



# HCA Healthcare: How North America's Largest Healthcare System Navigated CEO Succession

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HCA Healthcare is the largest hospital corporation in America. The company has over 180 hospitals and 2,000 sites of care,<sup>1</sup> and in 2017 it ranked No. 63 on the Fortune 500 list of largest US corporations.<sup>2,3</sup> In December of 2018, HCA Healthcare celebrated their 50th anniversary, unveiling a historical marker at the site of the original HCA Healthcare headquarters.<sup>4</sup> Not one month later, their incumbent CEO retired.<sup>5</sup>

## → THE PROBLEM

After four years as CEO of HCA Healthcare, Milton Johnson announced in September of 2018 that he would be retiring at the end of the year. Johnson also planned to leave the company's board of directors in spring 2019.<sup>4</sup> Thomas F. Frist III, son and grandson of HCA's founders, would take Johnson's place as chairman of the board,<sup>6</sup> but the more important question was, who would become the new CEO?



## → WHAT HAPPENED

When Johnson announced his retirement, he also announced that his successor would be Sam Hazen, HCA Healthcare's president and COO. Hazen had worked with HCA nearly 36 years and analysts commented that he was highly respected on Wall Street. He was a natural successor to Johnson. Still, HCA Healthcare Inc. shares declined in early trading after the announcement of Johnson's retirement. While it is not unusual for market shares to decline when corporate leadership transitions are made public,<sup>4</sup> the industry watched and waited to see how HCA Healthcare would navigate CEO succession.

After Hazen assumed the role of CEO, HCA increased their growth rate and share of national hospital expenditures (2018-2019). The company maintained its strong history of profit growth (7% compounded annually over the past five years) and stayed above industry average in terms of margin, capital efficiency, and return on invested capital.<sup>7</sup> Two years later, HCA Healthcare is the largest healthcare system in North America, with over 15% more sites than their top competitor.<sup>2</sup>

How could a company of this scale navigate CEO succession so smoothly? The answer is that it takes more than a strong successor, it takes a strong succession plan.

## ABOUT HCA HEALTHCARE

HCA Healthcare was founded in 1968 by Dr. Thomas Frist Jr., his father Dr. Thomas Frist Sr., and Jack Massey. Massey was a friend of Frist's father, a renowned businessman who bought Kentucky Fried Chicken in the mid-'60s and transformed it into a thriving franchise. Massey sent a letter to Frist while he was serving as a doctor during the Vietnam War, trying to persuade him to lead KFC's new venture, Kentucky Roast Beef, which would challenge Arby's by selling roast beef sandwiches.

Instead, Frist was inspired to open his own business, a chain of hospitals that would become known as HCA Healthcare. HCA began with the purchase of Park View Hospital, a 200-bed facility in Nashville where Dr. Frist Sr. had worked for nearly seven years. The company was built on Dr. Frist Sr.'s vision and reputation, Dr. Frist Jr.'s idea, and Massey's expertise and credibility on Wall Street. Now, HCA Healthcare has celebrated their 50th anniversary (2018) and is the largest hospital chain the United States.<sup>10</sup>

## A CULTURE OF INNOVATION

Business and innovation are an integral part of the culture at HCA Healthcare. After HCA was founded, Nashville saw a boom in the city's healthcare industry, including law firms, accountants, and PR agencies that catered almost exclusively to the healthcare sector. HCA supported their employees in launching many of these businesses, with over 160 Nashville health care-related spinoffs being founded by HCA executives.

The company also has a culture of internal research and development. Across HCA hospitals, new methods for treating MRSA infections were pioneered and a study upended the widespread belief that there was no risk to inducing labor after 37 weeks. These findings informed HCA policy and were later adopted as industrywide standards. Today, HCA is using its large hospital network to investigate sepsis in the hopes of discovering new methods to improve diagnosis and quality of care.<sup>1</sup>



## → HOW THEY GOT THERE

A common misconception about succession planning is that the goal is for leaders to simply choose their successors. In reality, a strong succession candidate must be developed, and this can take years of preparation. Having worked at HCA Healthcare for over 36 years, Sam Hazen had the opportunity to glean insight and experience across a range of operations. Over the course of his career, Hazen worked as CFO for two different divisions, oversaw operations in North Texas, and became president and COO for HCA's Western Group (which represents approximately 50% of the company's revenue). Then, in 2015, Hazen was promoted to COO of the entire corporation.<sup>8</sup>

When promoting internally, it is not uncommon for a CEO succession candidate to be developed via the role of a president and/or COO. Hazen himself commented this role, saying, "As head of the company's operations for over seven years, I... worked with all our stakeholders – including patients, physicians, employees, shareholders and the board."<sup>1</sup> In this way Hazen's role not only gave him a deep understanding of HCA's operations, it also provided an opportunity to build relationships and open lines of communication with important stakeholders in the company.

Hazen's range of experience was likely the reason why analysts believed him to be a natural successor for Johnson.<sup>4</sup> However, when it comes to the role of CEO, succession candidates require more than business acumen, they must be able to uphold the company's mission and vision. HCA Healthcare may be a Fortune 500 company, but they have also been named among the World's Most Ethical Companies for 10 consecutive years.<sup>2</sup> Johnson cared deeply about putting patients first, maintaining the spirit with which Dr. Thomas Frist Jr. and his father, Dr. Thomas Frist Sr., founded the business. Hazen had a similar reputation. Nashville Health Care Council President, Haley Hovious, said Hazen was an advocate for the city, working with their team to advance Nashville's healthcare space, bring more IT talent to the city, and plan strategically for the group. Hovious described Hazen as a results-oriented leader, interested in measuring and analyzing outcomes. "I've always found him to be really thoughtful," she said, "(He was) concerned about what's best for HCA and what's best for the industry." Looking back, Ed Cantwell, CEO of the Center for Medical Interoperability, called Hazen one of the best CEOs in the industry.<sup>8</sup>

In this way, Hazen not only maintained HCA's growth and profitability, he upheld the company's commitment to care and improvement of human life. This allowed him to model Dr. Thomas Frist Sr.'s belief that "character is important. That good people draw more good people to them. That any job worth doing is worth doing well."<sup>9</sup>

## → KEY TAKEAWAYS

- 1. CHOOSE WELL** Sam Hazen was highly regarded on Wall Street and recognized both in the company and the industry for his business acumen. Not only that, he was described as sharing the previous CEO's vision, values, and spirit. These two factors made him an ideal succession candidate for the role of CEO and all the responsibilities that go along with this leadership position.
- 2. PLAN WELL** Beyond choosing a good candidate, it's important to establish a robust succession planning process. Hazen was given years of training in different areas of HCA's operations, as well as the opportunity to work with each of the company's key stakeholders. Take time to identify talent and allow candidates to develop the skills they'll need. Succession planning isn't about finding a good replacement that already exists, it's about intentionally growing a successor through targeted coaching and skill development.
- 3. COMMUNICATE STRATEGICALLY** Johnson's retirement was announced nearly a fiscal quarter in advance. Along with his retirement, he announced his succession plan, both for the company and its board of directors. Clear, confident communication gives stakeholders a sense of security, which not only benefits long-term market performance, but smooths the leadership transition internally.





## DID YOU KNOW

- HCA Healthcare's strategy to consolidate multiple hospital administrations under one corporate umbrella was inspired from the strategy used by KFC and Holiday Inn<sup>1</sup>
- When Massey wrote his letter to Frist, trying to persuade him to join KFC, he included a brochure of "Kentucky Roast Beef," with a handwritten note that said, "Chicken, beef, or medicine...Make your decision soon."<sup>1</sup>
- One in every 20 babies born in the US is delivered in an HCA Hospital<sup>1</sup>
- HCA Healthcare has more than 38,000 doctors and 94,000 registered nurses worldwide<sup>2</sup>

## → HOW SIGMA CAN HELP

Like HCA Healthcare, you can get succession planning right. We're here to help. Over the last 50 years SIGMA has worked with more than 8,500 private and public organizations to develop people potential and increase organizational effectiveness. We provide full-service succession planning, custom consulting, and a range of templates and resources. We also offer a number of succession planning workshops. To learn more about our solutions, click here, or contact us directly for more information. ■

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