HOSPITAL ADMINISTRATION ORAL HISTORY COLLECTION

Lewis E. Weeks Series

Thomas F. Frist, Sr.

THOMAS F. FRIST, SR.

In First Person: An Oral History

Lewis E. Weeks
Editor

HOSPITAL ADMINISTRATION ORAL HISTORY COLLECTION
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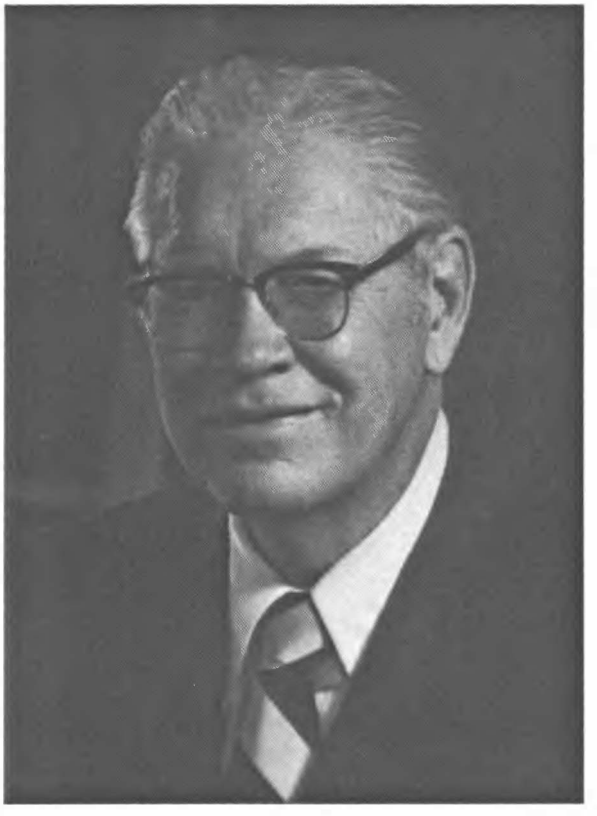

Thomas F. Frist, Sr., M.D.

CHRONOLOGY

1910	Born Meridian, Mississippi, December 15
1931	University of Mississippi, B.S. (Pre-clinical Medical Certificate)
1933	Vanderbilt University, M.D.
1933-1935	University of Iowa Hospitals, Intern
1935-1937	Vanderbilt University, Assistant Clinician
1937-1942	Cate-Frist Clinic
1940-1960	Park View Hospital, Nashville, Founder
1942-1946	U.S. Army Air Force, Major in the Medical Corps
1945-	Frist-Scoville Medical Group, Nashville
1968-1971	Hospital Corporation of America, Co-founder and President
1972-	Hospital Corporation of America, Vice Chairman and Chief of Medical Service
1978-	American Retirement Corporation of Nashville, Co-founder

MEMBERSHIPS & AFFILIATIONS

American Board of Internal Medicine, Diplomate

American College of Physicians, Fellow

American Medical Association, Former Chairman Committee on Aging

American Retirement Corporation, Founder and Vice Chairman of the Board

Belle Meade Country Club, Member

Cumberland Heights Foundation for Rehabilitation of Alcoholics, Founder

Lago Mar Golf Club, Member

Medical Benevolence Foundation for Presbyterian Medical Missionaries, Founder and Member of Board of Directors

Mid-Tennessee Heart Association, Past President

Montgomery Bell Academy, Nashville, Board of Directors

Nashville City Bank and Trust Co., Member Board of Directors

Nashville General Hospital, Past President of Medical Staff, Chairman of Board

Nashville Society of Internal Medicine, Past President

Park Manor Presbyterian Apartments for the Elderly, Founder and Past Chairman of the Board

President's Committee on Aging, Past Chairman

Royal Society of Internal Medicine, London, Member

St. Thomas Hospital, Nashville, Past President of Medical Staff, Member of Executive Committee

Sigma Alpha Epsilon

Southeastern Clinicians Club, Past President

Tennessee Medical Society, Former Chairman on Aging

U.S. Department of Health, Education and Welfare, Advisory Committee on Older Americans, Member

Vanderbilt University Medical School, Associate Professor Emeritus of Clinical Medicine

Westminster Presbyterian Church, Elder

AWARDS and HONORS

Duke University Hospital & Health Administration Alumni Association
National Award of Merit, 1984

Mid-Tennessee Heart Association
Permanent Honorary Chairman

Mississippi, University of
Advisory Board of Directors

Nashville Area Junior Chamber of Commerce
Award of Merit, 1982

Nashville Marketing & Sales Association
Salesman of the Year, 1982

National Conference of Christians and Jews
Man of the Year, 1983

Rhodes College
Doctor of Humanities

Vanderbilt University Medical School
Dr. Thomas F. Frist Chair of Internal Medicine

WEEKS:

Dr. Frist, I thought it might be good to begin at the beginning. I noted that you worked your way through the University of Mississippi with quite a lot of ingenuity, from all the accounts I have read about all the things you did to earn your way through school. Then you came up here to Vanderbilt for your M.D. degree. You interned in Iowa.

FRIST:

Yes, sir, I interned at the University of Iowa.

WEEKS:

Then you came back to Nashville?

FRIST:

That's right.

WEEKS:

Did you open up an office then?

FRIST:

I worked at Vanderbilt Hospital all morning then worked in the afternoon with a doctor--my brother-in-law as a matter of fact--Dr. William Cate, who was Associate Professor of Medicine at Vanderbilt.

WEEKS:

How did you happen to choose medicine? You came from a family of rather modest circumstances.

FRIST:

Yes, sir. I'll go back a long way if you don't mind. My father died when I was eight years old. He was a conductor on the railroad and later the station master at Meridian, Mississippi, a small town of 15,000 people at the time. My father was a very ambitious, innovative man. He had a job, he

bought a little farm, he had several rental houses and other real estate properties. Unfortunately, he died as a result of a train accident in which he saved the lives of a lady and a baby for which he was awarded both the Carnegie and Woodrow Wilson medals for bravery. I had one brother and two sisters, and no money. At the time of his death, all the real estate and other properties he owned was not fully paid for and all his assets went to pay for our home. Our home was a large 14 room three story house. So to make ends meet and to support her four children, my mother had to fill the house with boarders. She was very careful to select people with education and who were cultured. During my school years she took in two doctors and their families. They had an apartment in our house. Then she took a banker in, and an Episcopal minister, several schoolteachers, and people such as that. She was very careful in whom she chose to share our home. Every night I would eat dinner with all of them and naturally we all had a very close and warm feeling for each other. They would treat me like I was their own child. I was exposed daily to these highly educated and cultured people.

When I was nine years old, I got a job on a laundry truck delivering laundry for the man who drove the truck. When I was twelve years old, I started working at the hospital. From twelve to sixteen I worked for Dr. S. H. Hairston's hospital. He had about a 55 bed hospital in Meridian, Mississippi. I started working at the hospital as an orderly and anything I could do. I learned a lot about people. I loved people. I worked in the laboratory, and all through the hospital. At about fourteen he put me into collecting his accounts due. So I would go around collecting the accounts for the hospital and learned a lot about business. I worked every afternoon on the laundry truck and in the hospital except in the football season, when I

went out for the team. I only weighed 110 lbs. so I never played in the games but I learned a lot about life.

I developed a great love for the hospital through the influence of Dr. Hairston. When he moved into his big home, Dr. Riley, a young pediatrician, came to stay at my house with his wife and I came to admire him very much. They stimulated me to want to study medicine, mainly because I like people. It's a hobby, if any hobby I have, it's people; I love people.

I went to college first at Southwestern University, in Memphis, Tennessee. It's a Presbyterian school in Memphis. I got a job, many jobs, to work my way through Southwestern. I kept the tennis courts, an old clay court, for 25 cents an hour. I worked in the library and I picked up laundry. The main thing I did, I waited on tables for my room and board.

My brother was there. He was a senior, I was a freshman. He was the president of everything on campus. He was a great football player; he was All-Southern. I didn't want to live under his shadow at Southwestern so I transferred after my first year to the University of Mississippi. I did that for two reasons. First for the reason I just mentioned and the second one because I could go for three additional years. The last two years would be in their medical school. So in 1931 I obtained my B.S. degree, medical certificate for completing two years of medical school. At that time the University of Mississippi only offered the first two years of medicine.

When I transferred from Southwestern College to the University of Mississippi I was without any money, so I went to Oxford for two weeks before school started and was able to get several jobs. I waited on tables there. I took up laundry to all the fraternities. I collected hangers and sold them. I sold stationery to all the fraternities.

Then there was no radio or TV (1928-1929). The University of Mississippi (Ole Miss) had a great football tradition, so I got the idea I would use the Western Union Services to give a play-by-play report to the students for all of the out of town games. I charged the students a dollar to enter the gymnasium. I would have another student at the game at the other end of the wire sending me a play-by-play over the wire. I would translate that to the crowd like a radio announcer would today, as a play-by-play to the students. I made about $100 per game. I also put out a football blotter, a big desk blotter with the football schedule in the center and advertisements around the outside. I made about $450 there. Also, I put out the football program for games by selling ads in the program...that was difficult to do because we were in the height of the great depression.

It was easy for me to get a job, because I was willing to work. Other people were suffering so much but I always had an easy time in the great depression. I was so fortunate because then it was so cheap to live. I guess I was innovative. I worked at many things.

Another thing I did was be a baby sitter. I would go to a home where I could look after the children at the same time I could study. One of the persons I sat for mostly was Dr. B. S. Guyton. He was the dean of the medical school, also a great ophthalmologist. By the way he had three sons who are very famous people now. One son is professor of physiology at the University of Mississippi, author of the most outstanding book on physiology, Dr. Arthur Guyton. I babysat with him when he was a little baby. Dr. Guyton was very interested in and kind to me. He brought me in his car to Vanderbilt University in Nashville, Tennessee. He, of course, was a friend of the dean and he got me into Vanderbilt Medical School for my last two years.

By the way, Dr. Guyton was about 30 years ahead of the time because he would remove a cataract of the eye and let the patient go home the next day when all the other eye doctors would keep the patient in the hospital for two weeks applying sandbags to immobilize their heads.

I came to Vanderbilt in Nashville, in 1931 and I did not know even one person in the whole city of Nashville. I didn't know what to do. I had ten dollars in my pocket. I saw an old woman sitting on the porch. I went up to her and introduced myself. Her name was Mrs. Compton. She was 75 years old. As I said this was in the middle of the depression, 1931.

I said. "Mrs. Compton, I don't have any place to live. I have ten dollars in my pocket. I know you take student boarders here."

She said, "I do. School is going to start in two weeks. I don't have any boarders and I have places for 18 students. I don't have anyone in line. I am frantic. I don't know what I can do. I have two houses here with no boarders."

These homes were one block from Vanderbilt Medical School.

I said, "Mrs. Compton, I will make a deal with you. If you will allow me to get my room and board free, I'll get you the boarders and collect all the money for you."

She said, "That would be wonderful."

As I had done at Ole Miss I had come up two weeks before school started. I went to the dean's office and got a list of every medical student. I wrote them all a letter. I said, "Dear so and so, I have a place for you to live and I will give you a room and two meals a day for $15 a month." That was what she charged then. I was deluged with applications. I filled the two boarding houses with the 18 medical students.

Also during those two weeks I put out a blotter like I had at Ole Miss, the University of Mississippi. A blotter with the football schedule in the center and ads around the edge--I sold the ads for $10 to $25 an ad so I made from $400 to $450 on this blotter. That paid my tuition. At that time tuition for the year was $250. So I paid my tuition and had $200 left. So I found a way to work my way through the university and sent my mother $30 every month. I am proud of the fact that I wrote my mother a card or a letter every day I was in school. I was very close to my mother. She was the light of my life, the inspiration of my life. She wanted her children to be very successful. I had one brother, who was to become an outstanding Presbyterian minister, and two sisters. My mother was a very cultured, well-educated, ambitious woman. She never raised her voice or scolded me one time in her life. Likewise, because of her influence, I have never raised my voice or whipped or spanked any of my five children one time in my life. I have never been mad at one of my children in my life.

Going back to school, another thing I did at Ole Miss and here at Vanderbilt was to haul trunks. In those days no student was allowed a car on the campus. Everybody came by train. So I had a great time at Ole Miss and Vanderbilt too. I went to the station and collected tickets, trunk checks. I had a man help me, and a mule and a big dray. We put the trunks on the dray and we hauled them to the dormitory and put them in the rooms and got 90 cents a piece for it. I made quite a bit of money out of that, both at Ole Miss and Vanderbilt. At the beginning of school and at the end of school I hauled trunks.

At Vanderbilt I had a job at the library at 35 cents an hour. I could study at night and work in the library. I also did many, many other things to

make money.

For instance, I started...at that time there were no vending machines in Vanderbilt. I found a vending machine in New York. I saw an advertisement in a magazine. I wrote for it and bought it. I put it in the medical school and hospital combined. The vending machine had candy and chewing gum and that kind of thing. I filled it up every night and collected my money. I made about $75 a month out of that. It became a big business. When I graduated from Vanderbilt, I sold my business and vending machines to another student.

Also I sold white medical coats. I found a place in New York with white coats for medical students. I would buy them for $2.5Ø. Every medical student had to have a white coat, so I sold them for $7.5Ø a piece. I made considerable money out of that.

Likewise at Vanderbilt I put out the football program. I also sold cushions to cover the hard, splintery seats at Vanderbilt. I got a little company in Nashville to make me the cushions. I sold them at the games. I had a great time making money and going to school. I worked pretty hard to send my mother money and pay all my expenses.

Another thing I did, I went to dances. We used to have dances every Saturday night. At the first dance I went to, I did not see anyone selling cigarettes, candy and chewing gum. In those days, even in the Depression, everybody dressed really well: suits and ties and overcoats. It was amazing, during the Depression everybody wore suits of clothes, especially at Mississippi and Vanderbilt. In good times now they wear T-shirts and blue jeans. In my days in 1929 and 193Ø they all wore suits, so in the gymnasium I developed a space to check hats and overcoats, also a stand where I sold cigarettes, cold drinks, chewing gum, and candy. I made about twenty-five to

thirty dollars every Saturday night. That was a lot of money in those days. I did a lot of things like that.

WEEKS:

It's almost a Horatio Alger story.

FRIST:

No, it was a matter of having to do it. My roommate was always trying to find a job. He never could do it somehow, but his father was a wealthy doctor. But I never had trouble finding a job or something to do to make money to send money to my mother and pay all my expenses.

I graduated, not with very good grades. I had a high B average, but not an A because I didn't have time to study enough. After graduating from medical school I got an internship at the University of Iowa, a rotating internship. After I got there, four months later, I had a spontaneous pneumothorax. They thought it was due to TB. I was tall and very thin. I weighed 135 pounds. I was out of the internship for nine months. It was not due to TB at all. It was just a simple spontaneous pneumothorax. I went back and stayed another year and a half at the University of Iowa at Iowa City. Then I came back to Nashville to practice medicine with my brother-in-law. He was an associate professor of medicine at Vanderbilt. I became an instructor of medicine at Vanderbilt. Finally I became associate professor of clinical medicine at Vanderbilt. Now I am retired Professor Emeritus of clinical medicine at Vanderbilt.

I took a great interest in teaching in the early days of my practice. I worked five days a week for free at Vanderbilt in the clinic and teaching students, for years and years.

My brother-in-law and I had a very fine practice. Then the second World

War came along after I had practiced eight years. I went to the Air Force as a first lieutenant. I worked up to a major. I was chief of the medical department at a thousand bed hospital at Maxwell Field Airbase, Montgomery, Alabama. I was there four years. I set up a teaching program tailored exactly as Vanderbilt had in its teaching program. So I had rounds every morning, general rounds once a week. We did a lot of real good teaching. I did considerable research in pressure chamber testing that simulated high altitudes. I take great pride in the fact that at least six of the young lieutenants under me went on to become professors of medicine in various medical schools around the country, one at Harvard, one at Johns Hopkins, they attribute what they learned in the two or three years in our Air Force hospital their most valuable experience, because we studied very hard. We had a club of seven interested doctors who got together two nights a week and went through anatomy, embryology, physiology--all the books--also through a textbook of internal medicine. We would study for two hours each night, two nights a week. Then we would get together for one hour and relate what we had learned in the two hours of study. It gave us fourteen hours of study all in one hour. It was a great thrill to me. It enabled me to learn a lot of medicine, but also enabled me to take and pass my board in internal medicine.

Then I came home and opened up my own office in Nashville. I was an instructor in medicine at Vanderbilt at the time. I was then made the head of the department of medicine at the City Hospital, a branch of Vanderbilt teaching service. So I developed a teaching service at City Hospital. In my office I gradually took in partners. I still have a practice of nine doctors in internal medicine. I really retired from active practice about five years ago when I had a triple by-pass followed by a stroke. I still go to the

office and read EKGs. I read from 100 to 200 a day because I had the first EKG machine in Nashville outside the Vanderbilt Hospital. I had a big EKG machine, about six feet long and four feet wide. I had one in my office with Dr. Cate, my partner. That was before the army. I learned to read EKGs, so when I came back I started reading the EKGs for little hospitals around this part of Tennessee and Alabama. They would send the EKGs in by mail. I would interpret them and send them back, which required a total of three days. Thirty years ago I put in the first telephone system for EKGs in Nashville. I still have one by my bedside. They would telephone in the EKGs--using my phone trace--I would read the EKGs, interpret on the spot, and telephone the response to the doctor immediately. I did that for twenty-five years, then I got the first computer EKG, where the hospital or doctor's office could take an electrocardiogram on the patient and simultaneously it could be printed out and interpreted by the computer and reported back to the hospital in a matter of three minutes. We had 30 little hospitals around Alabama and Tennessee where they don't have an internist, cardiologist. I did an average of 5000 EKGs a month.

Now more doctors are going to small towns and small hospitals who can interpret EKGs so this has fallen off considerably, but we still use the computer EKG very much. We now have a brand new one that I am very much interested in. I gradually built up my practice until we now have nine internists of different subspecialties in our clinic.

WEEKS:

You have told me a lot about your interest in medicine and I am going to ask you about the development of Hospital Corporation of America, but first tell me a little about the rest of your family.

FRIST:

Thanks for asking that because one's family and one's religion are so much more important than all the other things we are talking about. In fact, they are far more important than anything else in life.

I have told you about my father dying when I was 8 years old, and about my mother. However, the most important and greatest thing that ever happened in my life is when I met my wife to be, Dorothy Cate, when I was a senior in medical school. She had graduated from Ward Belmont College and Peabody College and was teaching in the city schools of Nashville for $70 per month. Three years later, after I had been in practice one year we were married. The great help she gave me in aiding my terrible inferiority complex and insecurity was unbelievable. She became the best wife with her unselfish attitude, not being jealous of my work or my patients and her ambition for me to become an outstanding doctor and citizen was all inspiring. To this day, she has the reputation of being the best doctor's wife in our city and patients still call her for all types of advice, simple remedies and what to do in emergencies.

But greater than that, she bore me five wonderful children. Two girls, Dorothy and Mary Louise, who have outstanding husbands and children and three boys, Tommy, Bobby, and Billy, who are all doctors, two highly skilled heart surgeons, and Tommy who is one of the founders, president, and CEO of Hospital Corporation of America, and finally but not least twelve wonderful grandchildren, six boys and six girls.

WEEKS:

Now tell me about the development of the Hospital Corporation of America.

FRIST:

The main thing you probably would like to know is my interest in hospitals because of my interest in Hospital Corporation of America. The history of that is pretty simple. As I told you, I got interested in the running of hospitals from being an orderly to a doctor from when I was twelve years old until I graduated from medical school. I was a pretty good orderly. I saw the importance of warmth and compassion, and being gentle in every procedure performed on a patient.

I really got interested in hospital care at that time as I told you.

I had several doctors in the Frist-Scoville clinic. Dr. Scoville was an outstanding doctor and a professor at Vanderbilt. He started with me after the war in 1947. We started this clinic and it grew to nine internists. Dr. Scoville was president of the American Diabetic Association and assistant professor of medicine at Vanderbilt, a very outstanding doctor.

My interest in hospitals came about because of the nature of a hospital thirty years ago when hospitals were entirely different from what they are now. Hospitals thirty years ago were a place to go to have your appendix out, or your gall bladder out, or your hernia repaired--or to die. Now it's an entirely different type of hospital. In the last few years there has been a revolution.

I'd like to talk to you another time about the tremendous revolution in the economics, and the scientific portion, and the delivery of medical care. My interest in hospitals, nursing homes, and retirement centers was greatly accelerated in 1959 when I became a member of the American Medical Association's committee on aging, and also when I became a member of the President's National Committee on Aging.

I went to my first committee meeting. Five former presidents of the AMA were on that committee on aging. This was before Kerr-Mills and Medicare came in. We had a real problem with aging. I told the members we should do something tangible about aging, instead of an armchair theory arising about aging. So I came back to Nashville and started a retirement home with the Presbyterian Church. I went to my church and we started a retirement home for the elderly. Then there were about 10 million Americans over 65, now, you know it's approximately 28 million Americans over 65, growing at the rate of three thousand a day. It's a great problem so we started a retirement home. The retirement home I started with the Presbyterian Church is completely full and has a five year waiting list.

The same day I started the nursing home with a group of seven doctors, we decided to build 50 hospital beds and 100 nursing home beds. We thought it would be wise to have them together. It proved that it was not a wise thing to do because the people in the nursing home expected the same treatment as they would get in the hospital. After a year we converted the nursing home into a hospital.

Our concept of a hospital was that it needed good management. At that time, 28 years ago, hospitals...one hospital in this town was managed by a retired person that never had any experience in a hospital at all, purely a political appointment. Our own university hospital was managed by a doctor. He had no experience, no background, no business acumen at all. Another hospital was run by a retired minister, the Catholic hospital was administered by a nun who had no background in business. So, hospitals were very, very poorly managed. Twenty-eight years ago in hospitals there was no minimum wage then, so many hospital employees were second rate people. They were paid very

little so hospitals couldn't hire educated people who had the desire and ability to do the things so necessary to operate a quality hospital.

I wanted a different hospital, a hospital with high class, well-trained people working in it, and pay them adequately. Hospitals should be particularly clean and neat, and serve good food. In those days hospitals were not likely to serve good food. We wanted hospitals to serve nutritious as well as tasteful food. I knew every hospital in town so well that I got the only man in town trained as a hospital administrator. He came and administered our little 50 bed hospital and 100 bed nursing home. I proselyted and got all good people in the town as department heads. That was 25 years ago. Out of the 15 department heads, several of them are still with us. We got a great surgical nurse, a great pharmacist, a great laboratory technician, a great housekeeper, a great x-ray technician, and so on down the line. One of my favorite sayings is, "Like things beget like things." Success begets success. Failure begets failure. The main thing is good people will beget good people.

All our departments begat outstanding employees. We demanded that people really love their work, devoted to their work, with warmth, compassion, kindness, and happy attitudes in the hospital. We succeeded so much with this 50 bed hospital, then 150 bed hospital because we had a modern, clean, well equipped hospital. All employees were kind and compassionate.

It was strange how we started it. We couldn't get any people to put up money for a nonprofit hospital so finally seven doctors organized and signed a note jointly for a million and a half dollars when a hospital cost $10,000 a bed. Now it's $180,000 a bed.

We had a very successful hospital, so much warmth and compassion and

kindness. All the patients wanted to go there. All the doctors wanted to put their patients there. We were very careful to pick a group of very highly trained doctors, so we developed a good reputation except that we were an investor-owned hospital, a for-profit hospital. That gave us a very bad name because 25 or 30 years ago an investor-owned hospital was thought to be a second class hospital. We had to correct that type of reputation. Other hospitals, nonprofit hospitals, we call non-taxpaying. Nonprofit hospitals had a good reputation and they looked down terribly on profit-making hospitals, investor-owned hospitals. It took us many years to change this attitude.

WEEKS:

This was the Park View Hospital?

FRIST:

Park View Hospital.

WEEKS:

What year did you start this?

FRIST:

It opened in 1961.

We operated that hospital for about eight years. We tried every way to raise money, to get money, and we couldn't do it. So we decided to give the hospital to the city and let them support it because we wanted to grow and grow. That didn't work out. In the meantime I helped start two other hospitals, in Lewisburg, Tennessee and Donelson, Tennessee, along with doctors there. For instance, an existing hospital in Lewisburg, a small town, had an old home converted to a hospital. The dining room was an operating room. A board certified surgeon was there. I went down to see a patient one day in

consultation. It's 60 miles from Nashville.

I said, "Bill, (Dr. Taylor) why do you stay in such a terrible hospital?"

He said, "I have tried every way in the world to get a hospital here and I can't do it."

I said, "Let's build one like Park View in Nashville on a smaller scale."

So we built a little 60 bed hospital in Lewisburg. It immediately was a great success, modern and up-to-date hospital, well equipped. It had all the things I have talked about. I and a group of doctors started one in Donelson, Tennessee likewise.

Then the idea came to me and my son--by that time I had a physician son in the Air Force. He was in Macon, Georgia, Warner Robins Field in Georgia. He and I talked about starting a little chain of hospitals. He was always an entrepreneur. He did everything to pay his way through school, like I did. He did many of the things I did but more than I did. He was a real smart student. He got his B.A. at Vanderbilt and M.D. from Washington University in St. Louis. He served his surgical internship at Vanderbilt then he had to go to the Air Force.

He said, "Daddy, let's start a chain of hospitals like Holiday Inn." He roomed with Spence Wilson, Jr. His father started Holiday Inns with Wallace Johnson about 10 years before we started HCA. You know of the success of Holiday Inns.

My son saw how well Holiday Inns had done. He said, "Banks are together, filling stations are together, grocery stores are together, why can't we put hospitals together? Economy of scale means so much. Why can't we have a chain of investor-owned hospitals like the one you have in Nashville?"

So we did. He was just getting out of the Air Force in June so in April

he called me and said, "Daddy, I have a hospital down here in Macon, Georgia that would like to join us. Then he and I went to Mr. Jack Massey. Mr. Jack Massey is a remarkable man. He was a pharmacist by training. He came to Nashville and opened up a drug store and a surgical supply house. He had a chain of surgical supply houses in Alabama, Mississippi, and Kentucky. He did well with that. He finally sold out to A. S. Aloe Company, then Brunswick Corporation bought them. Mr. Massey was 63 or 65 at the time. He had sold his company for a million dollars and retired and went to Florida. He came back in two weeks and said, "Retirement is not for me." He started a little leasing company, leasing all kinds of equipment. He leased equipment to Colonel Sanders who had started Kentucky Fried Chicken restaurants. So Mr. Massey got very interested in Kentucky Fried Chicken, this little company started by Colonel Sanders. They had about 25 or 30 stores. Mr. Massey and a young lawyer that worked for Colonel Sanders decided to buy out Colonel Sanders. John Y. Brown was the young lawyer, only 27 years old. Mr. Massey and Mr. Brown got together and they bought Colonel Sanders out for two million dollars. By the way, John Y. Brown went on to become governor of Kentucky.

So Mr. Massey took this Kentucky Fried Chicken company public, took it all over the world--many hundreds of stores all over the world. I think at one time the company was worth 600 million dollars on the stock market. They started with two million dollars. Mr. Massey had the know-how and the business acumen. Furthermore he had been the chairman of the board of the Baptist Hospital for 12 years, on the board 25 years. He bought an old hospital, Protestant Hospital, a 90 bed hospital, and gave it to the Baptist Church. As chairman of the board he built that hospital until now it is a 650 bed hospital. So he had 25 years experience in operating hospitals as the

chairman of the board, and also experience in the surgical supply business. He had the know-how, the business acumen, the money to start this company.

My son, Dr. Thomas Frist, Jr. and Mr. Massey and I and a young lawyer, Henry Hooker that had helped me start Park View and Lewisburg hospitals in 1961; we four got together. We decided to form a chain of hospitals similar to the format of Holiday Inns. We did that. Mr. Hooker dropped out after about a year. Mr. Massey, Tommy, and I were the principals in the company. We decided to call it the Hospital Corporation of America.

There were so many former students that I had taught at Vanderbilt Medical School around the Southeast. I called them on the phone and asked them what shape their hospital was in. Several owned hospitals but they were mostly in nonprofit hospitals. In six months time we put together 11 hospitals. Tommy was an airplane pilot, had a little single motored plane. We would go out after I had worked all day, go at five o'clock in the afternoon to a town 30 to 200 miles away and meet with the doctors and the board of the hospital, the county board and so forth.

In six months time we put eleven hospitals together. The first key hospital was Park View in Nashville. Then we went public and raised 18 million dollars using that money to buy and build more hospitals. We built the first little hospital in the little town of Erin, Tennessee. Two doctors were in that town. First we bought Park View Hospital. After we went public we built the little hospital in Erin, a town of 1,200 people, 14,000 people in the county, two doctors, both going to leave because they had no hospital at all to take care of their patients. They prevailed on me to build a hospital. They had tried and failed. They had a hole dug in the ground. We took on that project. The hospital at that time cost us $20,000 a bed to buy the

land, the equipment, everything. As I say, now it averages $180,000 to $200,000 a bed. So we built this little 30 bed hospital. Now we have seven doctors in this little hospital. It's a county well served by these seven doctors in this little hospital. We just added 10 beds, by the way.

So we began to grow and grow. This was before the certificate of need. We picked out good places to build hospitals in growing communities, in growing sections of town, away from the downtown area to where the population was growing. We built office buildings for doctors. They could buy it at cost or we would rent it to them, anyway they wanted to do it. We never gave one doctor a penny of money. We have never allowed any doctor to buy any part of a hospital because we didn't want them to have a conflict of interest.

It always worried me when I started our Park View hospital that I would have a conflict of interest in owning a hospital and making money out of the patient and out of the hospital. I was very careful to put any patient I had a question about in another hospital in town.

So we made a policy that any hospital we built would not have any doctor in ownership. They could buy stock in the company but not that hospital. That was a very smart move on our part because other companies would get a group of doctors together and form a hospital and get a big interest in the hospital. So we have avoided that completely.

We put together these hospitals. After getting about 100 hospitals we developed various management systems. We didn't try to operate hospitals for other owners for the first eight years of our Hospital Corporation of America because we didn't have our management systems organized well enough to manage for other owners. We worked very hard in perfecting our management systems such as purchasing, data processing, legal, drugs, construction, education,

and a host of other systems. For instance, last year we purchased over $750,000,000 worth of supplies and equipment. We get a discount from 10 percent up to 79 percent. I would estimate we saved about $100,000,000 on our purchases last year and we can pass that saving on to the hospital and subsequently to the patient.

WEEKS:

Are these supplies drop shipped?

FRIST:

Drop shipped. That's right. At first we started to have our own commissary and deliver by truck. We tried that but it was much more economical to drop ship. We have great discounts. For instance, we bought 13 CAT scanners last year at one time. We saved an enormous sum of money on that.

WEEKS:

When we get talking about CAT scanners and MRIs, will you explain how they are used? Do you put them in regions and then hospitals in that region use them, transfer the patient, or make the equipment mobile?

FRIST:

I'll go into that a little later. We have developed all systems. Audio systems--I think we have the greatest audio-visual system of any company in the country. We put on programs for doctors and nurses and orderlies, housekeepers, pharmacists, etc. We make audio-visual tapes and send the tapes out to the local hospitals so they can use them when they want to use them. Also we have a great auditorium in our place. We can put on a program there. Before long we can satellite this program to all the hospitals. For instance, we have 68,000 beds now in our hospital corporation. The patient will be able

to push a button on the TV for a channel in the room and learn all about nonsmoking, or dietary or how to prevent this or that and all sorts of medical and preventive medicine topics.

Also we can put on a program for all the doctors. We have already had programs for all the 12 hospitals on the satellite system. We intend to have all the hospitals on the satellite system.

WEEKS:

This is for the doctors particularly?

FRIST:

No, not just for doctors but also for all the hospital personnel. We have 180 training programs taped. Amazing thing. It doesn't cost the hospital anything. We ship them and they keep them to put on training programs. This saves an enormous amount of money in taking training programs to the hospitals.

All the money collected in the hospitals is wired into a computer that day and we deposit that money before 8:30 every morning in some type of an account that draws interest that day. We save a lot of money, and that money is passed on to the patient. That's one of the reasons we can operate a hospital so economically and pass the savings on to the patient.

We have another system, The Center for Health Studies. It's our research arm of our company. We have a very fine group of Ph.D.s and other fine professional men and women doing all sorts of studies in HMOs, surgicenters, day care--every kind of system--outpatient diagnostic clinics--all kinds of systems we study very carefully. We pass that on to our management team. It's a very expensive but a very worthwhile arm of our company. We do a lot of publication. We have a very, very fine system.

About 1977 we started to manage hospitals for other owners. We felt by then that we had our system pretty well perfected. We were always making improvements. With computerization you really have to keep up to date. It's difficult to keep up because computers change every day, but we are trying to do that. So, we started to manage for other owners. We started with two or three hospitals first, now we have 170 hospitals that we manage for other owners.

One of the most thrilling things for me is to see the change in image and reputation of investor-owned hospitals in the past ten years. We were sort of the outcasts a few years ago. The investor-owned hospitals had a bad name. We got faulted by the American Hospital Association, all nonprofit hospitals, and many other associations.

We have the Federation of American Hospitals for investor-owned hospitals. Now there are 1,200 or 1,500 hospitals out of 7,000 hospitals in the country that are investor-owned hospitals. Formerly, we had trouble getting first class administrators. Five or ten or fifteen years ago all good, great schools of hospital administration actually taught their students not to go to investor-owned hospitals; they had a bad name. They skimmed the cream. They didn't furnish the necessary service in OB, they don't do this, they don't do that. It wasn't true at all.

We have 155 hospitals, the only hospital in the town. We furnish everything, emergency room, OB, everything, a full service hospital. We never turned down, to my knowledge, one person for the lack of funds that the doctor has advised the patient to come into the hospital. Certainly where we are the only hospital in town. In many towns, you know, they have big charity hospitals. Nonprofit hospitals also send them to the charity hospital.

Now we don't have any trouble getting good administrators. The top of the class always applies to us first. We take the top of the class. We have our choice of all of the schools--not all, but many of the better hospital administration schools. The top men apply for a job and we take them as interns. The better ones we keep as assistants and we have a training program for them. In five years they are ready to administer a hospital.

I think we have the finest caliber of hospital administrators known in the world today. Certainly they are all well-trained, honorable, cultured ladies and gentlemen of which we are very proud and dependent on for the success of our hospitals. It is often said about what makes a company successful is location, location, location. I say the success of HCA is not location but administration. Administrators, that's the number one importance of our company.

Back to our hospital management team for other owners. First, we managed hospitals just before they were going broke--were in very bad financial condition. Now we are getting very well-operated hospitals. They say our system is working so well that we can do so much for them in saving money and making their already well-operated hospitals have a savings, improve the quality of patient care by having all the advantages of the various systems we have developed and they can use.

WEEKS:

Including purchasing?

FRIST:

Purchasing, yes.

One of the biggest thrills of my life is that we are getting involved with medical schools, more and more. We have several medical schools. We

just signed a contract with the University of Mississippi, a 630 bed hospital, for training students of University of Mississippi Medical School. I was personally proud and pleased with that contract because this is my old alma mater. We just signed a contract to manage a hospital in--a medical school hospital in New Jersey, and in New York, California. At Vanderbilt we are cooperating with them in a joint venture in a psychiatric hospital. So, we are getting more and more in medical school hospitals and teaching hospitals. So that's a thrill for me because they are getting to realize what we can offer them to cut down on the tremendous cost of medicine. We are doing that as well as one can do it at the present time. We have a lot to learn but we are working hard on cutting down the cost of medical care. Our motto is "Quality Hospitals" and quality hospitals means not only bricks, mortar, and equipment but modern day technique and medical care.

You have to have modern equipment. I think when we started this company there was no ultra sound, no CAT scanners, no nuclear medicine, many chemistries and enzyme studies were not done in the hospital. There were no coronary or intensive care units at all. Just a few years ago.

We have kept abreast of time. Now we have the new MRI machines, remarkable inventions. I went around to study them at each company that makes them. It's remarkable. The pictures are so much better than CAT scanners. Amazing thing. They show the tendons and nerve tissue, blood vessels, muscles, bone, brain and spinal cord but also some chemistry of the body can be analyzed. This is a great advance in medicine.

So we furnish bricks and mortar and equipment. Quality hospitals have to have that. This is not to say that every hospital should have an MRI machine or CAT scanner. For instance, in Nashville we have a CAT scanner and are

putting in an MRI. We have five hospitals that use these. They send the patient in an ambulance. In many of the smaller hospitals we have mobile CAT scanners, mobile testing, and will have mobile MRI machines.

By the way, we have a helicopter to go out and bring in patients from 200 miles distance for open heart surgery, brain surgery and things like that. In many locations we have a central hospital and a lot of small hospitals in small towns around that use our central hospital. They are not required because they can use any hospital they want to use. We try to furnish them with the best equipment to make the best hospital—one they will want to use--the doctors will want to use it. That's a very important thing.

The management of hospitals has been such a great thrill to me. They can save so much money on a management contract, yet they don't give up the ownership.

Now more and more city and county hospitals are coming to us to buy them because they need money so much for roads, schools, and libraries, water systems, and that type of thing. They don't want to raise taxes so they have a good equity in the hospital they can use. For instance, we paid $18 million for a hospital in a small town. The county got all that money and put it out at interest and got $1,800,000 yearly that they can use. That's more than they could have collected in taxes. We have done that in many, many places. In many places we have replaced the old hospital with a new hospital. The old hospital was converted to a nursing home, to office spaces for the city, county, for schools for teaching nurses. In many cases we converted the old hospitals into retirement homes and things like that.

So we have grown in the last 16 1/2 years from one hospital to now when we have approximately 420 hospitals in 42 states and in 7 foreign countries.

Of that 420 hospitals we manage about 190 hospitals for other owners. We signed a management contract in 1983 with 39 hospitals to manage. It's growing each year—the management contract business.

To show you that we are on the right track, nonprofit, non-taxpaying hospitals have done what we have done. They have grouped together and put in systems like ours but so they can still say they are nonprofit hospitals. We still think the investor-owned is America's way of life. Private enterprise is one of the greatest assets we still have in this country. We think we have at least as well or more dedicated people to run an investor-owned hospital, take more pride in it than nonprofit hospitals. That's not to say that nonprofit hospitals are not necessary. Great university hospitals are number one in performance in this country, in the training of doctors, in the giving of first class service, and in doing most of the research in medicine. The most important group of hospitals in the world--university hospitals. Second, we have a lot of the government hospitals like Army hospitals, Navy hospitals, also rendering quality service.

WEEKS:

Were you managing some of those?

FRIST:

Yes, in increasing numbers. We save a lot of money for them because they have come to us to help design hospitals. But other classes of hospitals: Veterans Hospitals, Army, Navy hospitals and hospitals like NIH are really important hospitals--government-owned hospitals. The next thing you have is city, county hospitals, here to stay a long, long time, but getting fewer and fewer. They have to be replaced. Old downtown hospitals, poorly kept up, and such an expense for the city and county to run. That's a great future with us

because many city and county hospitals are closing their doors and farming out patients and paying for patients in other well-run hospitals, private hospitals whether nonprofit or investor-owned. We have so many nonprofit and church operated hospitals. A large part of the hospital industry in this country is nonprofit hospitals. Really well organized and in many ways ideal hospitals, but many, many need a lot of help. The fifth type of hospitals are investor-owned. I think they will save the population money because we can run them efficiently.

Nonprofit hospitals are no such thing because if nonprofit hospitals don't make a profit you close your doors. You have to make a profit whether you call it dividends or reserve. You have to make a profit in a hospital. We think we can make a profit around 4% of income. We will this year do over $4 billion in revenue. We think our systems that we have developed will save a lot of money for the population as a whole. That's pretty much the story.

Then there's our foreign operations. We just recently bought a hospital in Panama. The people who owned that hospital sold it to us. We helped build it. We have a new doctors' office building for about 100 doctors in the hospital.

In this country we run a large number of hospitals with a group practice. For instance, Pensacola, Florida has a group of 106 doctors using a Florida Regional Hospital and they see more patients, I am told, than Mayo Clinic in one year. So we have run a lot of clinics like that around the world. In Saudi Arabia we established the first real hospital in Saudi Arabia, the King Faisal Hospital, a very, very expensive hospital. King Faisal, before he died, wanted us to build and operate a hospital for him. We did, a 500 bed hospital. We managed the 500 bed National Guard Hospital in Saudi Arabia. In

England now, even with socialized medicine and socialized hospitals, we have seven private hospitals over there doing real well. In Australia likewise they have a socialized system of hospitals and doctors, and socialized medicine; there we own or manage twelve hospitals. We are building a hospital in New Delhi, India for owners. We designed it, built it, and equipped it. It's interesting, we just recruited thirty-five of the top Indian doctors in this country, the very top in this country, to go back to run that hospital in New Delhi, India. It's a great thrill to me to see these people going back to their country because we furnished them with a good hospital, that they never had had before.

We have seven hospitals in Brazil. We have the second largest HMO in the world in Brazil. We take care of a thousand companies; we have about a thousand doctors working for us in the HMO. We have about a million people we take care of in the HMO. That's pretty much the history of HCA.

WEEKS:

May I ask you a few questions? Many of my questions you, of course, have answered already, but if you don't mind my going through to see what I can find. I'd like to ask you a little bit about your philosophy. I remember reading that that philosophy is expressed in words and a plaque is up in your buildings. Do you have that in your hospitals?

FRIST:

In every hospital. Not arm chair philosophy but mostly practical philosophy.

I would like for you to print our Goals and Philosophy of HCA which are listed below:

HCA MISSION

To attain international leadership in the health care field,

To provide excellence in health care,

To improve the standards of health care in the communities in which we operate,

To provide superior facilities and needed services to enable physicians to best serve the needs of their patients,

To generate measurable benefits for:

The Company,

The Medical Staff,

The Employee,

The Investor,

and, most importantly,

The Patient.

WEEKS:

Basically it's concern over patients' welfare, quality of work, and this kind of thing. When you were speaking about it, it reminded me that there used to be an administrator at the University of Michigan Hospital who insisted that all his people be cheerful at all times and speak to patients and care for them and make them know that others were concerned about their condition and that kindness was the basis of their acts. Walking in that hospital to visit somebody, you couldn't help but get that feeling that here was concern for the patients. I think that is a pretty good dose of medicine in itself.

FRIST:

That's right. Our philosophy is so simple, because it is positive care. Positive care means not only brick and mortar, but more in the order of personal warmth and kindness, and working in a happy environment.

Last year I visited personally 78 of our hospitals. What I do is I go in the hospital and shake hands with every person in the hospital; frequently at night too. I meet with all the department heads, if possible. Usually there are about 25 department heads. I tell them one thing: we insist on quality care. Quality care is so important. I know better than anybody having open heart surgery, then a stroke, and now a broken neck. I know the importance of happy people working in the hospital--kind people, courteous people--that's the most important thing in the hospital. A clean hospital, good food. I insist on that all the time. I went to 78 hospitals. I am going to see 70 this year, I hope. It's very important.

Then I talk to the board, separate, then I talk to the doctors, separate. I insist on one thing: quality care. Our philosophy is that you do a good job, quality care, think of the patient and the bottom line will take care of itself. I never worry about the bottom line. If you have a good administrator, good people, and quality service, the bottom line will take care of itself. We certainly found that true.

Several companies have started since our company started--we were the first one. One company told me that's a good business because it's making money, we should start this business to make money! When we started Park View, our first hospital, we never dreamed of making money. We just wanted a hospital to take our patients to. Naturally we have made money because we had quality care.

WEEKS:

I have been reading about you and your marvelous company. It's almost impossible for me to visualize how you can run 400 hospitals and carry out this philosophy and give patients this quality of care, which I am sure you are doing. It's almost beyond comprehension as to how you can handle all this big group of people. As far as what I can see from what I have read you have a board of directors whose members are quite outstanding, some of the leading persons of the area and the country.

FRIST:

I'd like to speak to that. We have a board of directors consisting of the former chairman of the board of AT&T, the former chairman of the board of IBM, the former chairman of the board of Procter and Gamble, the former chairman of the executive committee of the Citibank of New York, the present chairman of the board of Eastern Airlines, the chairman of the board of Wells Fargo Bank, the chairman of the board of North American Rockwell, the former chairman of the board of Prudential Life, the former chairman of the board of Aetna Life, the former chairman of the board for DuPont, and J.C. Penney. They all meet every two months. There are also five doctors with that group. We meet every two months. Bob Anderson, Chairman of the Board of Rockwell International, I know has missed only one meeting in 14 years. We have a real active, a really concerned group. One of the proudest things I have in mind is when I ask them as individuals why they would come and give up one day every 48 working days to devote it to HCA board. One said, "There are two things we do that for. One, we know your other board members; the second thing, the most important thing, you have a reputation as such a great humanitarian company, such a socially responsible company, we want to see how

you do it.

WEEKS:

Wasn't that a marvelous compliment?

FRIST:

A marvelous compliment to make. In addition to that, there is a very important thing I didn't mention. We have a board of governors consisting of 20 doctors from all parts of the country. We have the Minister of Health of Panama. He has worked in our hospital down there. We have had three former presidents of AMA on the board. We have outstanding men from each division of the country. They are elected for three year terms. We turn it over each year with six new men. We discuss everything medically about the company and leave the business up to the board of directors. Medically speaking we discuss in depth studies regarding the economic, social, and scientific changes going on in the medical world and then we pass that on to the board of directors and management. A very important thing about the company.

WEEKS:

How does policy originate? For instance, in Michigan you have three hospital contracts. I notice most of your hospitals are in southeastern United States.

FRIST:

We are now in 42 states.

WEEKS:

You bought out some other companies, didn't you? How do you decide where to go? I'll tell you how I would react to this if I were sitting in your company. One, I would look for places that were underbedded or underserved. I would look for hospitals that had potentials, but were not in the black. I

might look for states or regions that had more favorable regulations than some others. I can't enumerate what they would be but I suspect it is easier to do business in some states than in others.

FRIST:

Yes, such states as New York, Michigan, Maryland do create a greater challenge.

WEEKS:

Or maybe there has been a big population shift such as coming toward the sun states, including the South where we are now or even California. Do you take those things into consideration when you decide?

FRIST:

Very, very much.

WEEKS:

Who discusses this? How do these things originate? I always want to know how things work.

FRIST:

Originally my son and I picked out every location. Originally. We got in a little airplane and picked out every location. We have a number of places called "Frist Memorial Hospital"--of course jokingly. We picked out one in Tamarac, Florida, for instance, with very few houses or business developments there, but we saw a great growth in 2 or 3 years. Now there is a population of 50,000 people in 15 years. Another prime example is Plano, Texas, and along the west coast of Florida. So that's the way we do it. Very easy to choose the right place. Very easy.

WEEKS:

Now you have...I looked at your organization chart. Under the president,

chairman, and vice chairman, and under the board, you have executive vice presidents. According to the list I have, you have one for administration and international. You have one for domestic operations, and one for domestic development. Does this executive vice president for domestic development--is this his big responsibility to select the best places you should go, areas you should get into?

FRIST:

The main thing is that administrators have suggestions as to places to go. The administrators say that the town down the road, a few miles away. He says come in here. Then we send our people down there to see. We investigate it very carefully.

WEEKS:

You get a lot of word of mouth recommendations.

FRIST:

Mostly word of mouth.

I would like to speak to the organization of our company. We have been so very, very fortunate with first Mr. Jack Massey, the chairman of the board. I've talked about him. A very highly qualified business man, perhaps the most noted business man in the history of Nashville. He had been in so many diversified businesses. We had him as the first chairman of the board. He selected a good president.

WEEKS:

Was that the insurance man?

FRIST:

John Neff, a really sharp...very, very smart. Then we selected John Hill.

WEEKS:

He was the insurance man.

FRIST:

He was an insurance man. John Hill was president of Aetna Insurance Company. He took early retirement at the age of 61 and came to our company and taught us a great deal about business. My son, who is a doctor, and a busy man also, learned a great deal from Mr. Massey in the first place, and was a close friend of Mr. Massey since he was a little boy and invested in many of Mr. Massey's businesses as a young boy. Then John Hill came to us as chairman; John Neff became president. He also came to us from American General Insurance Company and took over as treasurer of our company, then he became president of our company for a year or two then he left the company and is now with the State. Fortunately Mr. Massey came back in and managed our company temporarily along with Mr. Hill. Dr. Frist, Jr. was executive vice president.

Mr. Hill retired as president and then we were so fortunate to find out about Mr. Donald MacNaughton, the Chairman of the Board of Prudential Life Insurance Company—the largest company in the world, by the way, larger than Ford and General Motors put together. We saw in the paper where he was going to retire--take early retirement also at 61 years of age. So Mr. Massey called him through a friend of ours, Bill Weaver, a member of HCA's board, and asked him to come down and see our company. He came down here. He had offers to head large law firms and various large companies. We didn't have any idea he would come to a small company like we were six years ago. After he saw the work we were doing, he was so impressed with the humanitarian side of the company and the good we were doing in the world. Being head of the largest

insurance company in the world, he knew the importance of health care. He is an expert in health care.

So, he decided to forego those many offers. He's a lawyer by training. As I said, he had a lot of opportunities to go with big law firms, but he decided to forego them and came with us because he saw the future and the great need for the work we were doing in our company. That was a great thing to have a chairman of the board like Mr. Massey, Mr. John Hill from Aetna, and then Mr. MacNaughton became our chairman and CEO too. Tommy, my son, Dr. Frist, Jr., was exposed to all those three great men. He often says he got his B.S. in business from Mr. Massey, he got his master's from Mr. Hill in business, and he got his Ph.D. from Mr. MacNaughton. Then Tommy became the president and CEO of the company two or three years ago.

WEEKS:

That was marvelous training for him.

FRIST:

Really marvelous training, because he had the medical background plus the business.

WEEKS:

Isn't it marvelous that these men were foresighted enough to see the opportunities for your company.

FRIST:

That's the great thing. The new horizons in hospitals, new concepts. I can't understand why somebody didn't think of that before. Everything else was organized in chains, everything in the country. Filling stations, banks, everything else. To attract such great leadership as men like John Hill, Jack Massey, and Don MacNaughton is the greatest thing that has happened to our

company.

WEEKS:

It is tremendously interesting. Now, if we can just go back a bit. As I understand it, you have your own board of directors, and your board of governors. I can understand their roles. But in each individual hospital there is a board of directors.

FRIST:

That's right. That's very important. One of our philosophies is that we believe in local autonomy. A local administrator and a local board run that hospital. We just give our input and our expertise in running a hospital. They can call our lawyer--each hospital has a lawyer, but they don't know all the law—they can call our lawyer who really knows. We have eight full-time lawyers. They are all experts in the field of hospitals. They can call them and get advice. The same about purchasing and everything we have.

We have a rule that they don't have to purchase anything from our company. If they can purchase it cheaper locally, they do. Usually we can purchase so much cheaper than they can. We believe greatly in local autonomy, local boards, and local administrators, and local doctors to run hospitals.

WEEKS:

I have noticed in the past few years that we have become conscious of the fact that the members of the board of trustees of the hospital have to assume more responsibility than they used to. In this sense, it used to be that the administrator would run his hospital and the board of trustees would sort of rubber-stamp what he did. Today the smart trustees are beginning to say, "Legally we are responsible for everything so we had better start looking at what this man is doing and listen to what he is saying."

FRIST:

Let me speak to that because I was, at one time chairman and on the board for 25 years of City Hospital of Nashville, an 800 bed hospital. I never once had a lecture in hospital management, never once. I was chairman of the board. I slowly learned by making mistakes, and by the correction of them--and by self education.

In HCA we have training periods for all the boards. We bring them in here for a two day course in hospital administration. They have to learn all about hospitals. We educate through tapes for all the boards of all the hospitals. I am going to meet tomorrow with management contract trustees. We have about 30 trustees of different hospitals in here for a training period for two days. We put them through an intensive course of their duties as trustees, and all about the finances of the hospital—everything about it. I always talk to them about the importance of quality care. Number one. That's my topic. I talk to them about 45 minutes about quality care. It's so important.

So the board of trustees is becoming more and more concerned with management. It used to be just an honorary appointment. They would meet maybe every two months.

WEEKS:

I am so happy to hear all these things because you are trying to solve problems that most hospitals don't even know exist.

FRIST:

That's right. Another thing you be sure and understand. One person in Nashville can't run 400 hospitals, so we have eight divisions. We have an executive vice president in charge of all hospitals. Under him he has three

men, one in charge of the East Division, one the Middle Division, and one the West Coast. They are in charge of their divisions. They have eight divisions each with about 20 hospitals, 15 to 20 hospitals. We have a divisional vice president over 20 hospitals. He makes rounds to every board meeting of the 20 hospitals. He goes and inspects the hospitals. He does everything for the hospitals he can do in the local division. A very fine staff.

WEEKS:

This is for both owned and contract hospitals?

FRIST:

Owned and contract, that's right.

For instance, four years ago we didn't have any hospitals in the Northeast. We have 35 hospitals there in the last three years. There are very few privately owned hospitals in the Northeast. So many Hill-Burton and other types of hospitals. So we manage hospitals in the Northeast--a great future.

Then, we have a local vice president in each division who looks after from 15 to 20 hospitals. The vice presidents deal directly with the home office and the local hospital administrator. We have accounting systems in each division, separate accounting.

WEEKS:

You use this same system in all the hospitals?

FRIST:

Yes, in all the hospitals.

WEEKS:

Owned and contracted?

FRIST:

That's right.

WEEKS:

I have a note here on the future--to be discussed a little later. But right now, talking of accounting, I couldn't help but think of DRGs which are coming in. I wondered if all the 400 HCA hospitals have the same fiscal year.

FRIST:

No, not at all.

WEEKS:

I was thinking what a shock this would be if this adjustment to DRGs came all at once.

FRIST:

That's an interesting question. It was very fortunate that we didn't have the same fiscal year beginning in all the hospitals at the same time. By the way, we can build a hospital at least 20 percent cheaper than the average groups of architects. The first hospital I designed I went out and got a local boy—two young boys--25 years old.

I said, "Do you want to become the largest hospital architects in the world?"

He said, "We have one job, one house to build."

I said, "Are you flexible?"

He said, "We will be."

I said, "Draw me a picture of a hospital."

He drew me a picture of a hospital.

I said, "It's terrible." I said do this and do that and I hired that boy. Now they have about 500 employees, and they are the largest hospital builders in the world. Not only for us. They build at least $500 million a year in hospitals.

They got so big that we added another architect firm. Now we have three, one for psychiatric hospitals. We have about 35 psychiatric hospitals--growing, growing feature. We have an architect to do that, an architect for general hospitals, a big concern.

Likewise, we have got a builder to build hospitals. He built the first hospital in seven months time. He had two employees, and now he has become the ninth largest builder in the world. He sold his company recently. He built so many hospitals for us in such a short period of time. We have three builders now. The average length of time to build a nonprofit hospital is at least 19 months to three years, from the time they get started until they use it, five years. All the bureaucracy and so forth. We build a hospital in 11 months time now. We just completed one in Tucson, Arizona in nine months and two weeks. Imagine what it saves on interest alone. Construction interest. A million dollars at least. For every hospital we save at least a million dollars in interest alone. Also we get started in business so much quicker. It's amazing how we can build a hospital. We have a computer system. Every room is designed where the bed is going to be, where the outlets are going to be, where the operating room is going to be, the size of the operating room, everything on the computer. Amazing. We can push that computer and design a hospital over night.

WEEKS:

Is that right? Are there quite a lot of similarities in the hospitals

you build?

FRIST:

We tailor a hospital to each individual community. For instance, Myrtle Beach, SC has a stable population of about 30,000 people; in the summertime they have 300,000 people so we have to plan for that particularly a much larger emergency space. We have to build the hospital to suit the town. One town has three other hospitals so they asked us not to put in an OB department or an emergency room department. We don't have that. When we need it, we have it. We can tailor the hospital to the community's need.

WEEKS:

You have one department that oversees this construction and architectural work?

FRIST:

Three architects and builders oversee our building. Other people design and build it but we have our people looking over the shoulders.

WEEKS:

You have your own clerk of the works?

FRIST:

That's right.

WEEKS:

Another thing I am interested in is your information systems, how you tie all this together. You told me something about using satellites for educational purposes. Your banking, does that go through the computer?

FRIST:

Through the computer. Right now we use a share-time with General Electric. We are building a brand new $40 million computer system on the

campus. I'd like to show you the campus, too.

WEEKS:

I can see your divisions reporting to the executive vice presidents, the executive vice presidents reporting to the chief executive officer. Or would that be to the chief operating officer?

FRIST:

To the chief operating officer then to the chief executive officer.

WEEKS:

I am interested in the fact that now you are so successful, so large that you are getting suggestions by word of mouth. You don't need to go out and look so hard.

FRIST:

That's right.

WEEKS:

There are some things I was wondering about. Are you thinking of diversifying?

FRIST:

Yes, sir. We decided a long time ago to be in one business only, hospital business. We know that best. We want to protect that first. Then the next thing that came along was the health care field--anything in the health care field we would be interested in. Now, it's just beginning. We bought a company, Hospital Affiliates, with 150 hospitals, 50 they owned, 100 they managed. They had 26 nursing homes. We sold the nursing homes. We were not in that business. We now own 22 percent of Beverly Manors who bought the nursing homes. We sold the nursing homes for stock and cash. It's very interesting, I didn't know this, perhaps you don't. If you own 10 percent of

the stock of a company you just get 10 percent of the dividends, you don't get any of the profits at all. If you own 18 percent of the company, you get dividends, also you get 18 percent of the profits.

WEEKS:

I didn't know that.

FRIST:

I didn't know that either. So, we owned 10 percent of Beverly Enterprises when they bought the nursing homes. We said that was foolish, we should buy another 8 percent to get 18 percent of the profits plus the dividends. So we bought another 8 percent, and we have bought more since then. We own about 22 percent, I think. Beverly Inns run it, the nursing home business. We are trying to get experience; we may go into the nursing home business in a big way in the future.

WEEKS:

In the meantime you are getting experience.

FRIST:

That's right. Likewise, right now we are experimenting with a lot of things. We just bought a small percentage of a company that makes thermal heat apparatus, a special type of treatment for cancer. It's really a prime company. We just bought part of that company. If that's successful, we probably will buy the whole company. We just recently bought the largest surgical supply company here. They have a home care service so we are going into home health care very carefully, not to overdo or rush in. We are behind many things in the health field: surgicenters, you know, one day surgery--go in in the morning and have surgery. We didn't intend to go into that business on purpose but now we have learned to do it as cheaply in our hospitals as

they do in their single-standing surgicenter. Each hospital we build now—and we have gone back and built in all our hospitals separate surgicenters--separate entities. For instance, West Side Hospital that we built over here two years ago--we bought General Care, a little company that owned ten hospitals, one of them was West Side Hospital. So terrible, an old nursing home. We built an entirely new hospital. We have 18 surgicenter beds. They do about 25 operations each day—one day surgery.

We just bought 20% of a company, Surgicenters. They are doing well.

WEEKS:

Do they have many centers?

FRIST:

They have about 12 right now, and about 10 on the drawing board. So we own about 20 percent of that company. If it does well we will either buy or start our own centers.

As to HMOs, I think I told you we have the second largest in the in Brazil.

The thing here is that we have about 10,000 employees and families in Nashville alone, working in five hospitals and the home office, 10,000 employees and their families. So, we started what we call PriMed. All these people have to go to the hospital and the doctors to get insurance. We furnish them with insurance for sickness, hospital, and doctors. If they go to our hospital, we pay 90 percent of the cost. If they go to other hospitals, other doctors, they have to pay 25 percent of the cost. That's PriMed, a form of HMO.

We have experimented with HMOs in many, many places.

WEEKS:

How are physicians paid, on fee-for-service?

FRIST:

We don't pay any doctor any fee except for x-ray and pathology, and then just a fee-for-service.

WEEKS:

I meant with PriMed.

FRIST:

In PriMed the usual and customary fee. That's probably going to be changed. DRGs, you know what that is. We think it's going to be also for doctors within two years.

WEEKS:

That's coming for all providers evidently.

FRIST:

A real revolution.

WEEKS:

They are working on nursing homes now, too.

You haven't gotten into the so-called prepaid group practice idea except for the PriMed approach.

FRIST:

That's right. For instance, in this town PruCare is the large HMO. Prudential Life Insurance Company. A really large one. Probably the third largest in the country. Kaiser first, then the government, then PruCare. One of our group of doctors works closely with PruCare. The claims are through our hospitals. PruCare declared our hospitals in Nashville the place for all the PruCare employees to go. We studied that very carefully. At present

PruCare uses our hospitals almost exclusively.

WEEKS:

I was wondering if eventually employers or individuals could buy this care on a capitation basis. The capitation goes back to the physician, it doesn't matter about the person who buys it. As you say DRGs are going to apply to physicians soon so maybe we will have different ways of paying physicians.

FRIST:

One other thing I failed to mention. We are big, really big, in the insurance business.

WEEKS:

I wanted to ask about that.

FRIST:

Because we insure our own hospitals, 390 hospitals. We saved--one hospital I know in Florida--we saved $350 thousand a year on insurance, more than our management contract; it was for $300 thousand. Alone on insurance we saved them approximately $350 thousand.

WEEKS:

Is this your Parthenon Insurance Company?

FRIST:

Yes, the Parthenon Company.

WEEKS:

This also includes malpractice?

FRIST:

Malpractice for the hospitals, not the doctors at present. We probably will go into that.

WEEKS:

You hope you can sell them malpractice insurance?

FRIST:

Yes, much cheaper than they can buy it elsewhere. We are very careful in selecting doctors. We want such quality hospitals that we think we can have much less malpractice in our hospitals than other hospitals have.

WEEKS:

That's another interesting point. Outside of PSROs, PROs and this sort of thing, do your own hospitals look over the shoulders of their physicians?

FRIST:

No.

WEEKS:

Maybe I didn't state that very well.

FRIST:

We choose them very carefully.

WEEKS:

I asked this same question of Dr. Crile of the Cleveland Clinic.

I said, "How do you do this?"

He said, "We wouldn't need any other utilization review at all because we are always working together and we have high standards. If someone doesn't live up to those standards, we get rid of him."

FRIST:

We can't get around it quite as easily as the Cleveland Clinic because they pay doctors out there.

WEEKS:

They are salaried doctors, yes.

FRIST:

We can't do that. It's very difficult.

WEEKS:

But you can...

FRIST:

You can choose them carefully.

WEEKS:

Once you have them on the staff you have a problem getting rid of them.

FRIST:

That's right certainly. But we have a great PSRO in our hospitals. They are very carefully monitored.

WEEKS:

Have you had anything to do with organizing PSROs or PROs?

FRIST:

Just in a local hospital. Every hospital has a local committee.

WEEKS:

I was just thinking that under this new PRO that there may be separate companies set up just to be PROs. I don't know as I would want that sort of a job if I were a physician.

FRIST:

You asked a question about the DRGs going in effect at different times. First I was told that we had about ten hospitals going in and several hospitals won't go on until next October. This has been a great study for us. There has been a lot of research. So far, we have been very pleased with the idea. Certainly it will cut down on unnecessary length of stay, unnecessary lab work, unnecessary admissions. All over the country the occupancy rate has

gone down from about 4 to 8 percent, already, and will be going down more in the future. A great thing.

We thought that all along a different form of system is needed. The old Medicare system was ill-conceived, ill-designed and ill-managed because the hospitals got paid--the more tests they had and the longer the patient stayed the more the hospital and the doctors got paid. The change was long in coming but a very necessary change. There are lots of bugs in it, but in time things will work out for the betterment of the patient in addition to cutting the cost of the medical care of the nation. It will surely test our skills in management and cause us to create more innovative ideas. We at HCA feel that we can do this without sacrificing the quality of health care.

The history of the world is like this: you have peaks and valleys, peaks and valleys, peaks and valleys, but the world is always improving.

WEEKS:

Getting higher peaks all the time.

FRIST:

That's right.

WEEKS:

The reason I was asking you about the DRGs and the fiscal year was that with 400 hospitals it would be a tremendous shock if you had to change anything over night in all the hospitals. The fact that you have these different fiscal dates gives you a little chance to learn.

Something I read, I don't know whether it was something your son said, but it was about when you go into a new territory and take up contract management with some hospitals it gives you a chance to see what this new territory is like and it might be experience for possible building later in

that same region.

FRIST:

No, because we never compete with a managed hospital.

WEEKS:

No, I didn't mean immediately...

FRIST:

Oh, in that area.

WEEKS:

You might come to Michigan. You have three contracts there now. We will just say that the experience in Michigan might give you some idea of what Michigan is like. If everything were agreeable and favorable, you might decide to go to another community that needed a hospital, but you would have had the experience of having operated under contract in that state.

FRIST:

That is correct. Often after we manage a hospital for several years the city, county, or board wants a new hospital too. We have done that in quite a few places.

In Raleigh, NC we have a large hospital, a 200 bed hospital, a really fine hospital, they do everything. They would like to have a satellite hospital out 50 miles away in a small town. So, we can go out there and build a satellite hospital. (They don't like to be called satellite, however.) Another hospital. They can send patients into our larger hospital which is more sophisticated, offering such things as neurosurgery and other things that can't be done in a small community because they can't afford a highly specialized doctor.

We have a lot of management hospitals like that--University of

Mississippi Medical Center. Undoubtedly, in time we will manage or own smaller hospitals within a radius of 300 miles of the university hospital and they will send heart surgery and brain surgery, or really sophisticated diagnosis to our managed university hospital.

WEEKS:

Sort of regionalization.

FRIST:

That's right. That's a managed hospital, but either managed or owned hospitals will send them work. So they like it, either way. We have Vanderbilt University Hospital right here. We have a lot of hospitals in the area. Vanderbilt does some things that we don't do at Park View, so we encourage them to send them to Vanderbilt.

WEEKS:

We tried out a regionalization plan in northern Michigan back 20 years ago. It didn't work out very well...

FRIST:

They don't like to be called satellites.

WEEKS:

I have forgotten what they called them, but they were expecting the big hospitals to send them back some business. It didn't work out that way.

You mentioned that you now have 35 psychiatric hospitals. Do you consider that a field that is going to expand?

FRIST:

I saw on TV last night that there is one out of six people who has some substance abuse or alcohol trouble. (That was a Johnny Cash show.) It's going to expand enormously.

WEEKS:

A lot of those end up in a psychiatric hospital.

FRIST:

By the way, 15 years ago, one of my patients who was an alcoholic came to me and said, "Dr. Frist, I just went up to the Hazelton Hospital in Wisconsin." (Hospital for alcoholics, the finest in the country.) He said, "I am so much better, I am an arrested alcoholic. I want to start something for Nashville like that." He is a man of some means.

I said, "Bob, I have so much to do, I just can't take another thing on."

He said, "It's too bad because, if you won't help I am not going to take it on. I'll just drop it."

The next day I called him back. I said, "Bob, you have made it so hard on me that I'll help you." We started a rehabilitation alcoholic and substance abuse center down here. We went after our well-to-do friends. I had a dinner for 100 doctors and told them about the project. Then I had a dinner for 100 business men, Bob and I did. They contributed about $100 thousand right on the spot. Bob and I went out and found a 160 acre farm, 12 miles from town, a beautiful farm right on the river. We bought it and signed the checks for it, borrowed the money to do it, then raised the money to pay for it. Now there is a 40 bed unit, full all the time, nonprofit. We have about 1,800 graduates from there, and have a 65 percent arrested rate. I am tickled to death with it. I am as proud of that as anything I ever did in my life. It's nonprofit. We just had a recent campaign to raise $2 million, we are going to improve it. It's a great thing. So many lives are affected--alcoholism and drug abuse. That's a great future for HCA, a great future for nonprofit, and a great future for the country.

WEEKS:

Yes, I should think that should be very, very good work, and very satisfying to you and your friend.

Is there anything more you wanted to say about the Center for Health Studies? This is one thing I have found out about research. I have talked with people in the government. I have asked them how they decide what topic to spend money on for research. Do the people who do research--like university people--do they come to you and say they would like to do some research or do they come to you with ideas they would like to investigate?

FRIST:

I am glad you asked that question because I am so very, very interested. There are three answers to that. Right now we are doing research for about three drug companies. They furnish us money, with ours, and we have 58,000 patients out there. Imagine the research material we can gain from 58,000 controlled patients. It's enormous.

We almost bought McLean Hospital from Harvard, it almost went through. By the way, they were back here last week.

WEEKS:

That's a psychiatric hospital, isn't it?

FRIST:

Two hundred beds. The board voted for us. The professors worried about private enterprise, investor-owned. They were worried. They voted 65 percent against us. We didn't want to create any problems, but they came back last week, the dean of the medical school and seven professors. I believe we could be of great help to that hospital. One thing they were interested in. Dr. Tosteson, the dean of Harvard medical school, said, "Dr. Frist, you have

enormous resources for research with 58,000 patients. You can push a computer and draw out 100,000 gall bladders, 10,000 multiple sclerosis. You can study that in one fell swoop."

In addition to that, Tommy had the foresight three years ago to set aside 100,000 shares of HCA stock when it was worth something like $15 a share, now it's the equivalent of about $80 a share through stock splits. We will have approximately $40 million in that fund strictly for research in the foundation. We are going to do more and more medical research.

WEEKS:

This brings up a question. I assume that your information system is such that you have data on all the cases in all of your hospitals that you can retrieve as you were saying that if you wanted to get data on 10,000 cases of multiple sclerosis that all you had to do was push a button on the computer and you would have it.

FRIST:

When we build this 40 million dollar computer center we will have that.

WEEKS:

I don't know whether you know Vergil Slee of CPHA in Ann Arbor or not. They are the people who gather data on hospital discharges.

FRIST:

No, I don't.

WEEKS:

They have signed up over 2,000 hospitals in the country and they get from them a patient summary sheet when each one is discharged: admitting diagnosis, final diagnosis, surgery done, all the characteristics of age, sex, and so on. CPHA gathers all this information and has a fairly good cross

section of the country. There is another man in Cleveland, John Mannix, who is connected with Blue Cross there, who takes every case in Blue Cross of northeastern Ohio. So he is looking at the total population data of seven counties, the total population of one area not a scattering of patients from all over. What you are talking about with your $40 million computer is that you will have data about every patient in every one of your hospitals. You will have total information of every diagnosis, every treatment, and so on.

FRIST:

It will tell a lot of things and compare one region with another. For instance, in the far west part of the country the length of stay goes down. In the East it is eight days, in Utah, three days. Amazing. Three days is the average length of stay in Utah. In the East and here it is about six days. It's really amazing data. Also, every accident in the hospital (people falling out of bed, stumbling) is recorded by computer to cut down on malpractice insurance. Every incident report comes to our home office.

WEEKS:

There isn't any other entity anywhere that can collect that much hospital data, is there?

FRIST:

That's right. That's going to be true. The drug companies are increasingly coming to us to gather clinical information about drugs.

WEEKS:

I was going to ask you if you can accept grants for research. You probably have a special corporation, a 501(C3), or whatever it is.

FRIST:

That's right. We can do that particularly in our nonprofit, charitable

foundation we just formed with 100,000 shares of HCA stock, our $40 million charitable foundation.

WEEKS:

There may be one trouble that you may run into. The federal government may want you to spend the revenues plus a fraction of the principal each year.

FRIST:

That's true. I have a personal foundation, the Frist Medical Foundation, I put stock in that. I have to give away ten percent of the stock every year. The dividends are not that much from the stock, I have to give away a part of the capital. It's a shame because I have accumulated money to give to charitable things. I had to give more stock to replace what I had to give away.

WEEKS:

I know Kellogg Foundation has been faced with that same problem. They have something like $40 million a year in income to spend. They aren't as big as Johnson, but they are big. They have to give away forty or fifty million dollars a year. Their earnings are nearly that much, but even if they are five percent off in time that is going to be eroding. As long as they are doing good work, this should be the judgment.

FRIST:

Exactly, exactly.

WEEKS:

There should be some way of judging them.

I just want to ask you about a few things. You used the term "skimming" a while ago. The investor-owned have been accused of quite a few things. We have answered some of those questions, I am sure. Here are some of the things

I have found. I ask you if they are correct or not. I have read some of the studies that say it costs more to stay in an investor-owned than it does in a community hospital, not-for-profit. Then I have heard something else: that maybe the daily rate is slightly higher, but the cost for the hospital stay is less in investor-owned. For instance, you have a six day stay instead of an eight day stay, so actually it's costing less to keep your patient there than it would be in the nonprofit. I have also heard the argument that you may be making four or five or six percent on your gross revenues. Didn't we mention that the community hospitals can't be exactly nonprofit. Not-for-profit doesn't mean that you don't make any money, it means that you don't pay out any dividends.

FRIST:

Let me speak to that. I am told that one nonprofit hospital, made $9 million last year; they call it reserves. They bought an apartment house, built a hotel out of the profits. We build more hospitals with our profit. We have hospitals that show eight-tenths of one percent profit. Sixty percent of our profit goes to build new hospitals. Thirty-nine and two-tenths percent goes to improving our old hospitals. Eight-tenths of one percent goes to dividends to stockholders, where other people buy hotels and motels and apartment houses using their reserves. Another non-taxpaying hospital right down the street, I am told, made $7 million. Another hospital on the other side of town made $5 million last year. Park View made $6 million. Ours goes to build new hospitals. Another thing, a very important thing to me: a hospital down in Franklin, Tennessee, a nonprofit hospital, city-county hospital--we wanted to buy from them. It is an old hospital that will have to be replaced. They could have used the money from the purchase of the

hospital, $5 million or $10 million. They could have used that for many, many things, but they wouldn't do that. They want to build a new hospital. What will they have to do? They will have to go out and issue bonds, tax-free bonds at 12 percent. It will cost them another $2 million to issue those bonds, at least $2 million. It will cost them 20 percent more to build a hospital. So the people of Franklin are going to have to pay $55 a day more, each patient, to finance this hospital. There are no investors owning the hospital but you are the investor if you buy tax-free bonds. You own the hospital down there with tax-free bonds. Here in our hospitals with no tax-free bonds, investor-owned, we build it. We pay 60 percent out of earnings, and save the patient all that interest, all this bond interest, plus the cost of issuing that bond. We borrow only 40 percent to build a hospital and we get it at a cheaper rate than the tax-free bonds. We figure European dollars, money market and all that. We have a great credit rating. We finance a hospital for about three percent less than a nonprofit hospital can. You see my point?

The nonprofit hospital finances 100% equity in the hospital by paying enormous interest, and that is passed on to the patient. The investor in that case is the bondholder.

With HCA we put in 40 to 60% equity and our investor is the stockholder instead of a bondholder getting 10 to 12% tax-free money. Our investors get 1 1/2 to 2% dividend, and depends mostly on the growth of our company and appreciation of value of the stock.

WEEKS:

There are many sides to the question, a lot of people don't realize.

We have talked about your better accounting methods, and your better

collection methods.

FRIST:

We save at least $1.50 a patient day on accounting methods.

WEEKS:

Those things a lot of people don't see or know.

Another thing that has interested me, and you have pretty well told me is that your employee to patient ratio is lower than many nonprofit hospitals.

FRIST:

Undoubtedly. We have the exact figures on that, if you want to know them, but I know it's about half of one employee better.

WEEKS:

This is where 90 percent of the cost is?

FRIST:

Sixty-five percent of the cost of running the hospital is labor.

WEEKS:

If you could improve the cost of labor by...

FRIST:

...by one percent. We took in four billion dollars last year. If you could cut it down one point that would mean many millions of dollars.

WEEKS:

I have noticed in looking at this employee/patient ratio the last 20 years in the community hospitals that it has gone up, up. They are getting so many people in--technicians. Then the technicians want to become professionals.

FRIST:

That's right.

You know, we have a computer system...every 100 bed hospital, let's say, has 15 employees in housekeeping. We have a record of every one of our hospitals of how many employees in each department. One department in a hospital, we will say has 15 and another one has 6 employees. We will say to the latter hospital that maybe they have too few. Maybe they should have 8 employees. The other hospital we might say that they have 15 where the average hospital of that size has 10. So you look at it very closely.

WEEKS:

You have this tremendous experience.

FRIST:

And the computer.

WEEKS:

To pull it out.

I think we mentioned before that many of your hospitals are the sole hospital in the community.

FRIST:

That's right. I think right now about 65 of the owned hospitals are sole hospitals in the community. I would say about 40 of the managed hospitals are sole hospitals in the community.

WEEKS:

One thing I haven't been able to get information about. Some persons say your investor-owned hospitals have a higher utilization of ancillary services.

FRIST:

That varies very, very much with hospitals from town to town. Overall we are about equal with other hospitals.

WEEKS:

After all, this is on physicians' orders. You don't have complete control of that anyway.

FRIST:

That's right.

WEEKS:

I want to skip over to something I thought we should talk about. That's competition. I am thinking in terms of other investor-owned hospital chains. You have four or five major competitors. I think now that AMI and Humana, after the combination with Lifemark, those two are about equal and are tied for second place, so to speak. I was wondering, what do you look forward to in the future? Am I right in saying that when you bought Hospital Affiliates, you bought it from an insurance group?

FRIST:

Yes.

WEEKS:

Didn't they also own that prepaid group practice...

FRIST:

HMO.

WEEKS:

Ross-Loos in Los Angeles. Are the insurance companies likely to move in?

FRIST:

They are moving out.

WEEKS:

I noticed another news item somewhere that a small group called Health Group, Incorporated, in two lots, sold 48 percent of their stock to Owens-

Illinois.

FRIST:

It's a small company started that bought Hospital Affiliates from NIA. A small group, and they are doing pretty well, but the competition is really keen now.

WEEKS:

I was wondering about Owens-Illinois. They don't have much connection with the health business.

FRIST:

I don't know the exact answer to that. Mr. Hill, our former CEO and Chairman of the Board, was on their board at the time we formed HCA. So I think they thought it would be a good business to get in.

WEEKS:

I see. I was wondering what the connection was.

The big question that comes to my mind in this day and age is the big takeovers. Gulf Oil. I didn't think anybody could ever take over Gulf Oil. It's so big and so old and so strong financially. I still don't understand it. Would a takeover be possible in HCA stock?

FRIST:

Yes, sir. We fear that very much, but I think it would be very, very difficult now since we are as large as we are. Gulf Oil is so much larger than we are, so it's always possible. It scares me to death. We have taken over companies ourselves, and we have improved on them.

WEEKS:

You haven't taken them over against their will?

FRIST:

No. We almost took over American Medical of Philadelphia, but they were not agreeable so we just dropped it. Humana bought it.

WEEKS:

Humana bought it?

FRIST:

An unfriendly takeover.

WEEKS:

An unfriendly takeover?

FRIST:

I think it was.

WEEKS:

You know the jelly company, Smuckers?

FRIST:

Yes.

WEEKS:

They had something written into their bylaws. Apparently they have something in there that would make it almost impossible for an unfriendly takeover. There must be some way that it could be avoided.

You are such a successful company and you have grown so fast. You are dominant in your industry. It would seem to me that that might tempt somebody to try to get ahold of you.

FRIST:

That's not very likely right now because people are looking for a drop in the medical care system. This is a scare...

WEEKS:

This is a scare factor.

I have been wondering about your rate of acquisitions. It seems to me that you are acquiring new hospitals or new companies or expanding in any way you want to think about at a rate that you can absorb this new cost and keep your debt/equity ratio about the same. Am I right?

FRIST:

We went down to 51/49 percent although we try to keep it 60/40. Now we are about 65/35. That's really good.

WEEKS:

Forgive the comparison, but it's a Michigan concern so I think about it. I was thinking about some fast growing commercial outfit, like K-Mart. They seem to build and start new stores at some kind of ratio possible where they could say that a new store would be in the black by the end of the first year of operation, for instance. Then, if that is the case, they could go on and spend so much the next year for new stores. Would this be something of the way you are operating?

FRIST:

Right now we are spending 60 percent of our earnings, approximately $400 million a year on new operations. The difference is that hospitals cost so much more than K-Marts.

WEEKS:

It's an entirely different picture because in K-Mart you are selling merchandise while in the hospital you are selling service, but I suppose they both have to have some ratio formula to plan expansion.

FRIST:

Any business, to get into business doesn't cost as much as hospitals. It's so expensive building a hospital. As I said, it used to be $10,000 a bed, now it's $180,000 at a minimum. Usually a company has a debt/equity 90/10. We are doing great when we have a 60/40. It's expensive building.

WEEKS:

Each business has its own capital structure.

FRIST:

Standard and Poor is raising the rating of our company to an A rating from A1 or A2 or whatever it is now.

WEEKS:

This is a wonderful thing.

How about your stockholders, do you have a certain type of person? Are you getting pension funds?

FRIST:

I can't give you the exact data; you can get it from the annual report. About 70 percent of our stock is in the hands of pension funds, teachers' funds, banks and institutional investors.

WEEKS:

I was wondering about that too because of this problem of takeover.

FRIST:

It is kind of dangerous when a big company like Prudential owns a million shares they can make the stock drop. It has happened to so many companies. The big stockholder might lose interest, or take a profit all at one time. It's very dangerous. I would rather have 100,000 independent stockholders owning 200 shares each. On the other hand, it is very good when a pension

fund comes in and spends $40 million buying your stock.

WEEKS:

You have had several issuances of stock, haven't you? You haven't had any trouble selling them, have you?

FRIST:

No.

WEEKS:

That's a pretty good comment.

FRIST:

We have had five or six stock splits in 15 years.

WEEKS:

That's marvelous.

For your personnel, do you have retirement pensions?

FRIST:

I don't like to brag about it because I don't want to lose my humility. We don't have any labor problems with labor unions. It is very, very important. We furnish them with such a good retirement, good fringe benefits. They are happy people. We don't want to change. We beat the unions in many hospitals. We don't have any unions in hospitals, I don't think, right now.

WEEKS:

Where is the wage level set? In the local hospital?

FRIST:

It is set at the level of the local community.

WEEKS:

So you pay the going rate for the area?

FRIST:

That's right. One thing that has been very interesting to me, we have a stock purchase plan. Very interesting! Very interesting! We have about 100,000 employees who work in our company. As I recall, about 25,000 are stockholders. They can buy stock on every June 15, and they can pay 15 percent under cost. They take that out of salaries every month. Next June if the stock has gone down, they don't have to take the stock. They can get their money back with interest. If the stock has gone up, obviously they will take it. They can't lose because if it stays the same they have gotten a 15 percent reduction. They make 15 percent that year anyway. I think for the past five years they have about doubled their money in the worth of their stock. They seem to get interested in more efficiency, more dedication, when they have personal ownership in the company.

WEEKS:

It's theirs. There is nothing like having a piece of the ownership.

FRIST:

When they work a little extra time they say that it's because they own the company.

WEEKS:

That's been the case with profit-sharing plans.

FRIST:

I am glad you mentioned that because I was really proud, really proud, when our administrators--we have about 600 administrators in our organization. We have a meeting at least once a year with all of them together. Two days or three days of meetings. We really train them and teach them a great deal. We have also remarkable regional meetings for our administrators but they all

gather together here with the head administrators and the control group once a year. A great meeting. They are a tremendous group of administrators. In the early days of our company, eight or ten years ago, they said they didn't want a profit-sharing plan, they said they wanted a good salary, but not profit-sharing. It's human nature in the case of profit-sharing to cut corners and decrease quality of care, making more money for the hospital and more money for their earnings. They voted profit-sharing down. I was really proud of them.

WEEKS:

That's really interesting.

FRIST:

That was one of the highlights of my life when the administrators said that there should be no profit-sharing. They said that they wanted a good salary but no profit-sharing, no temptation to reduce quality just to make money.

WEEKS:

You talked about the incentive program to buy stock. Are there any other kinds of stock options that you have?

FRIST:

Our officers all have stock options. Today the stock is $38 a share. A new man comes to a high office and wants an option to buy, he has to pay $38 a share.

WEEKS:

But he can buy at that price later on?

FRIST:

Yes.

WEEKS:

What about opportunity for advancement? The question almost answers itself because your company is growing so fast that there is opportunity for advancement.

FRIST:

That's a great thing about our company. In nonprofit, locally autonomous hospitals--the administrator has no place to go. All of our administrators have the possibility of being president of the company, if they want to. The assistant administrator goes to administrator to divisional vice president then super-vice president, then to corporate office, then to president. That's a great thing. Another thing about our hospitals, I never go to a hospital that I don't find that at least 10 people that have worked at one of our hospitals in some other town. They don't lose their tenure at all with HCA. In other hospitals, if a person moves to another town, he loses his tenure.

WEEKS:

What about the physicians? You have the Board of Governors which handles questions about physicians and medical care. When you go into a new community to buy a hospital, or manage a hospital, or build a hospital, do you have a definite program for orienting the physicians as to what you are doing, and how they might participate?

FRIST:

One thing about it I didn't tell you, when we started Park View Hospital 25 years ago, and when we started HCA 15 years ago, about 80 percent of the hospitals of the country wouldn't allow any doctor to be on the board. It was written in the bylaws, no doctors on the board. No doctor was on any hospital

board in town. Doctors didn't have any input. I think doctors know best what should be in the hospital. They use it every day. I wanted doctors to make up the majority of the members of the board of our hospitals. Park View Hospital has all physicians except one. Most of our hospitals have at least 50 percent physicians on the board. That's our own hospitals, not managed hospitals. Of our own hospitals, at least 50 percent doctors on the board, the other 50 percent, lay people. I think it makes a great thing.

I often tell a story to doctors: If I am ever tried for murder or bank robbery, I would like to be tried by a jury of 12 doctors because they never could agree on anything and I would go free. That's really true. Doctors have studied medicine because they are interested in human life, human beings--I hope--and not for the money. They all as individuals make decisions (at a snap of the fingers), right then. They have to make decisions like that in their everyday practice, so they are accustomed to it. They are impulsive people. But when you get them together to quietly discuss a problem, they usually come up with the right answer.

WEEKS:

This, as you say, has been one of the problems of the past that physicians have been kept off the hospital boards. They haven't known all the problems of the hospital that come before the board.

FRIST:

They haven't been able to correct the ones they know about. That's the main thing. Now we have completely turned that around. All hospitals in America, because of us, I think, have at least one to five physicians on their board. That's one of the greatest changes we have made in the face of American medicine in the hospital, physicians on the hospital board.

WEEKS:

Some of these hospitals you have taken over, county hospitals, one way or the other by purchase or management--how do you get around the welfare load and the Medicaid load?

FRIST:

We do it just like any other hospital does. A very great problem but we have to do it.

WEEKS:

I suppose you find that in some of your hospitals the load is heavier than in others.

FRIST:

For instance, a hospital in the mountains of east Tennessee that we own and operate never makes a profit at all, we lose money every year. The good hospitals make up for the bad. A county hospital in east Tennessee loses a great deal of money every year. It has to be subsidized by the county. As I have pointed out time and time again, in our hospitals we take care of all oncomers.

WEEKS:

Your percentage of hospitals in the red is not very great, I suppose.

FRIST:

That's right. Very few in the red: a newly opened hospital or 15 or 20 beds in small, little towns.

WEEKS:

You really are doing a community service there.

FRIST:

People really don't appreciate it at all.

WEEKS:

We spoke before about CAT scanners and MRIs. I wanted to ask you again about them. Do you have any kind of regional setup? You said here in Nashville with five hospitals and one CAT scanner, you can bring people over by ambulance, do the procedure and then take them back.

FRIST:

I made a mistake. We have four CAT scanners in Nashville. The load is so great and it costs so much to take the patient from one hospital to the other, $50 each way. It costs more not to have a CAT scanner in the other hospital. Also, it costs the patients so much more to have x-rays than CAT scans, it avoids so much unnecessary surgery. CAT scanners determine these. CAT scanners in the beginning were seen as a great additional expense to the patient. In fact, it has proved to save the patient a lot of money through elimination of multiple x-ray, elimination of surgery. It's been a great favor to American medicine, contrary to what some people thought.

WEEKS:

That's a good point. Then with the MRIs. Did you buy 13 of them?

FRIST:

No, just five. It's just been approved within the last two weeks.

WEEKS:

I understand you bought different brands for comparison.

FRIST:

That's right.

WEEKS:

If they are spotted around in five places in the country, will you move people in for that procedure?

FRIST:

No. There are people there trained in x-ray and they can learn easily about the new MRI.

WEEKS:

I want to ask you about the future and about some of your other activities. Do you want to say anything more about your American Retirement Corporation which is separate from HCA? Then you have a Cumberland Heights Foundation. What is that?

FRIST:

The Cumberland Heights Foundation is an alcoholic and substance abuse institution.

WEEKS:

That's the alcoholic and substance abuse. Then I have another listing here of your Medical Benevolent Foundation for the Presbyterian Missionaries.

FRIST:

That is really interesting to me. Eighteen years ago, I was the medical director for the Presbyterian Missionary Board in Nashville. I passed and examined all missionaries. I was sent to the missionary field and went there and worked for a month in Mexico. I saw the terrible need for giving doctors simple things like a chair for an operating room, or a sterilizer, and things we take for granted in this country. Horrible, horrible things. One young doctor down there had no money, no money to send a child to school or anything, so I sent him $500 through the mission board. He never got the money because the equalization board said they couldn't do that because they had to spend it in Brazil or some place else. So he never got the money. That upset me so much that I, along with a group of doctors, started the

Medical Benevolent Foundation (MBF). The first year I got 40 doctors together and raised $15,000 to buy equipment for missionaries of the Presbyterian Church. Do you know what we raised this year? $2.5 million. Every year we have raised one to two and a half million dollars during the past five years. All the doctors in the Presbyterian Church of the South and the East—we have raised $2.5 million. The secretary was here the other day. He wanted us to send out medical missionaries for short-term stays of one to two months. Free. We pay the expenses in the field, but they pay their way there and back. Also we send the money for sterilizers, x-ray machines, and all sorts of equipment. They can't afford them. It's been a great work. We have completely equipped many hospitals all over the world.

WEEKS:

That sounds like a marvelous thing to do. As a matter of personal interest, I would like to ask you another question. When you served on the President's Committee on Aging, did you happen to meet Nelson Cruikshank?

FRIST:

I don't remember the name.

WEEKS:

He was with the AFL-CIO and in charge of their social security department. Later he became head of the National Council of Senior Citizens. Not at the AARP, but an association of senior citizen groups. He is a marvelous man. He trained for the ministry and got into social work during the Depression then later worked in the social security division of the labor union. He did a lot of good work on Medicare and Medicaid. I interviewed him in Washington.

FRIST:

That is very interesting. What is his philosophy: conservative or liberal?

WEEKS:

Not liberal in the sense of spending money he didn't have. He is a humanitarian. I would classify him more as a humanitarian than as a wild-eyed liberal.

Somewhere I saw a slogan, "500 by 1990." Does that mean you hope to have 500 hospitals by 1990?

FRIST:

We have 420 now. I think it is possible.

WEEKS:

In other words your present plans are for you to continue expanding in the hospital field. We talked a little about diversification. You mentioned that you were buying a surgical supply house.

FRIST:

We bought it because it was a good price and can serve all the hospitals in Nashville--five hospitals there--reduce prices, a good thing.

WEEKS:

Might you get into competition with the American Hospital Supply Corporation?

FRIST:

In no way. They are very, very, very close friends of ours.

WEEKS:

Mr. McGaw and Mr. Bay?

FRIST:

Mr. McGaw and the president, Karl Bay. He was here just about three weeks ago. A very good friend.

WEEKS:

I was thinking that if you could develop this to supply your own hospitals, it would be a good thing.

FRIST:

That's the next step.

WEEKS:

You are going ahead with emphasis on psychiatric hospitals, and probably nursing homes, I gathered from what we talked about before.

FRIST:

I have personally always been against nursing homes. For one reason, it's impossible to run a really decent nursing home and pay for itself. In a hospital patients get up after a day or two and dress themselves. In a nursing home you have to feed them, and dress them. You have to bathe them, you have to walk them, you have to do everything. All of that service costs a lot of money. People can't afford to pay for that.

WEEKS:

In Michigan, many of the people are on Medicaid.

FRIST:

The service is of poor quality. I don't want anything to do with poor quality in anything I do. That's the reason I am against nursing homes.

WEEKS:

Managing a nursing home, particularly the kind that is domiciliary, is a discouraging business. Even the skilled nursing home seems to be one

difficult to run well yet profitably.

FRIST:

That's right, when they are doing a good job. We have a new theory. We call it Personal Care. It's in Michigan; I wish you could see that. We have 300 people in that home, really about 400. We have a Personal Care unit in there; it's just starting. I was there a year ago. We have 98 people in the nursing home section. We have about 200 people who are well and getting by real fine. It used to be that we had 60 people coming in in wheel chairs, on crutches, and with walkers, little memory changes. It ruined the whole atmosphere of all the well people. The average age is 84 years of age there. All the well people are coming in with earrings, lipsticks, red dresses, rings, to compete with everybody. It was refreshing. It gave meaning to life--competition. Great programs were put on every night.

Sixty-five people came into the same dining room. They could dress themselves, they could bathe themselves, but had to be wheeled in or come on crutches, or with a walker. It took away something. It took away something from them. So many of them had to be moved to the nursing home.

We started a Personal Care Unit. We took a whole floor with 60 rooms on it and made a beautiful dining room. All the personal care people were moved to that floor. They come in wheelchairs, on crutches, or with walkers. They are all together. All the other people are well people, they don't ever see the prersonal care people. It saves so many people from going to more expensive nursing homes. This Personal Care Unit has 60 people in it now with just one nurse to remind them of medicine, to help them with bathing. They can bathe themselves but their memory may be a little bad. They remind them to come to dinner. This saves expensive nursing home care, saves them from

200 well people who don't want to see what shortly lies ahead for them. I think there is a great future for personal care.

WEEKS:

That sounds remarkable.

The thing I have noticed in nursing homes is that the nurses or nurses' aides have to do all this work for them, feed them, dress them. In many cases patients get to a point where they allow this to be done even though they could do it themselves.

FRIST:

A Personal Care Unit doesn't allow this, and keeps them out of the nursing home area.

WEEKS:

In the Personal Care Unit it sounds as though people would be communicating with each other, socializing, when in the nursing home section they go around with a vacant look on their faces.

FRIST:

We have moved 25 patients out of the nursing home section into the Personal Care Unit.

WEEKS:

Is this Personal Care Unit in Lansing?

FRIST:

In Lansing.

WEEKS:

I must go up and see it. That sounds tremendous.

FRIST:

East Lansing, Michigan.

WEEKS:

Right near the university.

I didn't ask you if you are interested in any of these walk-in clinics, neighborhood clinics.

FRIST:

Very much so. We are doing a careful study on that now. Tomorrow I have a meeting with the former chairman of the board of Beatrice Foods. He is very interested in that. He wants to start six in Nashville. He wants us to finance them, then they would send their patients to our hospitals. One great thing--I am going to turn it down because of two things. Inadequate care in the first place. Second place, not quality care. When our doctors send patients to the hospital they are going to be seen often after seven or nine o'clock at night. Our doctors do that very much. HCA is sponsoring emergency centers. Humana was going to build 80 or 100 of them, but I understand they have closed a lot of them and are not opening new ones. There is a great need.

WEEKS:

We have two or three of those emergency clinics in Ann Arbor.

FRIST:

With the great oversupply of doctors in another three years, doctors will be keeping their offices open until nine o'clock at night to get business. In my own office they are coming back to work like I used to work. I never closed my office on Saturday because so many country people came in on Saturday, and working people. When I got sick seven years ago with open heart surgery, they closed down on Saturday. Now they are coming back and they see

more patients on Saturday than any other day of the week. I also had a few hours on Sunday to see my patients, 1 to 3 o'clock. So doctors are going to have to come back to that. Competition is going to make them.

WEEKS:

Many physicians are beginning to think about this.

About five years ago there was a meeting of deans of medical schools founded in 1960 or later, which were mostly schools not connected with university medical centers but had their clinical experience in community hospitals rather than in a university center. There were three days of meetings and they were talking about the future and about the oversupply of physicians there would be in 1990. We taped all this. There were papers presented, then after the presentations the people would break up in groups of 10 or 15 to discuss the paper or anything else. After the paper on the growth of the number of doctors in ratio to population, some of these deans asked. "Does this mean that we are going to have to work for less than a six digit income?

Someone else asked, "What are we going to do if we can't make enough money practicing medicine, are we going to have a second job? Or are we going to have to take a job with the government part time?"

Then somebody says. "Is it going to be as bad as it is in Italy, where they say some doctors are driving taxis?"

I am sure this is going to have a terrific impact on the practice of medicine.

FRIST:

Terrific. Doctors will own x-rays, laboratories, and CAT scanners in one big building so they will send patients over there before they go in the

hospital. There is a terrible danger of overuse where the doctor owns it.

WEEKS:

We have talked a long time and about many things. I am sure your reminiscences and comments will make a valuable contribution to the Hospital Administration Oral History Collection at the American Hospital Association Library in Chicago.

Thank you very much for your courtesy and hospitality.

Interview in Nashville

April 4, 1984

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