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 Vlchek 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.

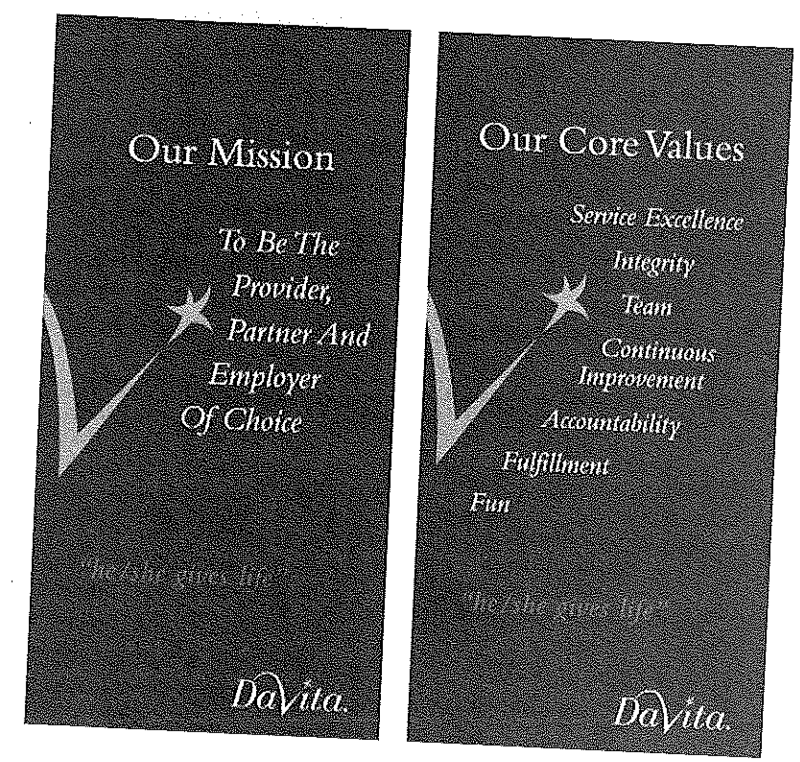
A big part of the new philosophy was to recognize that the centers, where patient care was delivered and where most DaVita teammates worked, were key to the company's success. To emphasize the importance of the centers, Thiry had all senior managers, himself included, "adopt" a center and drop by occasionally. 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.

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 now become annual corporate-wide meetings. 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."[5] 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.

[5] "Total Renal Care Announces New Company Name," Investor Relations-DaVita, June 5, 2000.

DaVita's Mission Statement and Core Values **[Exhibit 1]**



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 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.

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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

DaVita Financial Results **[Exhibit 2]**

	1999	2000	2001	2002	2003	2004
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>	0.13	0.76	1.23	1.69	2.11
Cash flow per share	0.46	1.06	1.59	2.33	2.46	3.08

Source: *Value Line Investment Survey.*

DaVita Split-Adjusted Stock Price