maintained, the docks will have twenty to thirty more years of use. Original cost of the entire dock and buoy system was $984,265.

Winter Storage

Winter storage can be a problem at a marina located in an area where a freeze-over of the water occurs. It is better for the boat if it can remain in the water. Water affords better and more even support to the hull. By leaving the craft in the water, possible damage from hoists used to lift boats and move them to dry storage is avoided. These factors, however, are not common knowledge to the boat owner and require an educational program.

A rule of the marina prohibits any employee from driving any of the customers' boats. Maintaining a duplicate set of keys for each boat and the cost of the insurance to cover the employee are the prime reasons for this ruling. This means, however, that all boats must be towed, with possibility of damage to the boats during towing.

Bubbling Process

To protect boats left in the water during the winter season, Fourwinds Marina has installed a bubbling system. The system, simple in concept, consists of hoses that are weighted and dropped to the bottom of the lake around the individual docks and along a perimeter line surrounding the entire dock area. Fractional horsepower motors operate compressors that pump air into the submerged hose. The air escaping through tiny holes in the hose forces warmer water at the bottom of the lake up to the top, preventing freezing of the surface (or melting ice that might have frozen before the compressors were started). The lines inside the dock areas protect the boats from being damaged by ice formations, while the perimeter line prevents major damage to the entire dock area from a pressure ridge that might build up and be jammed against the dock and boats in high wind.

Questions

1. What are the marina's strengths, weaknesses, opportunities, and threats?
2. How would you describe the marina's strategy and organization, and what do you think of Keltner's list of actions?
3. Assume Keltner asked you for some help in thinking through the changes. Where would you start, whom would you involve, and what might you propose?

selected cases

Leading Strategic Change at DaVita: The Integration of the Gambro Acquisition

In the summer of 2005, Kent Thiry, a 49-year-old Harvard MBA, 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 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."[1] 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% reduction in turnover.

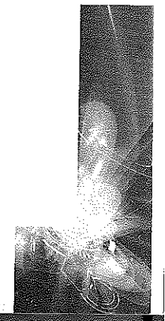
However, this had not been a typical turnaround. Instead, a closer look at DaVita's culture and leadership showed that the DaVita management team's focus had been on creating a strong and positive values-based organization where all levels of the organization had an emotional commitment to its success. 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.[2]

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]http://www.redcoatpublishing.com

[2]Kent Thiry, email, November 27, 2005.



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.

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.

TEAMMATE MORALE AND 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%[3]—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.

OPERATIONAL EFFICIENCIES AND 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

[3]From 2004 DaVita Annual Report, p. 4.

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there was always the looming threat of reduced reimbursement from the government for dialysis services. This revenue stream represented approximately 60% of total company revenue.[4] 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 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.

[4]From 2004 DaVita Annual Report, p. 4.

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 in a critical patient data form used to record and monitor patient care during dialysis, and little standardization in reporting and work methods across centers. 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