

## 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 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.

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?

### 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

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

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