care of fellow human beings...and we, the company, have committed to invest millions of dollars in our personal and professional growth.

Whereas, we have staffed the Academy faculty with many of the most senior executives of the company, because they have the most to teach...and the greatest need to learn.

Whereas, as individuals and as a company, we will make mistakes...but we will admit them, learn from them and grow from them.

Whereas, it is said that it takes a village to raise a child...similarly, it takes a team to treat a dialysis patient, and, it takes a great team to give them great care...

Whereas, as to the meaning of life...we hold the conviction that one does not search for and find it, but rather one works for and builds it.

And finally, whereas while no one makes an unqualified commitment to a company, many of us actually believe in One for All and All for One....

Candidates for Graduation from DaVita Academy 101 please stand.

Therefore, by the powers vested in me by generations of dialysis patients, past, present, and future, with serious respect, sincere gratitude, and warm affection, we hereby proclaim you graduates of the DaVita Academy and leaders of our community in its quest to build the Greatest Dialysis Company the World Has Ever Seen!

One For All & All for One!