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Turmoil at CSX: Hunter Harrison’s Medical Leave[[1]](#footnote-1)

Professor Stephen Foerster wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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In December 2017, CSX Corporation (CSX), a major U.S. railway, announced in a news release that its chief executive officer (CEO), Hunter Harrison, had taken a medical leave of absence due to unexpected complications from a recent illness. Harrison had been appointed CEO in March 2017 with the support of activist firm, Mantle Ridge. Harrison was an iconic figure in the industry, having turned around several major railways, including Canadian National (CN) and Canadian Pacific (CP), implementing his “Precision Scheduled Railroading” (PSR) philosophy that dramatically lowered operating expenses, and consequently unlocked shareholder value—but at the cost of alienating some employees and customers.

The board of directors named James Foote, CSX’s chief operating officer (COO), as the acting CEO. Foote had been appointed COO in October 2017 when sweeping executive changes were made following the resignation of the former COO and chief marketing officer, and the retirement of the executive vice president of law and public affairs. Foote had previously been CN’s chief sales and marketing officer from 2000 to 2009 during Harrison’s tenure as CN’s CEO from 2003 to 2009. Foote, a lawyer, had minimal operating experience. Around the time of his appointment, analyst and industry insider reaction was mixed. According to one analyst, “Foote could be the trusted, proven railroader that could be a solid backup for Hunter. Just being part of the senior team at CN was akin to accumulating operating experience.” However an industry insider criticized Foote’s lack of direct operating experience:

Credibility with [operations] people comes from working day and night in the field. If, for example, you haven’t changed a knuckle 50 cars from the headend in blinding rain at 2 a.m., you won’t have much credibility among the ranks of [test and evaluation] personnel, superintendents, and trainmasters. These are the people who get trains over the road and want to be led by people who know their daily grind.[[2]](#footnote-2)

Foote had a close relationship with Harrison:

Hunter is a good friend and has been a colleague of mine for many years. He is an icon in the industry and we pray for his speedy recovery. I have been following the CSX story very closely since January but did not realize just how much progress Hunter and CSX’s able team have made replicating the transformation we effected at Canadian National some years ago. I believe that the battleship has turned, the PSR framework has been put into place, and the company has amassed the critical talent—through education of the internal team and supplementation with a complement of strong PSR operating veterans and a strongly supportive board—sufficient to follow through and execute on the PSR operating plan. Because the team has implemented a foundation consistent with Hunter’s vision, I do not see any reason to diminish our expectations concerning the pace and magnitude of our future progress.[[3]](#footnote-3)

In reaction to the news of Harrison’s medical leave, on December 15, 2017, CSX stock plunged by 7.6 per cent (from US$57.31),[[4]](#footnote-4) to end the day at $52.93 (whereas, the S&P 500 rose 0.9 per cent that same day). With 893.7 million shares outstanding, $3.9 billion of market value was erased in one day. (In January 2017, prior to Harrison’s involvement with CSX, the stock price was around $36.)

When Harrison was hired, his medical situation was known. In June 2017, around the time the board of directors approved his $84 million compensation package (excluding stock options and other incentives possibly worth over $200 million), according to a Securities and Exchange Commission (SEC) filing,

Continued availability and service can never be guaranteed for any individual and is a particular risk in the case of Mr. Harrison, who is 72 years old and has experienced medical issues at various times, including a respiratory condition that requires him to use supplemental oxygen. An extended or permanent loss of the services of Mr. Harrison, due to death, disability, or any other reason, could adversely disrupt the pace of implementing the company’s Precision Scheduled Railroading, or otherwise adversely affect the company or the market price of the company’s securities.[[5]](#footnote-5)

On December 16, 2017, CSX issued another news release:

It is with great sadness that we announce that E. Hunter Harrison, president and chief executive officer of CSX, died today in Wellington, Fla., due to unexpectedly severe complications from a recent illness. The entire CSX family mourns this loss. On behalf of our board of directors, management team, and employees, we extend our deepest sympathies to Hunter’s family. Hunter was a larger-than-life figure who brought his remarkable passion, experience, and energy in railroading to CSX.

Edward J. Kelly III, chairman of the CSX board of directors, issued the following statement on behalf of the board of directors:

With the passing of Hunter Harrison, CSX has suffered a major loss. Notwithstanding that loss, the board is confident that Jim Foote, as acting chief executive officer, and the rest of the CSX team will capitalize on the changes that Hunter has made. The board will continue to consider in a deliberative way how best to maximize CSX’s performance over the long term.[[6]](#footnote-6)

According to a *Wall Street Journal* article on December 18, 2017, Harrison’s death raised many questions about the board’s decision to hire him in the first place.[[7]](#footnote-7) Harrison refused requests by CSX to have his medical records reviewed by independent physicians. An analyst noted, “It was a classic triumph of short-term thinking over long-term sustainability. [The board] took a high-beta risk that appeared to pay off for the first six months. Now, they’re stuck with a consequence that could expose long-term shareholders.” Another commentator reflected, “If they did know he was on his deathbed, they really have some explaining [to do] at this point.”

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of CSX Corporation or any of its employees. [↑](#footnote-ref-1)
2. Bill Stephens, “Hunter Harrison and James Foote Meet Again,” Trains, October 26, 2017, accessed December 21, 2017, http://trn.trains.com/news/news-wire/2017/10/26-csx-shake-up. [↑](#footnote-ref-2)
3. “News Releases: CSX Announces Medical Leave of CEO E. Hunter Harrison,” December 14, 2017, accessed December 21, 2017, https://www.csx.com/index.cfm/investors/news-releases/?rptyr=2012&article=2322883. [↑](#footnote-ref-3)
4. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-4)
5. “CSX Board OKs $84 Million for Harrison,” JAX Daily Record, June 16, 2017, accessed December 21, 2017, https://www.jaxdailyrecord.com/article/csx-board-oks-84-million-harrison. [↑](#footnote-ref-5)
6. “News Releases: CSX Announces Death of CEO E. Hunter Harrison,” December 16, 2017, accessed December 21, 2017 accessed December 21, 2017, https://www.csx.com/index.cfm/investors/news-releases/?rptyr=2012&article=2323037. [↑](#footnote-ref-6)
7. Paul Ziobro, David Benoit, and Joann S. Lublin, “CSX Chief’s Death Prompts Tough Questions about Move to Hire Him,” *Wall Street Journal*, December 17, 2017, accessed December 21, 2017, https://www.wsj.com/articles/csx-chiefs-death-prompts-tough-questions-about-move-to-hire-him-1513554100?mod=djem10point. [↑](#footnote-ref-7)