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## CSX Chief's Death Prompts Tough Questions About Move to Hire Him

The railroad's board gave Hunter Harrison the top job earlier this year despite strong concerns about his health



Hunter Harrison died last weekend after only several months as CEO at CSX Corp. PHOTO: LARRY MACDOUGAL/ASSOCIATED PRESS

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CSX Corp. hired the renowned railroad turnaround artist Hunter Harrison in March with much fanfare and investor support, despite concerns about his undisclosed illness. Now, that decision has backfired, leaving one of the biggest U.S. railways with a depleted leadership team in the midst of a restructuring.

[Mr. Harrison's sudden death Saturday](#) raises questions about the board's decision to wager its future on the 73-year-old and an activist investor's high stakes campaign earlier this year to shake up the CSX board and bring in Mr. Harrison as chief executive. "It was a classic triumph of short-term thinking over long-term sustainability," said Renny Ponvert, CEO of Management CV Inc., which analyzes top hires for money managers. The board, he said, "took a high-beta risk that appeared to pay off for the first six months. Now, they're stuck with a consequence that could expose long-term shareholders."

CSX, based in Jacksonville, Fla., said it would stick with Mr. Harrison's strategy and was confident in the executive team he left behind.

Two months ago, according to people familiar with the matter, the CSX board faced a gut check on its ailing CEO, who had been using a portable oxygen tank and mostly working from home. Despite his illness, Mr. Harrison had quickly moved to streamline CSX, idling hundreds of locomotives and closing facilities, [moves that disrupted shipments and sparked customer complaints](#).

Several top executives complained to directors about Mr. Harrison's leadership, the people said. Among the concerns were his health, one of the people said. They were also upset with changes to the railroad that had rattled customers and Mr. Harrison's push to scrap several projects CSX had pursued with government funding, others said.

The board was divided over the issue, but ultimately sided with Mr. Harrison, the people said. Three top executives quit, including Chief Operating Officer Cindy Sanborn and Chief Marketing Officer Fredrik Eliasson. Mr. Eliasson had been in line to become CSX's chief executive before Mr. Harrison came on the scene.



Paul Hilal, founder and CEO of Mantle Ridge LP, led a drive to bring in Hunter Harrison as CSX chief executive. PHOTO: ANDREW KELLY/REUTERS

Mr. Harrison's death weeks later leaves the railroad searching for a permanent leader and with a newly hired executive holding its three top roles. On Saturday, CSX Chairman Edward Kelly said the board was confident its acting CEO and executive team "will capitalize on the changes that Hunter has made."

Shares of the company tumbled on Friday after CSX disclosed Mr. Harrison had taken a medical leave. The stock lost 7% to \$52.93, well above the roughly \$35 level where it was trading in January before Mr. Harrison became involved.

Douglas Chia, executive director of corporate governance at the Conference Board, wondered how much CSX board members knew when they announced the medical leave. "If they did know he was on his deathbed, they really have some explaining [to do] at this point."

Questions about Mr. Harrison's health before he was hired led the CSX board to initially ask for an independent physician to review his medical records, the company said. Mr. Harrison refused, presenting instead a letter from his physician saying he was healthy enough for the job. The exact nature of his illness has never been revealed.

The activist investor behind the CEO coup and board changes, Paul Hilal, had promised to pay Mr. Harrison \$84 million to leave his old job to take over CSX. He then got CSX to agree to reimburse the costs.

For Mr. Hilal, the move represented an unusual gamble for his new fund, Mantle Ridge LP. He had raised \$1 billion specifically for the CSX plan, pitching potential investors on Mr. Harrison's abilities and locking them in for up to five years to ensure time for the turnaround.

Mr. Hilal, who is also a CSX director, declined to comment Sunday.

The board ultimately bowed to Mantle Ridge and other investors who supported Mr. Harrison. News of his campaign for the job had sent the company's shares surging 30% in January, adding more than \$10 billion in market value. CSX agreed to replace five directors, put Mr. Harrison in control and give him a four-year contract.

But the board took the unusual step of putting the contract and the \$84 million payment, up to a shareholder vote in June. Mr. Harrison threatened to quit if his package wasn't approved.

Some governance experts had questioned if the board was abdicating authority over what many consider a central responsibility: hiring and paying leaders.

"They didn't pursue the due diligence that they should have done...ahead of hiring this guy," said Mr. Chia. "Mantle Ridge also has some explaining to do."

Shortly before the vote, The Wall Street Journal reported that Mr. Harrison was using a portable oxygen machine and working mostly from home. The company and Mr. Harrison declined to discuss his illness, [but said he was up to the task](#) and that CSX directors were aware of his medical condition.

"Don't judge me by my medical record, judge me by my performance," he told the Journal in May. He said he had curtailed travel and headquarters appointments since he recovered from pneumonia and other health issues in 2015, when he was CEO of Canadian Pacific Railway Co.

Investors approved the pay package with more than 93% of shares cast in support.

Hiring a sick executive “was a mistake,” said a manager with one institutional investor, whose firm sold its CSX stake after the vote due to concerns over Mr. Harrison’s health and directors’ refusal to disclose details. “You take a calculated risk and he died.”

CSX declined Sunday to respond to the criticisms. In May, a company spokesman said “the board fully considered Mr. Harrison’s age as well as his experience in hiring him as for this position, and addressed the associated risks in his employment agreement.”

As part of his contract, Mr. Harrison received the \$84 million cash payment and was granted options to buy nine million shares, at \$49.79, that vested over four years. Under the terms of the agreement, the options will be forfeited since Mr. Harrison didn’t serve a full year.

Taylor Glasebrook, a portfolio manager at Neuberger Berman, one of the investors that had publicly supported Mr. Harrison’s hiring, said Sunday he still believes it was the right decision and CSX will eventually achieve Mr. Harrison’s vision.

“He’s done a lot in his brief tenure here and he’s brought in a lot of people he worked with,” Mr. Glasebrook said. “Those are the people that on the day to day basis are living and breathing Hunter.”

The task of steadying CSX’s operations now falls to acting CEO Jim Foote, 63, who was brought on in October as chief operating officer. Mr. Foote had worked under Mr. Harrison during the turnaround of Canadian National Railway Co., leading sales and marketing.

Mr. Foote, in a call with analysts Friday, said Mr. Harrison had created enough disciples at CSX to carry out his work. About 150 executives participated in multi-day workshops called Hunter Camps aimed at encouraging managers to embrace change and new operating methods at CSX.

In a note to staff on Saturday announcing Mr. Harrison's death, Mr. Foote wrote, "we will honor his legacy by staying focused on executing the Precision Scheduled Railroading operating plan he laid out."

—*Jacquie McNish contributed to this article.*

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