

# American Hospital Supply Corp.

## An Historic Incubator of Leadership Talent

by Dr. Richard M. Arons and Dr. Robert A. Ruh

*In the annals of business, which company has served as one of the greatest hot beds of executive talent? Which organization has spawned a remarkable number of CEOs and general managers - over 150 current leaders to be exact?*

Among major corporations, some have predictably produced promising executives that went on to leadership positions in other companies; IBM and GE are two exemplars. Other corporate concerns have, perhaps surprisingly, failed to provide any portable leaders. But one defunct company, little known outside the industry of healthcare products and services, has left a surprising legacy to the world of executive leadership.

**A**merican Hospital Supply Corporation has produced an unprecedented number of current leaders of healthcare products and services companies. We are not aware of any other "academy company" in the industry that has generated so many great leaders.

What specifically about their recruitment, training and development practices fostered such an environment? Did they recruit somehow with a better formula? Did they create superior and advantageous learning opportunities? This paper examines American Hospital's legacy by tracking the history of the company and through first-hand accounts from some of the best current leaders that AHSC helped to create.

No one starts a company to create a talent pool for competitors, and that was certainly not the intent at AHSC. But it's clear from our research and from conversations with former executives that the company's nurturing of managerial talent was anything but accidental. Drawing on the guiding philosophies of founder Foster G. McGaw (1897-1986), AHSC made a deep commitment to recruitment and professional development based

on standards that set it apart from similar organizations.

## Selection Standards and Criteria

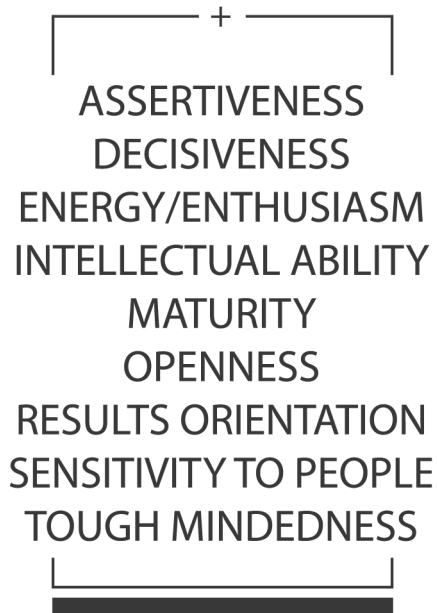
Foster McGaw famously said he would never hire anyone he wouldn't invite home to dinner, a mantra that his successor in the CEO's seat, Karl Bays, happily adopted as his own. But behind that simple aphorism was a disciplined approach to recruiting and selecting individuals of strong character and high motivation. Ideal recruits were down to earth, with good interpersonal skills and high practical intelligence.

"They looked for people who were self-made and who demonstrated leadership qualities, not necessarily the strongest academicians," said John H. Weiland, president and chief operating officer of C.R. Bard, a producer of medical devices, based in Murray Hill, N.J. "We always evaluated potential recruits on their capacity for leadership, in addition to their ability to be successful in sales," he said. "Everybody was responsible for college recruiting."

Early on, AHSC worked with organizational psychologists, who initially were from outside the organization and were later hired as staff. These specialists



helped the company develop a clearly articulated set of recruitment and selection criteria:



With these nine attributes in mind, AHSC recruiters targeted new graduates at excellent schools, while purposely omitting Ivy Leaguers from their search. They favored competitive athletes, junior military officers and well-rounded individuals, but not typically class valedictorians. The selection process was rigorous, but the emphasis was on potential more than experience.

"The people who did the recruiting had a keen sense of what 'right' looked like," said Brad Nutter, president and chief executive of the Haemonetics Corporation of Braintree, Mass., the world's leading supplier of automated

blood processing systems. He added that he still uses AHSC's nine selection criteria in hiring people for his current firm.

### Decentralized Organization Structure

AHSC was essentially split between its original business of supplying hospitals with everything from bedpans to surgical instruments, and a related business that sold laboratory equipment and supplies. But as the company grew both organically and through acquisitions, it spread into numerous submarkets, to the point where it had 36 operating divisions. These divisions were run in a decentralized manner so that operating decisions could be made as close to the customer as possible.

This decentralized structure meant that AHSC had more true general management opportunities with P & L responsibility than most companies. In addition, executives were often rotated through a number of divisions, so that they were mobile both horizontally and vertically and broadly knowledgeable about AHSC's various businesses. Versatility resulted within these transformed, transferable leaders.

## A Philosophy of Stretching People

With so many divisional leadership positions to fill, AHSC often gave people considerable responsibility before they may have been truly prepared for it. This practice worked well, in part because of the rigorous selection process that preceded it, but also because it was done within a framework of strong management systems and training opportunities.

Nevertheless, AHSC was unusual, in giving a 20-something year-old general manager profit and loss responsibility for a \$23 million business. Many new recruits started in the sales organization, where they were given P&L responsibility for their own accounts. Not everyone was promoted but the cream rose to the top quickly. Sales reps started on a draw, but were quickly moved to straight commission. High performers made lucrative incomes at a young age, while lesser constituents went elsewhere.

"If you had the will and the capabilities, you were given opportunities to advance, based on performance," said Mike Quinn, CEO of Cardiogenesis, a Southern California-based medical device company that is developing new devices for treating cardiovascular disease. "There were no politics involved. It was a true

meritocracy. You knew that if you performed well, you would get the chance to advance and do something special," he said. "By today's standards I was not qualified for any of the promotions that I received. For example, in the early 1980's, I was promoted to President of a \$250 million division at the age of 33."

In the more technical divisions, research and development, rather than sales, was often the path to general management. One executive who joined AHSC in R&D is Robert C. Bishop, now chairman and chief executive of AutoImmune Inc., a biopharmaceutical company based in Pasadena, California that is developing a new class of orally administered products to treat autoimmune and other inflammatory diseases. He recalled that the company supported him in getting his MBA and later offered him opportunities running a major overseas division as well as at corporate headquarters.

"It was an environment in which they were willing to let you try, and to take risks on people," said Dr. Bishop. "But I think they also monitored performance very closely."



## A Commitment to **Developing People** and **Promotion** from Within

American Hospital also made a serious commitment to professional development. Although young recruits were given major opportunities, they were also given support, both through informal mentoring and formal training programs. Former executives said this practice again reflected the philosophies of Foster McGaw and Karl Bays.

"They believed in developing people and giving them the training to succeed," said Said Hilal, a former division president of AHSC, now president and chief executive of the Applied Medical Devices Corporation, a company based in Rancho Santa Margarita, California that develops and produces innovative surgical devices.

With a masters degree in engineering and a then newly-minted MBA, Mr. Hilal was hired into an experimental rotation program, and spent his first year rotating through multiple AHSC functions. He spent one-on-one time with development staff and was sponsored for additional management classes before becoming a division president. "It was like dying and going to business heaven," he recalled.

Mr. Nutter of Haemonetics cited the strong mentoring that took place, and the pride that mentors took in their juniors' promotions. "You didn't have to ask for it," he said. "They were your fraternity brothers and they would help you. Promotion from within was always the rule." Mr. Nutter said he networks frequently with fellow alumni.

## A Favorable **Marketplace** for **Healthcare**

It must be noted that American Hospital flourished and instituted these practices during the early 1970's when unusually unrestricted spending on healthcare was prevalent. Medicare had been signed into law, but the advent of DRG's (diagnostic related groups) and other pricing controls was still somewhere in the future. Medical devices sold on a cost-plus basis and pricing pressures were few.

AHSC also had solid, long-term relationships with its customers, so although new recruits frequently started in sales, there was little cold calling involved. "It was a matter of taking an existing customer base and serving their needs better," recalled Robert J. Zollars, now chairman and chief executive of Neoforma Inc., a San Jose, California-based company which provides healthcare supply chain management programs to hospitals.



"When you walked in, they already knew the company, and you felt you were on the side of the angels, improving health-care," he said. Also, under the leadership of Foster McGaw and Karl Bays, AHSC was extremely focused on the customer. Mr. Zollars recollected a frequently repeated mantra of Mr. Bays, "Nothing happens in the office - get out and see your customers." This philosophy permeated the organization.

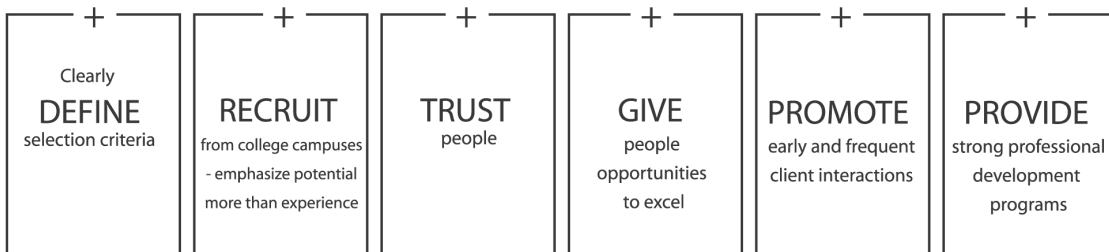
These market conditions, and AHSC's prominence within the market, meant that new hires could earn over \$50,000 their first year, a handsome sum in 1970. Because the company kept growing and creating new divisions, there were always more opportunities. Word of mouth filtered back rapidly to college campuses, so there was always a fresh

supply of energetic recruits. The company enjoyed a virtuous circle of growth, profitability and rejuvenation.

### Lessons Learned

The go-go years came to an end with new restrictions on reimbursements and other pricing pressures in the mid-1980's. AHSC was ultimately acquired by Baxter International. Some of the old guard stayed on for a few years, but ultimately almost all departed to start their own companies or assume leadership positions at other enterprises, large and small.

While it would be difficult to duplicate AHSC in today's environment, former executives said they apply the lessons learned there every day. They recruit

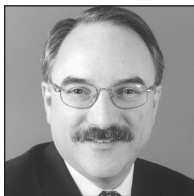


## The American Hospital Supply Corp.

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heavily from college campuses, trust their people and give them opportunities to excel. They back up their new hires with strong development programs, and they put them in front of customers early and often.

They also hire former AHSC colleagues for senior positions, and do their best to emulate the culture that nurtured them in their early careers. "From my perspective, it's something that can still be done," said Dr. Bishop of AutoImmune. "It's just a matter of deciding that's the way you want to run a company."



*Dr. Richard M. Arons is Global Leader of the Medical Device Sector at Korn/Ferry International.*



*Dr. Robert A. Ruh is a Senior Client Partner with Korn/Ferry International's San Francisco office and a member of the firm's Global Life Sciences Market. He served AHSC as an in-house psychologist and human resources executive from 1975 until it was acquired by Baxter International. As such, he played an important role in the development and implementation of AHSC's executive selection programs.*



### About Korn/Ferry International

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