

# **JOHN HAMMERGREN**

## **ORAL HISTORY**

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### **COMPUTERWORLD HONORS FOUNDATION INTERNATIONAL ARCHIVES**

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**Transcript of a Video History Interview with  
John Hammergren  
Chairman & Chief Executive Officer,  
McKesson Corporation**

**Recipient of the 2004 Cap Gemini Ernst & Young  
Leadership Award for Global Integration**

**Interviewer: Daniel S. Morrow (DSM)  
Executive Director,  
Computerworld Honors Foundation**

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DSM: Let's begin at the beginning. Tell us about your past, when and where you joined the Hammergren family.

JH: I was born in St. Paul, Minnesota and actually moved when I was about 5 or 6 years old to a town named Alexandria, Minnesota. It was a small, primarily farming community in northwestern Minnesota. It had probably 6 or 7-thousand people. I grew up in that town with a great set of values and the same bunch of friends that I started with all the way through high school. It was the kind of place and the kind of time where you can take off on your bicycle at 8 o'clock in the morning and come back at 8 o'clock at night, and nobody worried about where you might be or whether you were safe. They just knew you were having your meals at one of your friend's houses and they could find the gang roving through the neighborhood someplace, having fun, playing baseball, or football or some other endeavor.

DSM: Your Dad was in much the same business you are in now I gather?

JH: Ironically my father was in the health care business. I actually think he was in the furniture business before he went into health care, but by the time I was old enough to realize what he was doing, he was selling medical supplies to hospitals and to long term care facilities and physician offices. He traveled 60 or 70-thousand miles a year throughout northern and central Minnesota usually two or three nights a week, calling on his clients.

DSM: And I gather that he actually took you with him on some of the calls. Do you remember some of the early calls?

JH: I would go with him during the summertime, because it was an opportunity to be away from town and get out into the bigger towns that were surrounding the community, towns that were as big as 15 or 20-thousand people. I had an opportunity then to be with my father more frequently because he traveled so much. So this allowed me to be with him sometimes for a week at a time, staying in small hotels that were maybe \$12 or \$15 a night, having dinner with his customers, and enjoying rural Minnesota.

I almost always went with him over the 4<sup>th</sup> of July or prior to the 4<sup>th</sup> of July because we would drive over the border to North or South Dakota and always pick up fireworks. He would allow me to go into the fireworks stands and help him select the fireworks that we going to use over the holiday celebration. It was a good opportunity for me to get to know him and get to know business. If it was a customer that he had known for a long time he would actually bring me into the client call. If it was somebody that was new to him he would leave me in the car with a book and come back in 15 minutes. He did that during the end of his career, and it was a great experience.

DSM: Now you went to school in Alexandria as well. Do you remember anything about your early schooling, when you learned to read, that sort of thing?

JH: Well I guess I remember as a child the exhilaration I had for competition, whether it was on the field or on the ice, in the case of hockey, or if it was academics. I always wanted to excel and I wanted to be ahead of the class.

They used to have these reading programs; it was called SRA or something like that. You had these little cards and you could pull the card out and read at your own pace and test at your own pace. They had different color codes as you advanced and they posted the kids names in the front of the room on the chart, and whether you were in the red section, or the gold section, or the blue section of the SRA program, you could tell how you were doing compared to your peers in the room. So I began to realize that there was a piece of me that was always focused on being my best and beating my fellow students in a fair and square game, but it extended beyond athletics into academics as well, and how fulfilling it was to excel in those areas, and how much attention I would get from people that I respected; my teachers or my parents, or my older sisters, if I was excelling in those areas.

DSM: So we're talking about the mid 1960's when you moved to Alexandria?

JH: Right.

DSM: And you were there through high school?

JH: Yes.

DSM: You went to Jefferson High School?

JH: Yes.

DSM: Describe what it was like in Jefferson High School in Alexandria, Minnesota.

JH: By the time I was in high school in the 1975, 76', 77' era, because it was a small town in Midwestern Minnesota, it was probably a like a lot of other schools would have been in the 1960's. I wouldn't go so far as to describe it as being just like the "Happy Days" TV show, but it was a similar kind of an era where sports were important. People focused on the events in football or basketball or hockey or other kinds of sports. They would turn out, and we still had cheerleaders and those sorts of things back in those days. Most of the kids generally got along, and the bad apples in the class went so far as to smoke cigarettes and drink beer out of kegs in the woods until the sheriff would come and find them. I would say there were different cliques in those days, the athletic kind of folks, the ones who were more described as nerds, and then sort of the burnout ones that drank too much beer and smoked cigarettes and got into trouble with the teachers. I would say I was sort of in between all of them. I felt like I had friends in each of the various societies that existed with the microcosm of Jefferson Senior High School, and it was a little bit like a family.

DSM: You played on some of the teams?

JH: I played football, and hockey, and I was in track. I was a pole-vaulter and I did most of the kinds of things most high school kids do. I have to admit that I didn't probably excel at any of them to a level that got any attention from colleges or those types of things. I knew early on that a sports career was not going to sustain me. But I was also very heavily focused on academics. I was certainly among a handful of the top graduates in the school, and was focused on doing well.

My father passed away when I was in high school, and I think that event triggered for me, a focus on being self-sustaining, realizing that the economics were such that if I didn't provide for myself and my own college education that it was not going to be provided for me. I knew I needed to use academics as a vehicle to help pay for my education and to assure myself of continued success. So it was a combination of trepidation and fear along with this earlier urge to excel and achieve.

DSM: Did you have brothers and sisters at home?

JH: I had two older sisters but they were long gone. In fact both were married and one had already started their family.

DSM: So it was you and your Mom?

JH: Me, Mom and the dog.

DSM: Were there coaches or teachers from that period that you remember at all?

JH: I remember most of them. I would have to say that they were distinguished by their attention to the students and their focus on making sure that we were getting the best we could out of our education, or doing as well as we could. I think that they had a personal relationship with us, and they for the most part, knew generations of the students. Sometimes they even knew the parents because they had taught the parents before the kids came along. So in a small town like that you interacted with them whether it was in church, or whether it was at the bowling alley, or back in the school. It was a tight knit community and there were few secrets. People knew about everybody else's lives to some degree.

DSM: What about the standing of teachers? I grew up in a town about the same size and the high school teachers were almost god-like creatures in terms of their education. Alexandria, I know there was a community college there, but was the high school sort of the focus of community life there?

JH: I think the high school was, both in terms of it as a high school as well as a facility for multi-purpose kinds of activities; theater, and symphony orchestras produced by the high school band, those kinds of things. It was the center of entertainment. I think largely the profession of teachers and physicians were well respected in the community and that they were role models for many of us growing up because of their dedication and focus.

I also think that economically speaking the town was generally a middle class town by most standards and that the teachers and physicians and other professionals that were actually college educated would have been the upper middle class of that middle class town, the upper strata of that middle class town. And in my high school probably only 50% of graduates actually went on to post-high school education, and probably half of those went to some sort of vocational-technical kind of training that would afford them a career that would be more adjacent to the community that they grew up in, or be helpful to them as they returned to the farm or other activities that they were familiar with.

DSM: Tell me about the decision to go to the University of Minnesota.

JH: That was a pretty easy decision. I applied to several schools. The University of Minnesota was the most prestigious of the schools I applied to. Given that my mother was alone, I wanted to be in proximity where I could go back and see her occasionally on the weekends. It had to be affordable and it had to have a high quality reputation for academics. I had some fall-back schools that were more inclined to be rated as party schools, but the University of Minnesota was the most serious application that I made, and because of my academic progress and results I was given a scholarship to enter into the Institute of Technology engineering program at the University of Minnesota.

So that helped pay for my tuition costs coming in, and given that funding my education was important, and then providing some compensation in that direction, that made it a logical choice.

DSM: Did you have jobs in high school and college, and do you remember your first job?

JH: Oh I had lots of jobs. My first real job was as a busboy at a Holiday Inn near the freeway. That was the finest restaurant in town and it was the sought after job, at least when you were 15 or 16. From there I advanced the next year to a job at the Red Owl packaging groceries. That's where I first met my wife. I was actually packaging groceries for her and her family as they were checking out one day and immediately fell in love.

DSM: So this was in Alexandria?

JH: This was in Alexandria and I was probably 15, and she was 14 at the time.

DSM: So you married your high school sweetheart?

JH: I married my high school sweetheart.

DSM: And how long have you been married?

JH: We've been married for 22 years, and it's been a great experience because we grew up together we've been able to have the same experiences and the same friends and the same relationships.

So we know each other extremely well, and her father was actually my high school counselor. So he had great insight into me prior to me meeting his daughter. He always knew he could find me in the gym if I wasn't in the classroom, shooting baskets or something else I shouldn't be doing when I should be in class.

DSM: I don't want to talk about your family too much, but is your Mom and her parents still alive?

JH: No, my Mom passed away this last summer.

DSM: Oh, I'm so sorry.

JH: And her parents have been gone for quite some time. I never met her mother. Her father probably died when I was 6 or 7.

Back to the job discussion, after I graduated from bagging groceries I got this great job as a water skiing instructor at a marina in Alexandria, and then I became the manager. So my summer job through college was managing a marina and teaching people how to water-ski. I was the envy of probably everyone in my high school class.

DSM: There's a lot of water around there.

JH: It's mostly water!

DSM: There are like 400 lakes or something around Alexandria.

DSM: Was going to Minneapolis, to a University with 20,000 undergraduates, 10,000 graduate students with twice, three times the size of your whole county in the football stadium every Saturday, was that a shock?

JH: I guess it was a bit of a shock to move from a little town like Alexandria to Minneapolis to go the University of Minnesota, but I think my personality was such that that kind of environment wasn't unnerving to me. In fact I found it probably more exhilarating and challenging because of the magnitude of the change. It wasn't a gradual change. It wasn't a change that many would likely pursue. It was much more significant.

DSM: It was also a good time to be at a university, the late 1970's, early 1980's. The Viet Nam War, Civil Rights movement didn't touch your undergraduate environment. I guess Nixon and Watergate were still going on at the time. Were there teachers, professors that had a really significant effect on your career at the university?

JH: We had a lot of really good professors. I think that a couple of things that transpired there probably had an effect on me. One was that I realized that nobody cared anymore. I used that carefully, but the reality was that I had to take ownership entirely for myself. For example, I think my first psychology class had 22-hundred students in it, and the professors were only available by appointment only. You would see them on video monitors that were in the front of the room that were maybe 10 feet by 20 feet and that's how your lectures were delivered. You had teaching assistants who would roam the aisles to check student ID's during tests and things like that, but otherwise there was very little proctoring going on and you had to take ownership for yourself. It was a very difficult class. It was one of the undergraduate kind of weed-out classes. I think those young adults that were focused on staying at the university muscled through those kinds of classes, and those that were adrift weren't going to be babysat so to speak, to make it through.

So I quickly realized that I was bridging my analytical skills, which led me to the engineering skills, with sort of my interpersonal skills. As I continued my university education I ended up more with a kind of financial and marketing background, as opposed to a strict engineering background. That mixture of human interaction along with the financial aspects of business school were the things that attracted me the most as opposed to the pure technical kinds of training you get as a civil engineer, for example. So by the time I ended up graduating I was no longer pursuing an engineering degree. I ended up with a business degree.

DSM: Did you go back and work in Alexandria while on college break?

JH: I would go back home every summer and I would work in the marina in that “tough job.” In the winter time, when I first arrived on campus I ended up meeting a resident assistant who actually inspired me at least as it related to my early-on career, and I realized that it was a pretty good gig. A resident assistant got free room and board, and if I could marry the resident assistant job with this scholarship at the Institute of Technology I could end up basically with a free ride, and it would be a good deal.

So I spent some time with the resident assistants I knew there and asked how they got their job and I realized that you had to work your way up in the pecking order of the dormitories. So I quickly volunteered to be a janitor as a freshman and started working cleaning bathrooms and hallways and those sorts of things to earn my credentials.

DSM: With your Red Owl experience.

JH: My Red Owl experience helped me. I think I worked for a half year as a janitor and the second half of the year as a night security guard. I would work one night a week, 7PM to 7AM, a 12-hour shift, and that was the next stepping-stone to that resident assistant job. So I ended up as an RA as a sophomore, and a Senior RA as a junior, and that meant that I managed other RA's in those dormitories. That allowed me to have a better room with a private bathroom and high compensation and stipends that helped in the economics of what I was doing.

DSM: Are there any RA stories that you can tell that perhaps reflect on your later career, or egregious problems that you had to solve?

JH: You always have issues that would arise, that you have to deal with. As a night security guard I actually had more issues due to the fact that I was responsible for shutting down parties that didn't want to be shut down or calling the campus police if there was a car burning in the parking lot. This was a very large campus with a lot of commuters. There was in excess of 50-thousand students between the west campus and the main campus. So you had a lot of students in a close proximity.

You had football players that wanted to be there to play football and not go to school, and it wouldn't be unusual to walk into a bathroom after you heard complaints about noise and find one of them pulling sinks off the wall and smashing them on the floor for entertainment. When he's 365 pounds and snarls at you when you walk into the room and you have to duck when the beer bottle goes past your head, you realize that maybe you should advance to the resident assistant's level as opposed to the security guard level.

So there are a bunch of stories. I think the ones as a student leader, which is really what that resident assistant was supposed to provide, you would have interactions with students who were really struggling, either on a personal level, or on an academic level, or both. Many times they would bleed over, and I guess I began to realize the human psyche of working with people, and the aspects associated with managing expectations and reality. For most people, coming to the University of Minnesota was a very successful experience. There were some people however, for whom the pain of going there as a freshman, and leaving their family in some small town in Minnesota, the adjustment to an environment where no one knows who you are, and to some extent no one cares, was too much. You have to self-guide, and the sudden opening of alternatives that you may not have been aware of before, whether that's relations with other students, or whether it's alcohol or drugs or tobacco or other kinds of things, you could find some folks who were finding their paths, and in so doing were stumbling around a bit. Those were the students that you ended up spending some time with that really were looking for perspective. Many times they came from personal backgrounds that were very different from mine. So you didn't know how they came to their perspective on life, or their perspective on what appropriate behavior was. Here you were trying to help them through this and whether it was an athlete who didn't want to be there for academics, or somebody there who couldn't handle the academics and was trying really hard, they had different issues. So that was that sort of awakening for me on the personal interaction side. The technical side of me, the analytical side of me was already well developed and moving in the right direction. The personal side of me was the part that I had experienced as a kid growing up, but I began to become equally fulfilled from working with people as I did with succeeding in calculus class.

DSM: The question I usually ask later in the interview seems like a good time to ask now; where do you think that your sense of doing the right thing, honor, integrity, responsibility, which was clearly developed by the time you were a senior RA at University at Minnesota, and clearly has played a major role in your career here? Where did those values come from? Was it your Dad, your Mom, your church, the neighborhood?

JH: I think my perspective is that you learn from your environment and I would imagine that all those factors play a role in your development, the influence the church has, what influence your neighbors have, your friends, and certainly your parents and your siblings. In my case I was fortunate to grow up in a family with a great set of values. None of us went off the rails. It was a traditional family where I always felt loved and appreciated. I always felt like they knew where I was and felt comfortable that I was safe, and that I had to earn the privilege of their trust to have the freedom and flexibility that I did have while growing up.

I think what anchored that set of values was this sort of idea of responsibility and building trust, and having integrity and taking the high road, all those kinds of aspects were anchored probably with the passing of my father. He was only 53 years old, I was only 16, and at that moment I realized that I had perhaps two paths to go down. One of them was evidenced by some of my friends who were headed down the wrong road, and the other was, if you don't do this, no one is going to do it for you. There was no safety net economically or philosophically, and if I didn't cement my path and my moral compass on my own, it was not going to be set for me anymore. The guardrails suddenly went down on the road. It was my choice whether I was going to follow the path or I was going to go into the ditch.

My mother was a great woman who had been a housewife for 25 years and was not prepared to be thrust back into the role of raising her son for the last two years, and in many ways not even used to economically supporting herself. She had to go back out and find work.

So I had to grow up quickly, and at the time I probably resented it greatly, but in retrospect, I would probably look at it as one of the single biggest things that formed me as a person.

DSM: Can we talk about your grandparents on your father's side?

JH: My grandfather was the president of the Chamber of Commerce in Alexandria where I grew up. He was sort of the big man on campus in some respects because he was very well known and was out promoting the city, I should say the town, to potential businesses to come and relocate there. There is a giant statue in the town called "Big Ole" and he's a giant Viking standing in front of a Viking ship with a sword and a shield, and on that shield it says, "Alexandria, the birthplace of America." I'm not sure this is technically accurate, but my grandfather propagated the story that was found on the bottom of a stone that was used as a step to a farmhouse. It was carved purportedly by the Vikings when they visited America. When they came into Alexandria prior to when Christopher Columbus discovered America.

DSM: I've heard about this, this is the runestone.

JH: Yes, the runestone. This stone was hand carved by 22 Norwegians and 8 Goths and they were slaughtered by an Indian attack. A couple of them escaped with their lives, but they carved their story into the stone. So in this small town near Alexandria, this farmer was using the stone as a step, and when he turned it over it had the inscriptions in it. So my grandfather took that stone in the trunk of his car and drove to the world's fair and drove to the state fair. He would display it and talk about how it wasn't Columbus that discovered America, that it was the Vikings who discovered Alexandria first. They came down through Canada and the Hudson Bay Seaway; therefore Alexandria is the birthplace of America. So that's why we have a Viking and the runestone, and a museum. My grandfather propagated the story. He had an article in the newspaper every week called, "Harvey Says." He also had a radio show where he talked about the goings on in the community, and he raised money to put Christmas lights on the street lamps all up and down Main Street, the swinging lights in the wind. So that's the most famous Hammergren I know of.

DSM: And he was right!

JH: He was right as far as I was concerned.

DSM: Well he was right as far as history is concerned. The stories have been validated. That's fascinating.

You almost became a banker I gather?

JH: I had a financial background academically and I was interviewing at the University of Minnesota for banking jobs. I had interviewed for a couple of sales jobs in the same process. As the story goes, I was in the placement office in the University of Minnesota and I knew the director of placement, she had become a friend of mine, and my interviewer didn't show up. He had come down with the flu or something. I think he was from one of the banks in Wisconsin. There was an American Hospital Supply recruiter whose candidate didn't show up. So the placement director came over to me and said, "Instead of sitting here for a half an hour staring out the window, why don't you go and talk to the recruiter who is also staring out the window in the other room and see if there is a fit, because this a great company and I think you are a great guy." I said, "Well I'm not really interested in selling hospital supplies. I know that business. I'm not really interested." But, I met with the American Hospital Supply recruiter and I was recruited off the campus, and that became the beginning of my term in health care.

DSM: Tell me about that first job. Do you remember any of the people who were responsible for hiring you or training you, or what is was like to be a new trainee with American Hospital Supply?

JH: I was hired by a woman named MaryAnn Edwards. MaryAnn Edwards was the regional manager for the Minneapolis branch for American Hospital Supply. As the story goes, the recruiter was a corporate recruiter. What happened is I went back to my dorm room after the interview to get out of the only suit I owned. I carefully hung it up so it wouldn't wrinkle. I put on my blue jeans, turned on a basketball game and started drinking a bottle of Old Milwaukee beer, and the phone rang.

It was the recruiting office asking me if I could get back over there in 20 minutes because the big boss from American Hospital Supply was going to interview me.

So I quickly changed back into my suit, brushed my teeth and headed across the campus, back to the interview office, and I met MaryAnn Edwards.

During that interview we realized we had met once before at this place I worked called Arrowwood Resort. Arrowwood was on a lake and I managed the marina, and she had had a sales meeting at this resort and she was left behind because her sales force took off on a pontoon boat without her. They were all laughing as they went out with the beer on the pontoon boat that I had rented them, and she came out looking for them and I said, "They just left." They were screaming at her that she could swim out to the boat. She was their boss and I guess they had a good relationship. So I got in a boat and delivered her to the pontoon boat, into the ruckus and the sales meeting that was going on in the pontoon boat, and came back in and thought nothing more about it.

Well she had remembered that event, and when she met me and recognized me, and recalled how generous I was to have helped her in that time of need. So we built an immediate relationship in the interview process and I was fortunate to get an offer from her.

The person who trained me was a guy named Jim Lang. Jim was a long-standing American Hospital Supply sales rep in Minneapolis of some renown. He was ranked highly in nationwide rankings from a sales perspective, and in the process of training me and riding along with me, which is how the process worked, he asked about my last name and then admitted to me after he put two and two together, that my father had trained him 25 years earlier when they had worked together at my father's company, which was called Aloe Medical. He was trained by my father and then he trained me 25 years later, so it was an interesting experience. So that's where I started, American Hospital Supply.

DSM: You were at American Hospital Supply for almost 10 years.

JH: Yes, it was acquired by Baxter Health Care. So I stayed on through that acquisition and had a good career there.

DSM: I read you describing the purchase of AHS by Baxter as causing quite a change in the atmosphere of the organization. You described it as being less personal. I hope we talk later about growing companies through acquisition; those changes in culture can be profound. Are there stories about that change that you remember that had an effect on you?

JH: I was a middle manager, rising through the ranks like everyone in my era or class would be rising. American Hospital Supply was interesting in that they did most of their recruiting from college campuses. They did most of their recruiting from Big 10 schools, and they did most of their recruiting into sales, and most of their promotions out of sales. So it was a sales oriented culture. The CEO of the company had been a salesperson and it was heavily customer focused.

The set up to the acquisition wasn't done very well, as the CEO of American Hospital Supply, a guy named Carl Bays at the time, was actually unhappy about being taken over in a hostile takeover by Baxter, and spoke out against the proposed transaction very early on. So in a hostile environment like that where he was attempting to fight it, the organization wasn't set up for a transition to a new culture. So part of the challenge was just the setup. The other part of the challenge is that the culture of Baxter was much more focused on non-customer related activity and probably Ivy League MBA's rather than people who had sales experience. Not to say that that's bad. It was just different in terms of the culture. So when the two cultures came together, it became problematic, and many of the American Hospital Supply executives left within 2 or 3 years. In fact, I left with a group of them that had left and gone to different companies. They were two great companies, but just two different cultures and they did not do a very good job of bringing those cultures together.

DSM: Now you got your business degree while you were rising through the ranks to VP, Sales and Marketing. You also got an MBA at Xavier.

JH: Yes, in Cincinnati. They had a program at American Hospital Supply where they would identify early high performers. I don't know if that was the term they would use, but they would take a few of us each year and sponsor us through an executive MBA program. I was in Cincinnati at the time and Xavier is located in Cincinnati, so for 18 months on Fridays and Saturdays I went to business school.

DSM: Do you ever wish you had done it the other way around, gone on and gotten your MBA before you began to work?

JH: I think it was helpful to go to business school. On a scale of 1 to 10, I would say it was probably a 5 in terms of having an effect on me. I don't know whether it would have had a higher score had it happened earlier in my life, or a lower score, frankly. I think having an appreciation for what business is all about as opposed to a straight progression in academics; I think that probably made the experience stronger for me.

DSM: Tell me about going to work for Kendall, an old privately owned company. Was it privately owned at the time? I know it is now.

JH: It was an LBO (leveraged buyout) at the time.

DSM: So you entered Kendall in the midst of turmoil.

JH: Yes, I entered Kendall in the midst of some turmoil. I was fully aware of the crisis going on at Kendall when I accepted the position. I was, and I am, not afraid to take on risk and believe that in risk, if you perform, it produces great opportunities.

I had a fundamental belief in my own skills, and I had a fundamental belief in the quality of the business and the franchise that Kendall happened to have. The reason that the business was in trouble was that it was over-leveraged in the buyout that had taken place, and there had been a successive series of leadership changes in that company.

I was the last set of folks to come in, and fortunately we were successful. We were able to turn the company around. We took the company through a pre-packaged bankruptcy and got rid of some of the really high junk bond, high interest-carrying debt, refinanced the company, provided equity to many of those bondholders, and then re-capitalized the company and sold it. For the most part the folks that were negatively affected on the debt side, if they kept the equity through the transaction, many of them came out fine. It was just a few people, junk bond kinds of folks that were hurt through the midst of it. We saved a 90-year old company and ultimately sold it to Tyco, which became the beginning of Tyco HealthCare.

DSM: Did Kendall find you, or did you hear about the situation at Kendall? How did you link up?

JH: I had a brief stint when I left Baxter with a company called Lyphomed, which was sold to Fujisawa, the Japanese company. The CEO of Lyphomed was an ex-American Hospital Supply person, and the CEO of Kendall was an ex-American Hospital Supply person. So when the first guy sold Lyphomed to the Japanese he basically provided my name to the second American Hospital Supply executive, a guy named Dick Gilleland, and I was recruited to Kendall.

DSM: You were at Kendall until 1996?

JH: Yes, I left Kendall to come to McKesson.

DSM: Tell me about that transition. You joined Kendall in the midst of a great transition. Tell me how you linked up at McKesson. You joined up as an executive VP?

JH: As I came into McKesson, the board and the management team had just successfully spun off a company called PCS, which is a pharmaceutical benefit management company. They had sold it to Eli Lilly, and they sold it for 4 billion dollars, roughly. It was sold for probably twice as much as all of McKesson was worth at the time at the time. This was during the frenzy of PBMs being attractive to pharmaceutical manufacturers.

So the board was left with a very solid balance sheet, and a chairman of the board and CEO who had a vision of growing the business outside of the typical franchise of McKesson, which was primarily independent pharmacies in the early to mid 1990's. My experience in healthcare, particularly in the hospital segment, was attractive to the board to help build a hospital position for the company.

DSM: So when you joined McKesson, the focus was on being a good distributor of pharmaceuticals to independent pharmacies, keeping the share price up.

JH: Broadening the base is what I was supposed to do. It takes the same capability that we used in independent pharmacies, and take it to hospitals.

DSM: The mid 1990's were just an extraordinary time in terms of asset development, purchases, new start-ups. Describe the atmosphere of 1996, and then how you began to assemble assets at McKesson.

JH: This is just, at least from my understanding at the time, was prior to the internet take off, which happened more in the 1998, 2000 kind of a time frame. So in 1996 San Francisco was still a hot bed for technology and for real estate and for all kinds of other things. I think that the thing that struck me when I arrived at McKesson was that we had a lot of very smart people that were probably poorly organized for success outside of the fundamental, core, retail pharmacy distribution business. So their attempts to build other businesses had always been fraught with challenges because they hadn't organized in a way that would facilitate building businesses, or even acquiring them for that matter.

So I think that the first thing I realized when I got here was that the franchise of McKesson, the name and the value, and the confidence which our market had in our company, didn't necessarily transcend beyond retail pharmacy into hospital pharmacy. Although the McKesson name was recognized, it wasn't recognized as a hospital distribution franchise.

Secondly, a lot of the customers that we were attempting to sell to were relatively satisfied with their existing supply partners, and unless we could differentiate ourselves in some fashion, we were going to be unsuccessful.

So I started on a dual path. One was to build the right team of people that understood the market and our customers. The second path was to improve our capabilities to deliver value and solutions that would meet the needs of our customers. So that I had something for these good people to represent to the customers that made them more productive, more profitable, helped them with patient safety, or things that were important to them. That's how we started this process.

DSM: Describe the learning process that one goes through when you are brought into a company at that level. Had you known McKesson before you came? Describe for future graduate students the training orientation program for an executive VP brought into a company at that level.

JH: Ah, training program. The training program was basically, "This is your office down the hallway. See you later."

There was not an incumbent in this job, and they had attempted to organize for this sector previously and unsuccessfully. So there wasn't a framework. There was no expectation organizationally for what this organization or job was going to do, and there was no resource from which to make it work. In some respects I probably didn't fully appreciate the challenge that was in front of me when I took the job, but my interest in it was significant because I believed we could do things a different way in terms of pharmaceutical supply chain. There really wasn't a mission here to improve the selection of the drug to begin with all the way through to the administration of it to the patient. The process was fraught with challenges and potential issues and if we could find a way to streamline the end-to-end process of medication safety, particularly in a hospital environment, we could have a sustainable advantage over anyone in the industry.

Given that I sort of had a green field opportunity in a 170 year-old company to build something from scratch, with a balance sheet and the support structure to make it happen, it was like a start-up inside a huge corporation

DSM: How do you figure out who you can talk to and who you can trust, and how do you begin to build a set of relationships to make the thing work?

JH: The other turn-arounds that I was involved in, I was able to use my instincts to know who was currently in the organization who I could build and who I could trust, and who I needed to send on their way. I also quickly began to recruit people I trusted and knew of from others, to bring people in who were perhaps diverse from me in background, but would have symmetry from a cultural perspective, from a moral compass perspective.

DSM: This question is always like asking folks which of their children they love the best, but are there folks that you either hired or recruited or were at McKesson when you came in that really had a significant effect on your ability to do your job and do it well?

JH: Yes there were, there were lots of key people in those early days. There were two key people at that time. One was a guy named Bill Armstrong who was the head of human resources. He was also the chief of staff for the chairman and CEO, and was instrumental in helping me understand the lay of the land in the current organization, and the politics of the current organization, and the culture of the current organization. The second person was a guy named Paul Julian who I recruited in about the same time that I arrived. Paul and I had worked together before, not in the same organization but in complementary organizations and we had a relationship. I began to rely on one person I could trust sort of externally as I built the business, and another person I could trust internally to make sure I didn't step on a land mine that was in front of me. Between the two of them we began to work together to build the organization.

DSM: I read that you described the assembling of assets process as like “remodeling a house to save a marriage.” You went through a period where you were purchasing Automated Healthcare, Baker, General Medical, and then we want to talk about HBOC later on. Can you describe what you meant by that?

JH: It was clear that although we had ambitious goals at McKesson, and we had a balance sheet, that if we didn’t supplement the financial strength and the strategy and goals with some real assets and some creative people, we were not going to be successful. We needed both innovation that we had to acquire, and we also needed critical mass, which we accomplished with a company called General Medical, another company called FoxMeyer. We started to bring in pieces of business that were much more representative of the class of customers that we were trying to balance our portfolio with. So I think the combination of innovative small companies with entrepreneurial flair, and then mass which we could bring in, like the FoxMeyer acquisition, was a synergy play. There were some great people there and they are still with us, but it wasn’t so much about getting people that did something that was completely different than what we did. It was getting people that did what we did and consolidating the operation so that we could get more scale. On the automated health care side, we were acquiring a company that built robots and uses bar codes on medications. That was something that we just didn’t do. It wasn’t a core skill of ours.

So, on the one hand it was how do we consolidate the facilities and get the infrastructure costs taken out and the redundancy. On the other hand it was, how do I protect this asset from the size of McKesson so it doesn’t get crushed by the bureaucracy and the weight of a 10 or 12 billion dollar company; when it is put on top of a 13 million dollar start-up in Pittsburgh. On the one hand, with automated health I completely isolated one business and kept it alone and focused on innovation. On the other hand, with FoxMeyer, you didn’t know that business existed 12 months later. It was gone in terms of a separate enterprise.

DSM: It must have been tremendously exciting to watch this portfolio and the assets of McKesson grow. But you also talk about the loss of customer focus in that period. Talk about that, working toward ICARE and the Six Sigma approach you have taken to turn management around.

JH: In the midst of the acquisitions and the fulfillment of the strategy, Wall Street began to figure out that we were performing well and that perhaps we had a strategy that was going to be successful. I would say the thing that led the senior management team most astray was the focus on what Wall Street wanted. We began to believe that we were as good as Wall Street thought that we were, as opposed to focusing on the metrics of our business, both as represented by what our people had to say about us, as well as our customers had to say about us. So this transition from focus on building a business in a new segment and how do we assemble the right assets, to “gee, Wall Street is really excited about this and look what is happening with our stock price,” began to be reflected in our decision making. I think that we began to look at the Bloomberg screen with the stock price flashes as evidence of our greatness and our genius as opposed to any other metric, or perhaps the absence of other metrics. I think we lost our focus.

DSM: Can you describe how you began to get a handle on the nature of that problem? Did you notice customers or employees disappearing?

JH: This happened very quickly. If you look at 1996 when I started, we began to assemble assets quite quickly. By 1998 we had a high-flying stock, a 40 P/E, and there was a lot of wealth being created here. So we didn't have much of an exodus of our people. I would say what ended up happening was that you would go into the facility and the stock price was the first thing that employees would see when they walked in the door, you know, yesterday's closing price. That became the marker of our success, and that's what we talked about, our relative stock price performance.

So in retrospect it's easy to say I saw it coming. When I was here and part of it, I would say that you didn't really understand how important it was to have visibility to these other metrics, let alone have them available to you. Then we made an acquisition of a company called HBOC and restated the earnings of that company very quickly and my boss, the then-CEO resigned.

DSM: Talk if you will about what you were doing just prior to the HBOC acquisition.

JH: It was probably late 1998 and I was President of Supply Solutions, reporting to the CEO of the corporation, actually to the Chief Operating Officer, who was reporting to the Chairman and CEO of the corporation. The company had gone through a significant growth spurt, not only internal and same-store kind of growth, organic growth, but we had also done a bunch of acquisitions that I just described. So we had a high performing organization from a Wall Street perspective and we were hitting our financial Wall Street metrics and doing well.

I have to tell you at the time I was really focused on the hospital side of the business, and the investment in our core pharmaceutical distribution business probably had not been as strong as it could have been. We had made some decisions to change some operating systems over there but probably hadn't fully implemented them yet, and everything was still moving along very well.

We had gone through a strategic review and we decided that we should continue to progress down the technology avenue in our organization. As you may know, McKesson has been known for decades, ever since probably the 1950's and 60's we've been recognized as a technology leader. A lot of that technology had been applied internally to make our operations more efficient.

We had computers in our distribution centers, automated order entry systems for our customers, and what we were embarking on with the HBOC acquisition was the continuation of the theme which put both the right materials and the right technology in the right hands to provide high quality patient care. So that a physician empowered with the right information, having the appropriate supplies, can make better decisions and have a better patient outcome at a lower cost. So that philosophy I think led us to the acquisition of HBOC, and that happened in late 1998.

DSM: You went through an interesting period as a co-President and co-CEO, can you describe what that was like, and would you recommend it?

JH: I can describe how I got there and what it was like. We closed the acquisition of HBOC in January of 1999. Subsequent to our financial release in April it was determined that there were some accounting irregularities in the financial statements of HBOC, and we restated our earnings. As a result of that restatement our then-CEO resigned, as did our Chairman and CFO. There were four direct reports at the time to that CEO: David Mahoney, Al Bergonzi, the Chief Financial Officer and me. Al Bergonzi was the CEO of the HBOC company. I was the CEO of operations for the rest of the supply businesses, and David Mahoney was CEO of specialty businesses and business development.

After the restatement, with the resignations of the two top McKesson executives and the CFO, and the termination of Al Bergonzi and many of the HBOC executives, the board was left with David Mahoney and me as potential successors to the previous CEO. Left with that decision, the board decided to make us co-CEOs. David had the administrative functions of the organization. I had the operations functions, and we both reported to a returning Chairman, who had been the former CEO and Chairman of McKesson, prior to the acquisition of HBOC. So he was a Director when the acquisition occurred, and then became non-executive Chairman again after the ex-HBOC Chairman resigned.

So it was a time of turmoil. It was a time where there was a leadership void. Obviously the organization had gone through a significant amount of stress. The restatement cut roughly 9 billion dollars worth of market cap off of our company. The stock dropped from the mid 60's to the low 30's and then continued to trade down to 16 at its low point. So there was a significant amount of stress internally with our own employees, and an awful lot of stress with our shareholders, and our customers on the HBOC, or information technology side of our business, as well as the distribution side of our business. I think the HBOC customers felt that they were misled to some extent, just like the shareholders felt they were misled by the earnings restatement. For the distribution folks there had been a lack of focus on investment and so the service in that business had fallen off to some degree and customers were dissatisfied.

So it was sort of a perfect storm with two new co-CEOs. You asked what it was like...

DSM: Yes, I was going to get back to that.

JH: ....to be a co-CEO. I had a great relationship with David having been peers with him before and I think that we had a mutual understanding for the challenge and a shared dedication to our future, and a shared vision of how we were going to get there. In some respects it's difficult for either of us to function in that environment. In some respects it's like me trying to make the putt and he has the scorecard. It's not very fair that he has to score it on the one hand, and on the other hand he probably says it's not fair that I got to make the putt. So neither of us has the ability to be the singular person from the strategy perspective, and from an execution perspective.

We shared that role for almost a year. This was in the midst of all the dot-com excitement in the country, particularly on the west coast, and we had some under performing assets that we felt might be well positioned in an internet kind of a vehicle. So we created a company called iMcKesson, and David went to become Chairman and CEO of that Internet spin-off. I remained with what they described in those days as the old bricks and mortar company, the legacy company.

There were all kinds of terms with various levels of derogatory connotation. We had the old-line business. So David pursued that new Internet venture for probably 9 months. We never did complete the spin-off. He ended up resigning and retiring and we moved those assets back into the company and shed some unnecessary costs.

DSM: The other thing I wanted to have you describe if you find it appropriate, is the day or the moment, or the phone call, or the meeting at which you were told, “Oh by the way we’ll be writing down \$150 million of profit for 1999, and \$26 million for....” Can you describe how you learned about that and how you felt? It had to be a horrendous moment.

JH: We were at a board retreat actually when the news came. It unfolded basically at that board retreat that it was necessary for us to do a restatement. That meeting was held into the late evening and the release was made the next morning. I did not attend that board meeting since I was not the Chairman or the CEO or CFO, I was not involved at that level of the audit committee kind of work. I was with my associates in the new acquired company, HBOC, as well as the old McKesson associates. I think we were waiting at dinner for the big brass to arrive and they never did, including many of the Directors. So there was concern and confusion about why they weren’t going to be there, and not a lot of clarity around the reason for their delay. They arrived much later and nobody really said a word until the next morning when somebody came to me before I was to catch my transportation out of the hotel, and told me that there was going to be a financial restatement and handed me a copy of the press release. There was no communication plan architected the night before. There was no communication plan with our employees. There was no discussion about the gravity of it. In fact, while the restatement was significant unto itself with the HBOC component of the business, it did not seem that significant in financial terms to the whole corporation. Perhaps being a bit naïve at the time, being from the old McKesson side, I didn’t realize how HBOC’s P/E was structured to begin with and how its value had been created, or how its accounting worked, or how it recognized its revenues. I was the distribution guy and they were the software people.

So riding in the car after the news had been released, I was on my cell phone and someone from the office who had relayed to me what had happened to the stock price that morning when the market opened, and that's when the gravity of what had happened actually struck me. Like I said, I probably underestimated it. I was still reading the document in the car as I was leaving. I guess shock is the best way to describe it.

On the way back I received a phone call from the then CEO, before he resigned several months later, and I was asked to fly to Hawaii to speak for this sales meeting for HBOC because he wasn't going to be able to make it. So I found that to be unusual but I felt that he made the right decision to stay behind and deal with issues associated with the restatement. I was sent off to be the McKesson executive representing the company at the Hawaii sales award trip. When I arrived there, you can imagine they were shell-shocked. They felt terrible, the sales force did, because they recognized that it was the acquisition of HBOC by McKesson that had caused this financial catastrophe. I was trying to raise their spirits, and their spouses' spirits, who happened to be there as well.

DSM: What did you say?

JH: Like I said, I probably was naïve about the whole thing. I couldn't get the HBOC executives to assemble the team. So I had to suggest that the assembly take place. Although they walked in the room, they stood beside the podium and wouldn't get up and address the group in front, and I was left basically suggesting that this was an issue that we would get through. That I believed strongly in the quality of the HBOC people, and the quality of the customer base and that we would link arm in arm, and this too shall pass, and that this wouldn't ruin what was a celebration of what was a terrific year for all of you. I did the best I could to raise their spirits, at the same time while mine were plummeting. My entire net worth was wiped out in the morning. So it was a big deal to me.

DSM: So tell me about what's happened in the last 4 years. This had to be fixed, and you had to fix it. So tell me about that process.

JH: For 2 or 3 months before this CEO resigned and we did this reorganization, it wasn't clear how we were going to manage that operation in Atlanta. When he resigned and I was put in the position that I am in today, the thing that struck me was that I needed to go out and examine the business much more closely and determine whether this was just an accounting issue, or whether it was something that was much more significant or more pervasive.

My first customer experience happened in July after that April restatement. I went to a customer meeting where there were probably 250 customers, and I got up with an executive named Graham King who we promoted into that job, and who became a steadfast supporter of our strategy and personally accountable for the turn-around of that business. He and I were standing on the stage and we were addressing questions from the audience that he had thought would be 15 or 20 minutes. Two and a half or 3 hours later, we were able to get off the stage, and literally it felt like a scene from the movie, "The Blues Brothers," where Belushi and Ackroyd were behind the mesh chicken wire with the beer bottles and the tomatoes. That's what I felt like. You had to dodge and weave the whole time, and clearly we were making commitments about recovery of the business to customers that we didn't realize were this angry, and with problems that were much more severe than we even realized at the time. So we made commitments: that we would understand what the issues were, that we would invest in our future, that we would make good on the promises that had been delivered in the past by HBOC, and if we couldn't make good on those promises, that we would make good financially.

Later that year we took a large financial charge and basically took that hit to earnings so that we could go back and say to our customers straightforward and eyeball to eyeball, "Here's what we promised. Here's why we can't deliver it, and here's your money back." That discussion earned us a lot of credibility with customers. We knew that we had to hold onto that customer base so that we could rebuild our enterprise.

If those customers didn't buy the new stuff that they had already contracted for, didn't install it, we had to give them a refund. But if they took the stuff out that we had already installed over time, we would have no customers left. They would be on somebody else's platform. So it was a critical time for us, and for probably 2 years it wasn't clear to me that we were going to be successful in turning that business around. The gravity of the situation was such that I wasn't confident.

DSM: Is there an event, a customer, a point at which you knew that you had done the right thing and the situation was not only a turn around, but that you might have learned some positive things from the experience? Is there a moment at which you said, "Ah, we are going to make it."?

JH: We did a couple of fundamental things very early on that set the stage for our success. The first thing was that the company was in disarray. The operations might have still been going in many parts of the company, but the hearts and souls of the people were gone. It was like zombies walking the hallways. In that field of shambles and the smoking ruins of what was a great company, I believe there was tremendous promise because we hadn't lost the people physically. We had lost them mentally, and if we could reengage the mental side of those people before they walked out the door physically, that there was a chance for a turn around. Plus I knew we had a great base of customers across the corporation and they would give us time if we acted quickly.

So we did two things. One was to set a culture in place using our shared principles of ICARE. I put ICARE in place so I could remember it. I'm a very simple person so ICARE is integrity, you do what is right, taking the high road and knowing that no matter where you are in the organization that our associates will act with integrity. They will make the right decisions.

The second is customer centered, the "C." That means working our company from the outside in, listening to our customers, solving their problems, building relationships that last a lifetime.

The “A” is for accountability, doing what we say we’re going to do, and when we fail, which we inevitably do on occasion, going back and being accountable for making a new commitment, admitting your mistakes and saying, “Listen I know I didn’t make good on the last one, but here’s how I am going to recover for you,” and then recovering for them. The “R” is for respect. That’s speaking straight forwardly and candidly with our employees and also with our customers and shareholders. The last is excellence, and that’s asking our employees for nothing less than excellence from them, and delivering nothing but excellence to our customers.

So that set of shared principles was something that we could rally around together. Now the normal integration problems that you have in acquisitions about, “We’re better than they are,” existed to some extent with the McKesson people because they felt that they were victims of this. But largely people got over that quickly and we were able to break down those silos and say, “Listen, let’s have a shared view, a principled view of how we should behave together as an enterprise.”

The second major step we took was to put business scorecards in place. I mentioned before that our company was focused primarily on stock price, and that’s what we bragged about, that’s what we felt good about, our business scorecards set 4 metrics out in front of all our employees, specific to their own responsibilities. The first was a customer metric around satisfaction. We began to survey our customers on a regular basis and our satisfaction scores began to improve.

To your question on, “How did I know things were going to turn around for us?” When I saw those customer satisfaction scores bottom and then begin to come back I realized that recovery was underway. The second was our employee satisfaction scores. Similarly, our employee satisfaction scores went down and then came back up again. Our turnover increased and then decreased, and actually dropped to below industry kinds of levels. Those 2 fundamental metrics on the scorecard delivered confidence to me.

Now the last 2 components of the scorecard, one is process success. We are a Six Sigma company, so we put solutions in place like Six Sigma, a way of thinking, a way of approaching variability in your operations so that you can reduce costs and improve your efficiencies. That became a rallying cry, and a centerpiece of how we were going to organize. Then the last piece is our financial success. We measure our financial success in earnings before interest and taxes, and return on committed capital; how we are using our assets, and are we using our assets efficiently?

Over time, the metrics in all four quadrants for all of our major businesses started to move in the right direction, and became a visible indicator to our associates that we were on the right place. But I think those 2 fundamental things, one which happened to capture the hearts and minds of our employees, and the second, which focused our employees on the right things in our business, were central to our recovery.

DSM: One of the questions I ask all of our interviews is about innovation. Where does it come from? One of the things that people often mention is having a great problem to work on. You've had some great management problems to work on but in the area of human endeavor that you are engaged in, the whole issue of the health care industry, health care services, it is a monumental problem on a global scale. Give me your perspectives on the state of the world in terms of health care. How big is the problem and how confident do you feel about our ability to address it in the future?

JH: Let's confine our conversation to the United States right now. If you look at the challenges that we face as a society, they have almost always been driven by the baby boom generation. If you look at the challenge of providing education to providing housing, and now to providing health care, this bolus of demand as the population ages, is a significant challenge for our society. And it's a challenge in two ways. It's a challenge economically. How are we going to afford to pay for health care, particularly as people are leaving the work force? And secondly, how are we going to manage the new demands of this more educated consumer around the quality of health care?

I happen to believe that health care is a train wreck waiting to happen. There are some ways we can stop this train wreck but it's going to require a significant investment, significant energy, and I guess desire for changes in the way we practice medicine today. It's not because we don't have a lot of smart people focused on it. I just think that we've got a heavily fragmented industry today that isn't well connected, and isn't organized necessarily for success.

The tragedy in health care today is that whether you believe the statistics or not, far too many people die because of errors in the health care system. The Institute of Medicine study recently identified 98,000 people dying every year because of accidents in the health care system, medical errors. It's like a 747 crashing every day out at San Francisco International and people saying, "That's okay, we're going to lose one 747 every day. I just don't want to be on that plane." Each of us is going to be a consumer of health care, if we are not already. And certainly our children and our parents are consumers of health care, and I think with today's technology, and with the affluence of our society, we deserve to do a lot better in health care than we are doing. And shame on us if our generation doesn't do something to fix the health care crisis.

DSM: I've never really heard that articulated in that way, but it is of course like a 747. Why do you think people are so blasé about that kind of loss, because they wouldn't tolerate it in the...

JH: In the FAA.

DSM: Yes.

JH: Right. I think the reason people are somewhat tolerant of the medical care crisis that we have is because the 747 example doesn't happen in health care in an isolated way. It's fragmented. It's your grandmother. It's your daughter. It's a 747 to you, but it's not a 747 to the media. So it doesn't get the coverage, and it doesn't get the kind of attention that that type of an event would actually usually create.

I think there's an increasing awareness though, certainly among those of us in the industry, and for those of us who are patients in the industry, increasingly we're asking for second opinions. We're doing our own research before coming in. If it's someone that we love that's in the bedside, we're likely going to attend to them personally as opposed to allowing them to be taken care of simply by strangers. Many of us would never leave, 24 by 7, a loved one because we are aware of the challenges that take place in the health care environment.

So why is all of this happening, and what can we do about it? It's not because we have physicians and nurses that are poorly trained. It's not because they have ill intentions. It's not because they are accepting of the tragedy that takes place in health care. It's because we haven't armed these good people with the necessary tools and technologies to avoid the errors that are inevitable in any human interaction.

If you were to look at the production of an automobile today, it's more difficult to create an error because of the systems that they use in the manufacturing process. And if an error does take place in the manufacturing process, they'll go back and find the root cause of the error and assemble the construction of process of the automobile in a way that will prevent that error from occurring again. Likewise in the airline industry, which is often cited for its safety record. They have processes in place, and procedures in place, and systems in place, fail safe systems and redundant systems, double check systems so that we know the landing gear is down when we approach the runway.

We can put similar kinds of systems in place in hospitals so that the well intentioned care providers, the nurses and doctors and other clinicians, that when they are interacting with patients they have the best available information about the patient. They have the best available information about the best process with which to treat the patient, and they have the best systems, both machine and other wise to make sure that the treatment is carried through with the quality and the precision that it was originally intended. And when there is an error, we go back and retrospectively evaluate it, and then proactively build it into the systems in the future so that it doesn't happen again.

DSM: We were talking about saving enough money to provide the kind of care we would like to provide universally in health care, and also doing it in a way that at every stage of the process saves lives. You were going to talk to me about that.

JH: What's great about the position of McKesson today as the world's largest health care services company, our footprint is everywhere. We have systems in probably 50 or 60% of the hospitals in America. We have over a third of the pharmacies in America and we have systems in probably 90% of the payers in America. So the provider network, the payer network, and the patient network is touched by our systems everyday, and we have the ability to bring it all together in a cohesive way and not physically combine those assets, but metaphorically combine them through the use of information technology that connects the pieces together.

As I mentioned earlier, not only do we have an opportunity to have a significant impact on the quality of care and perhaps reduce the killing, whether it's 98,000 people or 2,000, but if it's somebody I know it's one too many. At the same time we can have a significant impact on the cost of providing the care. There are roughly 40-million Americans today that go without any health care insurance at all. In fact, we have McKesson employees who can't even afford, or believe they can't afford the 20% co-pay that's required to have our insurance inside of McKesson. Those people should be afforded high quality health care, and should be provided it in a way that is cost effective.

If you look at the spend, roughly 1.4 or 1.5 trillion dollars, probably a third of it is spent on administrative costs, the moving of paper back and forth. Another third of it is probably wasted care altogether, an extra day in the hospital, two days in the hospital, a poor diagnosis, a treatment that doesn't go well or an infection that's acquired at the hospital that causes you to stay longer and go through all kinds of tests or procedures. All of that waste can be eliminated through the use of sophisticated systems that are available today, and we can reapply those dollars towards providing health care for all Americans.

DSM: We were talking earlier about the ICARE system, the “I” stands for integrity, and one of the questions I ask all of my interviewees is about the definition of integrity or a sense of honor. What do you mean when you say that integrity is the first item in the ICARE list? What is integrity?

JH: I think integrity might be impossible to define, and it’s also impossible to ignore if you cross the line. So it’s a sense. It’s a frame of reference. As soon as you believe that you have to internally justify a decision because something inside you is telling you that it’s not right, and it’s just, well this one little time, or this one little omission, or this one little white lie, you know that you’ve breached integrity. You know that you have crossed the line. I guess from my perspective, knowing the difference between right and wrong is always boiled down to degrees, and the path to the big wrongs are led with little wrongs. So to live your life with integrity you have to resist the temptation to justify the little wrongs as you go along. Whether it’s a child that feels guilty for taking the penny out of a fountain, or whether it’s a chief financial officer who goes to prison for falsifying their financial statements. You both have a sense of what’s right and what’s wrong, and somehow, those folks who function with integrity don’t reach into the fountain.

DSM: McKesson has taken advantage of this information technology revolution to do some extraordinary things. There’s the possibility of saving enough money to pay for health care, and at every step of that process, saving lives. What are the biggest obstacles you see in the way of really fulfilling the potential of the technology and the dream of McKesson in the future?

JH: The vision of what we’re trying as a company and as an industry, probably has been around for decades. It’s not invented by me, or certainly not even invented by our company. The reality of being able to deliver it now however is empowered by the reality today of our environment. The fact that the technology has caught up to the vision, things like the internet, which make the ubiquitous transfer of information between various silos in our health care industry, or to allow a physician to view your medical records at home and have the ability to have someone else look at your digital radiology images from a distance.

So the ability to have your radiology images actually viewed by a physician 1,000 miles away and have them interact with your local doctor, to talk about your treatment plan, are things that we always dreamed of, but now is made possible by the technology that we have available to us. The acceleration of technology, the improvement of the bandwidths and the pipe with which we can move this data, the security with which we can deal with your data, affords us opportunities that never would have been possible before.

Now the challenge for us in making this vision a reality is both technological and resource related. It's resources in two ways. It's certainly the financial resource of the enterprise to be able to afford to make this investment, and to some extent it's the, who wins and who loses. The investment that is made by a physician in technology may not be directly related to an increase in the reimbursement that physician will get for treating you. Whereby you as a patient may get better care, or someone downstream may have a less expense, or less work, but the person who actually makes the investment may not reap the benefit. Electronic prescribing may be an example, where you're in a physician's office. The technology exists for that physician to prescribe your prescriptions electronically instead of the paper script and to check for drug interactions, and to electronically submit that prescription to a retail pharmacy to pick up at your convenience. Yet there is no reimbursement mechanism for that physician to buy the capital, the software, the devices to do this, and there is no incremental reimbursement for them to take the time to learn how to do it and how to process it.

So the economics don't necessarily fall where the benefits fall, and even if they do, the capital requirement may be just too big for some enterprises. Some hospitals are already pushed to the wall from a capital perspective. They have to retrofit their hospital for seismic earthquake issues in California, so they can't buy the IT technology that has a payoff downstream. They have to take their million dollars and put it into the basement of the hospital. So there are some fundamental issues, and the second resource issue is probably the leadership and the experience of the people involved in this to make it happen.

Physicians aren't IT professionals and for them to get this stuff up and running, or hospitals may not have the right kind of staffing to make it work.

DSM: For my next to last question I want to ask the hardest question, and that is your legacy in the information technology revolution. I am profoundly prejudiced and I think people looking back at this time and this place with great pride in the work has been done here. When your children or your children's children's children look back on this time and this place, how would you like for them to remember your role in this information technology revolution?

JH: I think I'm fortunate to be at McKesson at this time in its evolution. We've been around 170 years, and I can't imagine it won't be around another 170 years, but I can't also imagine that there has been a period of time that has been as exciting for this industry and this company that this time is. I think that in the next 10 years we are going to digitize health care. I think we're going to fix the challenges that we have. I think we are going to make a significant dent in the cost and we're going to have a significant impact on the quality of life. We're going to extend life. We're going to avoid the needless medical errors across life today, and we should be proud of what we have accomplished.

So when they look back at this decade of McKesson, hopefully they'll look back at it and say, "That company did a lot of things to change an industry fundamentally. Instead of just being another good health care company, it was a great health care company, that transformed an entire industry and helped bring it to a new level of performance."

DSM: I said that was next to last question. The last is to ask if there is anything you think we should have talked about and didn't. Are there any that you can think of? People, mentors, teachers?

JH: I was a perfect child (laughter)

I don't think so. I think you did a good job. I think you didn't touch much on Wall Street or being a public company. One of the things that has been a challenge in an environment like this is the company having problems from a financial perspective, in terms of our accounting, a change in leadership in the company, the backdrop of Sarbanes Oxley and the legislation that has been passed relative to inappropriate or incorrect financial statements of companies. The amount of scrutiny that a public company gets today versus even 3 or 4 years ago, is quite significant, and the responsibilities for a CEO to, in a combined way, deal with all the constituents we have to deal with and to manage the company purportedly for the long haul, while at the same time realizing that your typical shareholders are usually invested in a company for less than 12 months. It's difficult some times to balance those two opposing positions on occasion.

I think the focus for me has been on the long-term performance of our company for our shareholders, for the people who own our company. But I believe that's a byproduct of being successful with our customers and our employees. If we can have a long-term satisfied customer base that continues to buy from McKesson, we'll deliver shareholder value as opposed to focusing on delivering shareholder value and hoping that the customers are satisfied. The nuance there isn't insignificant, because you can do a lot of short-term things that will negatively effect customer performance and positively affect the financial performance. But over the long term if you continue to miss the expectations of your customers, you ultimately will suffer. That challenge between the near term, I have to hit the quarter, and the long terms of, I want to have a satisfied and consistent customer base, is not an easy task.

DSM: Given what you have been through in a relatively short time in your position, the steel has been well tempered, and seems sound and true.

JH: Well thank you. I appreciate the compliment.

DSM: Thank you very much for giving us this time. This interview, if you think of anything else you would like to talk about, we would be happy to come back.

JH: Thank you!