

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 Vlcek, 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.

#### **KEY SUCCESS FACTORS FOR A DIALYSIS 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. 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. Proper record keeping and ethical behavior were vital 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

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##### Managing Financial Outcomes

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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. 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 during the dialysis visit and strong personal relationships among the DaVita staff and patients drove the achievement of good clinical outcomes. First, attention to detail also mattered a lot for obtaining good clinical outcomes. For example, 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 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.

Second, achieving good clinical outcomes depended not only on the patient's commitment to treatment but on the emotional tone and bond between the center's teammates and the patients. Patients sometimes missed their dialysis appointments because they found the treatment unpleasant, the logistics of setting up appointments too difficult, or they became depressed by the likelihood of success. However, according to various DaVita clinic teammates, one important factor affecting patient compliance was the extent to which patients trusted and felt comfortable

with the dialysis center and its staff. Emotions are contagious, and to the extent that DaVita could create positive, genuine emotions on the part of its workforce, those positive emotions might influence the attitude of patients. This could thereby improve the patients' survival, not only through their positive mental attitudes but also by affecting their compliance with the difficult regimen of living with late-stage kidney disease. 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."

##### 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.

Patient care technicians (PCTs), the largest category of employees, typically earned less than \$15 an hour. Many worked two jobs, with their second job 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, Thiry and his colleagues set about the task of turning the organization around. The first order of business was the business itself. Over the next four years, the organization worked to fix billing and cash flow problems, restructure outstanding debt, bring the information systems up to speed, hire people who could “get stuff done” (“GSD” remained a popular acronym in the company, and being “good at GSD” was a high compliment), and invest in continuous improvement projects and training.

It was a difficult time for the company. For a time, the government stopped paying DaVita for laboratory tests because of issues in record maintenance and documentation. 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. Harlan Cleaver, the chief information officer, described the process of bringing order to the system and establishing common practices, measures, and information systems across the centers. His 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.

The second order of business was getting the philosophy right. 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 straits. 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 teardown 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.