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9 CASE

Governance Challenges at Good Hands Healthcare (A)

In mid-2000, the board of directors of Good Hands Healthcare (Good Hands), a $3 billion company trading on the New York Stock Exchange, was pondering its current situation. It had become increasingly discouraged by the downward spiral of Good Hands' stock and financial performance and by the continuing explanations of the situation by the company's chief executive officer (CEO), George Jackson. Jackson, who had been Good Hands' CEO for the past 30 years, had attributed the slide of Good Hands' performance to "external factors beyond our control."

The health care industry was indeed subject to a great deal of environmental factors, not the least of which was the reliance on government reimbursement for services. One of the major issues

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Professors Amy Hillman and Marilyn Seymann prepared this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

facing the industry was significant reductions in federal funding of health and eldercare. In addition, the industry had experienced an increasing number of lawsuits filed by patients' families and attention by the media to incidents of poor care, especially of the elderly. Good Hands, one of the largest US nursing home providers, was no exception to these lawsuits and, along with other industry players, was experiencing escalating patient care liability costs.

The board of directors wondered, however, why Good Hands' major competitors, HealthUS, ElderCare and Aged Services, Inc., were able to increase their profitability and market share at the same time that Good Hands' was slipping. After all, wasn't the whole industry affected by the same "external factors"? Was there something else to explain Good Hands' recent troubles beyond these industry threats?

In addition to questions regarding management's assessment of the firm's performance woes, the board of directors of Good Hands was concerned with the absence of a succession plan within the company. While Jackson was recognized as an industry leader, would he be able to stop the current downward spiral and perform a turnaround of the firm? And, if not, who would be able to step into his shoes? The lack of a succession plan at Good Hands coupled with no formal internal effort to develop leadership for the future cast an ominous shadow over the future of the company.

The board knew it didn't have a lot of time to waste. Good Hands was sliding precipitously toward bankruptcy. In fact, several of its competitors had already filed Chapter 11, and as a result of their restructuring, they were more nimble than Good Hands to weather the industry threats. The board set its sight on its next meeting, in two months, to address these important issues. All of the board members knew this meeting would be a critical turning point for the future of Good Hands.

The Company

Good Hands Healthcare was founded as a small nursing home business in 1970, in Brownsville, Texas. Through rapid expansion, the company went public in 1978 and now represented more than 400 facilities in 25 states. Good Hands operated facilities in three areas of operations: 285 nursing homes, 74 assisted living and outpatient facilities, and 47 care units for people with Alzheimer's disease. George Jackson, the current CEO, had founded the business and had served as its president/CEO and chairman of the board for 30 years.

While originally founded as a nursing home company, Good Hands diversified into assisted living and outpatient facilities in the early 1990s and later, in 1995, into care facilities for people with Alzheimer's disease. Nursing home facilities now provided residents with long-term care, including daily skilled nursing and nutritional services, along with the social and recreational services that accompany a long-term residence facility. Pharmacy and medical supplies were also provided to residents. Good Hands saw themselves as an "extension of patients' families." The Good Hands culture had long emphasized that employees treat each resident as they would their own family and that each Good Hands facility was akin to a family community. For example, in 1999, Good Hands began redesigning several of its facilities to reflect the newest trend in nursing homes, home-centric design.

Similarly, assisted living and facilities for people with Alzheimer's disease, while emphasizing a different mix of traditional services, also promoted a communal experience and a loving, caregiving environment. Assisted living centers were targeted at those elderly whose health did not necessitate daily nursing *per se*, but who were less able to safely live an independent lifestyle. These facilities resembled apartment complexes with a collection of small efficiency-like living spaces where residents could bring their own furniture and belongings. Access in and out of these facilities was not restricted; residents could come and go as they pleased. Meals were typically offered in communal dining halls or in-suite, while social activities included a full range of classes and excursions outside of the facility. The advantage of these living facilities was that a full-time nursing staff was always on hand should a resident require assistance. Residents were monitored throughout the day. This level of service was in stark contrast to that received by the elderly who lived alone in single-family residences. In addition to the availability of professional nursing help, assisted living centers provided many elderly with social interaction with other residents and the staff, something that was often lacking for elderly living at home.

The facilities for people with Alzheimer's disease, on the other hand, were centers meant to specifically meet the needs of the elderly suffering from the dementia and other indications of Alzheimer's disease. These patients required much more intensive supervision than both the assisted living or nursing home residents and Good Hands' facilities allowed for specialized treatment of these needs. Good Hands saw the need for more specialized care for people with Alzheimer's disease beyond the typical nursing home environment and was rolling out more such facilities as a part of its expansion plan.

By the end of 1999, more than 85 percent of Good Hands' net operating revenues came from nursing home facilities, with 10 percent and 5 percent coming from assisted living and facilities for people with Alzheimer's disease, respectively. Occupancy of its 406 facilities in 1999 was 86 percent, with Medicare patients representing 21 percent of total patient days and 43 percent of revenue.

Good Hands' facilities were staffed by more than 61,000 employee caregivers. Typically, 30 to 34 percent of the staff at a given facility were certified, skilled nursing professionals. The remainder were typically staff paid little more than minimum-wage, such as custodians and housekeepers ($7 per hour), aides ($9 per hour) and office personnel, cooks and maintenance workers ($12 per hour). More than 98 per cent of Good Hands' employees were female with an average of a high-school education for non-certified staff. Turnover among Good Hands' employees averaged 80 percent a year for non-certified staff, and 47 percent for certified staff, and the company encountered periodic difficulty attracting and retaining registered and licensed nurses, certified nurses' aides and other facility personnel. Approximately 21 percent of the employees in more than 150 facilities were represented by various labor unions, the largest of which was the AFL–CIO. While relations with these unions had been generally good (Good Hands had not experienced any work stoppages as a result), the unions had commonly targeted Good Hands because of its visible position as one of the largest companies in the US eldercare industry.

Good Hands' financial position had deteriorated in the last three years (see Exhibit 9/1). Most notably, for each of the previous three years, Good Hands had experienced declining sales growth and net income. In 1999, this loss was 10.3 percent in sales from the previous year and a loss of $143.7 million in net income. Its competitors' experiences in recent years were much more robust. HealthUS grew sales from 1998 to 1999 by 44.2 percent despite a drop of 33 percent in net income, while ElderCare's one-year sales growth was 5.7 percent with a 90.7 percent increase in net income. Aged Services, Inc. posted an 8 percent loss in sales over the previous year, but had a total net income of more than $1 billion.

As a result of Good Hands' declining performance, the company was in a critical cash position, with cash at the end of 1999 of only $21 million. The funds needed to sustain its business were provided largely through revolving credit that increased overall short-term borrowing to $173 million. Total debt, on and off balance sheet, had grown by early 2000 to nearly $1 billion, and, along with it, the cost of debt for Good Hands had also risen considerably. This put Good Hands at a substantial disadvantage *vis-à-vis* its major competitors, HealthUS and Aged Services, Inc., who as a result of coming out of Chapter 11 bankruptcy had restructured their debt and were much less encumbered than Good Hands.

The Eldercare Industry

Health care and general care for the elderly was a highly regulated industry and a fragmented industry with a significant number of "mom and pop" facilities. While Good Hands Healthcare was one of the largest companies in the industry, and they had the largest share of the nursing home market, this only represented 3.8 percent of the market. It was estimated that in the also very fragmented assisted-living industry, the top 25 players accounted for only 2 to 5 percent of the market. The leader in the home health care industry, Sullivan Services, similarly had only 4 percent of the market.

Increasing life expectancies and aging baby boomers were driving US revenues for long-term health care. US revenues for long-term health care were estimated to total $225.8 billion by 2003, versus $149.4 billion in 1998. Revenues for nursing homes were expected to rise to $115.4 billion in 2003, versus $87.3 billion in 1998 when home-care revenues were expected to rise to $48.7 billion from $33.2 billion.

Despite the healthy forecasts for growth in revenue, the 1995 National Nursing Home Survey suggested that elderly Americans were reducing their use of nursing home care. The changes from 1985 to 1995 per thousand elderly are illustrative. In 1985, 219.4 per thousand elderly aged 65 to 74 used nursing homes, whereas by 1995, this number dropped to 198.6 per thousand. For ages 75 to 85 this number dropped from 57.5 per thousand to 45.9 per thousand, and for ages 85 and older,

Exhibit 9/1

Consolidated Balance Sheets (in thousands for years ending December 31)

Assets	**1998**	**1999**
Current Assets:		
Cash and Cash Equivalents	$ 67,984	$ 21,086
Accounts Receivables- Patient, Less Allowance for Doubtful Accounts	190,504	248,443
Accounts Receivables Nonpatient, Less Allowance for Doubtful Accounts	30,890	48,005
Notes Receivables, Less Allowance for Doubtful Notes	16,930	2,799
Operating Supplies	44,534	34,320
Deferred Income Taxes	25,666	70,057
Prepaid Expenses and Other	18,643	17,654
Total Current Assets	$ 395,151	$ 442,364
Property and Equipment, net	910,065	901,649
Other Assets:		
Goodwill, Net	265,443	201,111
Deferred Income Taxes	10	38,744
Other, Less Allowance for Doubtful Accounts and Notes	23,393	123,338
Total other assets	255,802	363,193
	$ 1,561,018	$ 1,732,206

Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts Payable	$ 89,040	$ 109,420
Accrued Wages and Related Liabilities	78,094	134,002
Accrued Interest	19,448	26,550
Other Accrued Liabilities	163,292	60,628
Short-Term Debt and Current Portion of Long-Term Debt	28,990	240,513
Total Current Liabilities	$ 378,864	$ 571,113
Long-Term Debt	335,605	438,039
Deferred Income Taxes Payable	—	—
Other Liabilities and Deferred Items	325,432	170,374
Total Liabilities	$ 1,039,901	$ 1,154,526
Stockholders' Equity:		
Preferred Stock, Shares Authorized: 20,000,000	—	—
Common Stock, Shares Issued: 1999 – 112,808,705; 1998 – 120,382,356	11,038	11,844
Additional Paid-in Capital	775,637	776,981
Accumulated Deficit	(139,429)	(81,081)
Accumulated other Comprehensive Income	1,054	953
Treasury Stock, at Cost:		
1999 – 18,954,450 Shares; 1998 – 16,807,800 Shares	(127,183)	(131,057)
Total Stockholders' Equity	521,117	577,680
Total Liabilities and Stockholders' Equity	1,732,206	1,561,018

Exhibit 9/1 (*cont'd*)

Consolidated Balance Sheets (in thousands for years ending December 31)

	1997	1998	1999
Net Operating Revenues	3,346,556	2,801,339	2,764,034
Interest Income	10,708	4,335	2,650
Total Revenues	3,357,264	2,805,674	2,766,684
Costs and Expenses:			
Operating and Administrative:			
Wages and Related	1,914,452	1,846,363	1,886,990
Provision for Insurance and Related Items	177,407	117,215	72,456
Other	936,246	708,183	645,889
Interest	19,349	53,105	121,990
Depreciation and Amortization	107,780	109,076	100,061
Asset Impairments, Workforce Reductions and Other Unusual Items	89,578	38,602	43,033
Total Costs and Expenses	3,244,813	2,872,544	2,870,419
Net Income/(Loss) before Benefit from Income Taxes, Extraordinary Charge and Cumulative Effect of Change in Accounting	112,451	(66,870)	(103,735)
Income taxes	(25,936)	26,138	31,121
Net Income/(Loss) before Extraordinary Charge and Cumulative Effect of Change in Accounting	86,515	(40,732)	(72,615)
Special Charges Related to Settlements of Regulatory Claims and Disputes	-	(1,865)	(82,510)
Extraordinary Charge, Net Income Tax Benefit	1,985	653	11,420
Cumulative Effect of Change in Accounting Designation	550		
Net Income/(Loss)	89,050	(41,944)	(143,705)
Basic and Diluted Loss per Share of Common Stock:			
Before Extraordinary Charge and Cumulative Effect of Change in Accounting	0.83	(0.39)	(0.70)
Extraordinary Charge	0.02	(0.01)	(0.68)
Cumulative Effect of Change in Accounting	(0.04)		
Net Income/(Loss)	0.86	(0.40)	(1.38)
Shares used to Compute per Share Amounts	103,864	103,574	103,762

from 12.5 to 10.1 per thousand. The gap left by decreasing nursing home use was being filled by alternatives, such as assisted living and home health care.

Health care service providers were subject to various federal, state and local health care statutes and regulations. State licenses were required to operate health care facilities and to participate in government health care funding programs, such as Medicaid and Medicare. Medicaid was operated by individual states, funded by the federal government and designed to provide health care to the indigent. Medicare, on the other hand, was a health insurance program for the elderly and other disabled people and was operated by the federal government. Increasingly, the government and general public had been concerned with not only improving the quality of care provided but, paradoxically, also with cutting overall expenses.

Payments for services provided by companies such as Good Hands typically were funded by the states, via Medicaid; the government, under Medicare and other programs, such as the Department of Veteran Affairs; and from private payors, such as insurance companies and managed care providers. For the past three years, Good Hands' percentage from each source has varied from 52 to 55 percent from Medicaid, representing 70 percent of patient days; from 21 to 26 percent from Medicare or 11 percent of patient days; and 19 to 23 percent from private and other payors, or 17 to 18 percent of patient days.

Most of the state Medicaid programs operated on a cost-based reimbursement system, with some states including efficiency incentives subject to certain cost limits. Cost reimbursement in these programs typically covered the administrative, general, property and equipment costs in addition to the direct and indirect allowable costs the company incurred in providing routine patient services. State Medicaid programs varied in the level of allowable costs reimbursed to operators.

In 1999, health care reform measures, resulting from concern over the rising cost of Medicaid and Medicare programs, were passed, requiring nursing facilities to continue to provide care to Medicaid residents as well as those who might qualify for Medicaid in the future, even if the facility decided to withdraw from the program. In addition, cuts were made to the payments made for acute nursing care, initially put in place by the 1997 Balanced Budget Act. In 1997, efforts to balance the federal budget led Congress to cut reimbursements for Medicare patients. The 1999 cuts only added more problems for the industry, and, to make matters worse, further cuts were anticipated for 2000.

In addition to the reliance of the industry on government revenues, government regulations also strictly enforced quality standards for patient care. Government authorities periodically inspected facilities to ensure compliance with standards set for continued licensing and Medicare and Medicaid participation. Deficiencies could result in the imposition of fines, temporary suspension of new patient admissions into the facility, decertification from Medicare or Medicaid and, in extreme circumstances, revocation of a facility's license.

General liability and professional liability costs of the long-term care industry had become quite expensive in recent years. The past decade had seen a tremendous increase in the number and size of claims and lawsuits against the industry. The Florida Healthcare Association estimated that in Florida alone, in 1999, seven out of every 10 facilities had open claims against them, and nine out of 10 faced potential new lawsuits. Not only were there more claims, but they were growing in size. The 1999 average litigation claim in Florida was $279,000, a 250 percent increase over the year prior.

This growing number and size of claims led to dramatically more expensive liability costs. For example, liability insurance per bed in 1999 ranged between $100 and $200 annually, but this number was estimated to grow by 100 percent to 200 percent per year. In some states, these numbers were considerably higher: in Texas, this rate was $2,000 to $3,000 per bed per year, and in Florida, it could reach as high as $7,000 per bed per year. Primarily as a result of these increases, insurance companies were ceasing to insure long-term care companies or were limiting their liability insurance severely. Substantially increased premiums and increased liability retention levels for reduced coverage were the norm when insurance coverage was available.

Other important industry trends included an overbuilding of nursing facilities in states that had eliminated the certificate of need process for new construction; the growing availability of eldercare delivered to the home; rapid expansion of assisted living facilities; and the expansion of acute care hospitals into long-term care.

Good Hands' CEO and Management Team

George Jackson, president, CEO and chairman of Good Hands Healthcare, founded the company and helped to build the firm over its 30-year history. In early 2000, Jackson was 62 years of age and frequently discussed with the board his desire to work past the age of 65. A well-loved and admired industry expert, Jackson received his bachelor's degree in business administration from the University of Texas at Austin. Prior to founding Good Hands Healthcare, Jackson had worked in the banking industry for 12 years.

Jackson was a charismatic figure, handsome and personable. From Good Hands' beginning, he saw the company as an extension of himself, often blurring the line between the profession and the person. This created issues with his top management team and board in that he often perceived questioning of his strategies as a lack of confidence in his personal abilities. His top management team soon learned that it was prudent from a career perspective to play a supportive role to Jackson's vision. In early 2000, this cadre of Jackson's top management team represented a variety of people he had personally chosen for their positions.

A primary concern of Good Hands' board was the lack of succession planning within the firm. In mid-1999, the board raised its concern with Jackson and recommended he consider not only developing a formal succession plan, but that he consider bringing in some new leadership from outside the firm and industry to jump-start the company and try to turnaround the situation so that Good Hands could regain its leadership position.

At the next meeting, the board received a complex chart of all the CEO's direct reports and their proposed successors. Each was accompanied by an appropriate development plan. Noticeably absent from this plan, however, was the CEO's succession plan. When the board queried Jackson about this, he stated he intended to keep working "as long as possible" and that if the proverbial bus ran him over, he was confident the current team, with help from the board, could run the company while a search was conducted for a successor.

One of Jackson's other responses to the succession plan discussion was to argue for substantial year-end bonuses for his top management team, despite the deteriorating financial conditions of the firm. His argument was that these individuals were underpaid given industry standards and that large bonuses were needed to retain them. He hinted that a large increase in his own compensation would also be appropriate although he did not go so far as to threaten to quit.

Chief Financial Officer (CFO) Bob Wayman (age 61) joined Good Hands in 1976. Wayman had experience with a Wall Street investment company prior to joining Good Hands. He had a bachelor's degree and a master's degree in business administration from Minnesota State University. A highly competent but extremely competitive person, especially with Chief Legal Counsel David Baker, the board was concerned that Wayman lacked the personality to be an effective leader. Wayman frequently commented that the numbers were the heart of the business. On multiple occasions, the board had questioned Wayman's ability to strategically manage the balance sheet to reflect the needs of the cash flow situation. The board questioned whether he was "old school" cautious since he refused to discuss any use of derivatives or any of the other financial instruments available to smooth out the peaks and valleys in the reimbursement stream. In addition, when asked questions by the board on routine financial issues, he tended to be defensive and often treated the question as if it were stupid. Another issue that arose with some frequency was that he did not see his role as reporting to the board's Audit Committee and often circumvented the committee to resolve an issue with the CEO without bringing it to the board's attention. However, the marked lack of financial expertise among the rest of the senior management team had made him indispensable to the CEO, especially in his dealings with Wall Street.

Chief Operating Officer (COO) James O'Malley (age 64) joined Good Hands in 1987 after working for a competitor in the health care industry for eight years. Since that time, O'Malley had risen up the ranks of Good Hands through the operations division and, in 1990, was appointed both COO and a member of the board of directors. While O'Malley was well liked and respected throughout the company, he was nearing retirement and was not likely to continue employment with Good Hands for more than another year or two. O'Malley was also well liked by the board but had been questioned frequently about his resistance to making changes to the operating model. His responses were typically a stream of explanations and excuses, mostly attributable, in his estimation, to "causes outside his control." However, given the quality-of-care issues and the difficulty finding more experienced people in the industry, the board had not pursued any aggressive questioning of his effectiveness.

Chief Legal Counsel (CLC) David Baker (age 54) was a close confidant of Jackson. The two of them were social acquaintances before Jackson persuaded Baker to leave his law firm to become in-house counsel for Good Hands in 1989. Baker often played the role of smoothing over the CEO's behavior when it was questioned by the board, and he was quick to defend Jackson's actions. While Baker was an accomplished attorney and had valuable expertise in the health care arena, he lacked any management experience beyond the legal areas of the business. The board commonly regarded him as "a thorn in their side" and often questioned his handling of legal matters. His exclusive use of only one outside law firm, regardless of the matter, had caused many late-night discussions among board members. The board's concern over his competence had been discussed with the CEO in several executive sessions and had become a point of contention between the board and the CEO, who ardently defended his friend. Baker had also been the key person to structure all of the employment contracts of the senior management team and was, therefore, held in high regard by his peers in the company.

Good Hands' Board

Good Hands Healthcare's board was composed of 10 members total: eight outside members with varied lengths of tenure and two inside members, Good Hands' CEO and Chair George Jackson and COO James O'Malley. Five of the board members had been on the board since it was founded and were handpicked by Jackson. The three newer members joined the board within months of each other in 1998 when the existing board realized that there were too few members to effectively handle all of the board committees. When there were only five independent directors, they found they were all attending every committee meeting and, as a result, they were either devoting too much or not enough time to the issues at hand. Not wanting to be remiss, they decided that the addition of three new members, each with the ability to chair one of the committees, would be the appropriate number. They hired a search firm and recruited three directors within one year of beginning the search.

Since adding the last three members to the board, no new directors had been added. The board discussed frequently the need for "new ideas and diversity" but had made no progress in replacing the more senior directors.

Howard Learned was the dean of the School of Business at Minnesota State University. He was 62 years old and had been on the board for nine terms of three years each. He was a professor of business when the CFO of the company was in business school getting an MBA. When the company went public and was recruiting a board, the CFO thought of his old professor. Learned brought good experience and knowledge to the board and added the prestige of having a business school dean on the board. Learned had chaired a number of committees over his board tenure, but, perhaps most importantly, he had chaired the Compensation Committee for the past 20 years. He also had served on the local board of a national bank.

Steven Scales was 60 years old, from a small town near the corporate headquarters and was the managing partner of a small law firm. He was known to the former CEO through years of golfing together, and his wife and the CEO's wife had been longtime friends. Steven Scales' legal knowledge had been essential in keeping Good Hands in regulatory compliance as they grew. Scales had chaired the Governance Committee, the Nominating Committee and the Audit Committee over his terms as a director. He did not serve on any other public board but was active on many civic boards in his community.

Norm Current, age 61, was a banker from Brownsville, Texas, where the corporation was founded. Although the corporate headquarters had since relocated, Current decided to stay on and maintained an excellent contact base among employees and legislators. He had chaired the Compensation and Audit Committees during his tenure and was a close, personal friend of the CEO. His behavior in board meetings had been very unpredictable and he tended to be somewhat volatile. He either contributed very little or contributed on issues he felt strongly about in an aggressive fashion, using terms that were sometimes inappropriate in the board setting. Current served on a variety of local civic boards and on the board of the community hospital.

Don Anson is 63 years old, an attorney and a former US congressman. He had been friends with Jackson since college. They frequently went on fishing trips, hunting trips and vacations together with their wives. His national clout had been an important factor in getting things done in Washington in a highly regulated industry. He had chaired the Nominating Committee for most of the years he was on the board and also had chaired the Compensation Committee for several years. He was active in national politics and, since his retirement from Congress, served on the boards of various political organizations.

Frank Fowler, age 61, was an investment banker whose company did the earliest financing of Good Hands. Fowler's company also took the company public and held a significant position of Good Hands' stock. He and Jackson had been hunting buddies for many years. Fowler was probably the board member who was the closest business advisor/confidant of the CEO. He served on the boards of various companies that his company had financed.

The three newer members of the board had been recruited by executive search firms and had no prior relationship with anyone on the board or on the management team.

Gerry Comco, age 62, was the retired CEO of a telecommunications company and lived in Boca Raton, Florida. He had been recruited during the time when the board was discussing a change to its strategy and wanted additional "out of industry" perspective. Comco was aggressive and outspoken, respected and liked by the rest of the board. He had recently been named chair of the Governance Committee and undertook a thorough review of the committee charters, calendars and board composition. Prior to leaving his company, he had served on its board of directors.

Mark Andrews was 58 years old, and was the senior vice-president (SVP) of a global company. This was his first experience on a public board but his professional background made him an excellent board member. He was well liked and spoke up about the most important issues. He had particular expertise in operations and could make some significant contributions as the company expanded its operating model beyond nursing home operations. He was the chairman of the Compensation Committee and had initiated an exhaustive review of the company's compensation policies and philosophy upon accepting the chairmanship. He served on the board of one of the subsidiaries of his company and was a competitive athlete.

Greg Simon, age 59, was a consultant, a former banker and presidential appointee to the board of a national regulatory agency. He was also an expert in the areas of corporate governance, strategy and risk. He had been asked to chair the Nominating Committee shortly after joining the board. In this capacity he had initiated a formal process for evaluating the board and CEO. He sat on the boards of four public companies.

The Decision

Good Hands' board of directors knew the company was at a crossroads. Was the industry environment really the cause of Good Hands' sliding financial performance? What strategies would be necessary to stop the slide and regain Good Hands' dominant position? How would Good Hands weather the changing regulatory climate and reimbursement cuts? These were among many questions that the board knew had to be addressed to keep the company afloat and to ensure its survival as a viable entity in the future.

But, perhaps more pragmatically, was Jackson still the best CEO to lead Good Hands? Did he have the management team in place that could help chart a new course for the future? If not, who would take Jackson's place?

The board saw three primary alternatives. First, they could keep Jackson on as CEO and see how Good Hands fared in the coming months. But, could they continue to do so in light of the company's precarious financial position? Jackson had grown the company to its heights but also had presided over its recent decline. Had conditions changed so much that a new leader was needed? Most pragmatically, keeping Jackson in place would be the lowest cost option due to the nature of his employment contract. In 1997, the board (then consisting of Learned, Scales, Current, Anson and Fowler) had approved an employment contract for Jackson that would grant him in excess of $25 million (including severance, salary, options, benefits, etc.) if he were removed from his position as CEO (see Exhibit 9/2).

Second, the board could ask for Jackson's resignation and undertake a search for his replacement. Asking Jackson, the company's founder and leader for more than 30 years, to step down would be no easy task. If he left Good Hands, what would be the effect on the culture? How would the company make up for the loss of his experience and guidance? How would the board handle his severance payments when the company was already short on cash? Would they find a suitable replacement within Good Hands' top management team or would they need to look outside the company and/or industry? On the one hand, promoting from within would minimize the lack of additional losses in the top management team who may resign if they are overlooked for promotion. And, continuity in experience, strategy, etc. would be achieved by promotion within. On the other hand, was the board satisfied that any of the current top management team could tackle the job and work well with them? Going outside could bring in some fresh perspectives that may be much needed as well as one potentially improving Good Hands' competitiveness via the insights into other company's best practices and operating models.

Finally, the board saw a compromise position. Could they ask Jackson to give up his position as CEO yet stay on as chairman of the board? This option would be much easier than a total resignation and overcome the loss of his expertise, etc. Under this option, the board expected to keep Jackson's current compensation package, which totaled just over $3 million annually, intact but they would not be liable for any additional compensation because such a move would not trigger any additional severance under the terms of his agreement. But even at

Exhibit 9/2: Key Provisions of George Jackson's Employment Contract

1. Proscription of Responsibilities, Duties and Location of Performance	Specifies Executive's obligations under the agreement
2. Duration	5 years, automatically renewed annually
3. Compensation and Benefits Treatment	Total package is composed of base salary, long- and short-term incentives and benefits (1999 approximately $3 million total)
4. Hold Harmless/Indemnification	Provides financial protection to the Executive for costs incurred in event of legal action and/or judgment against Executive as Director, Officer, employee or agent of the Corporation
5. Termination Protection	Specifies protection provided in event of termination • Causes (defined) . . . payment of all accrued bonuses and vested long-term incentives • Without cause . . . payments equal to remaining term plus one year times salary, short-term bonuses and FMV of long-term incentives in event of: – Diminution – Office Move – Change in control . . . single trigger; includes Excise tax – Material breach by Good Hands • Disability/death . . . same as without cause • Benefit extension/credits and accelerated vesting of long-term incentives/equity in case of w/out cause term. • Lump sum payment option (trust arrangement)
6. Non-compete, Non-solicitation and Confidentiality	2 years
7. Attorney's Fees	Reimbursement of all costs associated with legal actions taken to enforce/interpret agreement, if Executive prevails
8. Arbitration	Requires arbitration to settle all contractual disputes

this generous pay package for a reduction in duties, would Jackson accept it? How much could a new CEO accomplish with Jackson still around and leading the board? And, what message would this send to Wall Street?

The board members knew that the answers to these questions were not going to come easily. But, they felt they had to resolve the issues and resolve them quickly. They set their sights on their next board meeting in two months' time to make a succession decision on which option was the best to adopt.