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COVER STORY / Hard-headed but affable CEO shuns spotlight and raises while building an empire at North Shore Series: Last of an ongoing series about the hospital revolution; [ALL EDITIONS]

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Abstract (Document Summary)

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Meet John Gallagher, 65, the chief executive whose employees call him "Jack [Gallagher]" - a hardheaded but affable former tire salesman who has transformed a small teaching hospital into one of the largest not-for-profit health care systems in the Northeast. While other hospitals are fighting for their very survival, Gallagher took a gamble that is shaping health care delivery on Long Island today - a network with a \$1.9-billion budget that encompasses almost 4,000 hospital beds and numerous outpatient centers and care agencies stretching from Suffolk through New York's outer boroughs to Staten Island.

Despite his status in the industry, Gallagher is somewhat of an enigma. In an age of unprecedented corporate greed, he earns a salary that is a fraction of those of other executives in his league. While his annual pay of \$360,000 is not insubstantial, it pales by comparison to the nearly \$1 million a year pulled in by Paul Marks, the chief executive of Memorial Sloan-Kettering Cancer Center in Manhattan. Long Island Jewish-Hillside Medical Center president Dr. David Dantzker earns more than \$500,000 in salary and benefits. In fact, Gallagher doesn't earn much more than the \$317,468 salary of Michael Rodzenko, the CEO of 429-bed South Nassau Communities Hospital in Oceanside.

Full Text (4314 words)

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IT HAPPENS every few months, a little ritual that repeats itself like clockwork: Saul Katz, chairman of North Shore Health System, on one chair; Jack Gallagher, president and CEO of the system, the largest on Long Island, on another.

Katz starts gingerly. Gallagher's salary, he knows, is a sensitive subject. Past chairmen have been unable to do a thing about it, and it has become an embarrassment - but not for the reason you'd expect. Gallagher, Katz believes, is vastly underpaid. Although the health system has grown to include 10 hospitals, Gallagher has resisted a salary to match. A few years ago, the former board chairman had to twist his arm just to get him to accept a cost-of-living hike.

"Jack," Katz says, "I'd like to talk to you about . . ."

But before he even utters the words "a raise," Gallagher is on his feet.

"Saul," he says, "I gotta run."

Meet John Gallagher, 65, the chief executive whose employees call him "Jack" - a hardheaded but affable former tire salesman who has transformed a small teaching hospital into one of the largest not-for-profit health care systems in the Northeast. While other hospitals are fighting for their very survival, Gallagher took a gamble that is shaping health care delivery on Long Island today - a network with a \$1.9-billion budget that encompasses almost 4,000 hospital beds and numerous outpatient centers and care agencies stretching from Suffolk through New York's outer boroughs to Staten Island.

Gallagher is one of the most influential people on Long Island, with the power to dictate the quality of health care for much of the Island, but he has maintained a remarkably low public profile. Though well-known in hospital circles, he shuns the limelight, refuses news interviews as a rule, and must be coaxed into a tuxedo for black-tie galas.

He has a reputation as a charming but shrewd negotiator who keeps an even demeanor during the toughest negotiations, but who won't let go until it's hopeless. A perfectionist and a workaholic, he generates intense, almost cult-like loyalty among staff, who know that his geniality doesn't mean he fails to pay attention.

While North Shore insiders and close associates speak of Gallagher only in superlatives, his rivals in the hospital industry describe him as a master of manipulation, ferociously pursuing his own agenda with no regard for how the chips fall around him.

"He is viewed by other hospital officials with a combination of fear, envy, admiration and hope," said one industry insider. "Some hope he'll make them an offer they can't refuse. Others fear that he will. They're nervous. 'Is he going to take over my hospital? Is he not going to take over my hospital - but take my business away?'"

Despite his status in the industry, Gallagher is somewhat of an enigma. In an age of unprecedented corporate greed, he earns a salary that is a fraction of those of other executives in his league. While his annual pay of \$360,000 is not insubstantial, it pales by comparison to the nearly \$1 million a year pulled in by Paul Marks, the chief executive of Memorial Sloan-Kettering Cancer Center in Manhattan. Long Island Jewish-Hillside Medical Center president Dr. David Dantzker earns more than \$500,000 in salary and benefits. In fact, Gallagher doesn't earn much more than the \$317,468 salary of Michael Rodzenko, the CEO of 429-bed South Nassau Communities Hospital in Oceanside.

"I didn't get into this business to make a lot of money," Gallagher said. "I make a good salary here, that's enough. Enough is enough. This is a nonprofit. I don't think people should take advantage. I don't think it's right."

The North Shore chief still lives in the same cedar-shingle raised ranch in Setauket he and his wife bought in 1969 as a home for their six children and four foster children. He drives a Jeep Cherokee provided by the hospital, but has consistently refused a chauffeur, despite 6 1/2-day weeks of 14 and 15-hour days. An avid windsurfer, he owns a boat and a second residence in Florida, but colleagues say he seldom takes time off. Self-deprecating and unassuming, he has made his own bald pate the butt of constant jokes - occasionally stopping midconversation to pull an Afro pick out of a back pocket and say, "Excuse me, but my hair's out of place."

His sense of humor does not detract from his drive, however. Friends say he is motivated by one thing and one thing only: a personal vision of a superior health care system that will thrive despite the relentless assault of profit-driven managed-care companies and the possible New York invasion of for-profit hospital chains. Gallagher is negotiating with several hospitals in Suffolk to complete the eastern piece of the regional health network, which is already large enough to negotiate with health plans from a position of strength.

"He's not interested in money - the man's crazy," said Robert Kaufman, former chairman of North Shore's board of trustees. "He has no interest in glory. He hates articles. He doesn't want medals. He has no interest in pats on the back. He has satisfaction in what he's accomplished, and what he knows he's going to accomplish."

In a rare interview, Gallagher, a former altar boy, Eagle Scout and college swim team captain, said his goal in life is to do as much good as possible for the greatest number of people (although he asked that his philosophical musings be kept out of print).

"If you can do it while you're here, I think that's a much better thing to do than just go out and make a lot of money, and take money out of your pocket and put it in my pocket, and see how smart you can be . . . I don't think that's a great goal in life.

"I think the goal in life, if you can get it, is how much good you can do for how many people. It's much more satisfying than making money."

THE JESUITS' MESSAGES

Born Dec. 9, 1931, to a family in Jackson Heights, Queens, John Gallagher was given the weighty middle initials "S.T." - "S" after an illustrious great-grand-uncle on his mother's side, a former governor of New York State and U.S. congressman, Silas Wright, and "T" after his own father, Thomas, a first-generation American of Irish ancestry, who fought in both world wars and built a tire dealership so successful that it flourished throughout the Great Depression. Tom Gallagher and John's mother, Mercedes, a diplomat's daughter born in Colombia, had two older children: Mercedes, or Mitzi for short, who was Jack's senior by four years, and Tom Jr., Jack's senior by two years.

Self-made and self-taught, Tom Gallagher Sr. had little formal education, but worked constantly to improve himself and expected no less of his sons. An influential businessman who headed the Queens Chamber of Commerce, he ran an old-fashioned household, where little boys were raised to be gentlemen and formal attire was expected at the dinner table.

"If you didn't have a jacket and tie on, you had to eat in the kitchen," Tom Jr. said. "My father was a real class guy."

Both sons were sent to Xavier High School in Manhattan, an all-male Jesuit military academy that counts U.S. Supreme Court Justice Antonin Scalia among its graduates. John was already an overachiever: While in St. Joan of Arc grammar school in Jackson Heights, he raced neck-and-neck with John Catoir, a boyhood friend, to earn 21 Boy Scout merit badges to win Eagle rank (both made it). At the academically rigorous Xavier, he boxed, played tennis, swam, served on the dance committee, belonged to a Catholic service organization and took part in weekly ROTC drills - not to mention working in his father's tire dealership on weekends and vacations.

The Jesuit messages of self-sacrifice and community service were drummed into Jack for another four years while he attended Holy Cross College in Worcester, Mass., another no-nonsense school that required students to attend mass three times a week (Jack went every day, according to his freshman roommate), to put the lights out at 10:30 p.m. (the brothers checked) and to pass a series of philosophy courses including logic, cosmology, epistemology, metaphysics, aesthetics, theology and ethics. Jack, who was apparently expecting - or expected - to take over the family business, majored in business administration. His senior thesis was titled "The Evolution of the Pneumatic Tire in Revolutionizing Industry."

He was already showing signs of being an unmitigating perfectionist, according to Tom, whose footsteps he followed at Holy Cross as captain of the swim team and member of the dance committee, critiquing and heckling him all the way. At the same time, say those who knew him, Jack was a gregarious, enthusiastic fellow who made friends easily, loved to regale them with show tunes on the piano and was always quick with a joke and a smile. He also displayed an unusual empathy and kindness for such a young man.

Jack's freshman roommate, John Seyda, whose family lived in Indiana, said Jack invited him home to Jackson Heights with him almost every weekend.

"Other people would invite you once, as a courtesy," Seyda recalled. "Jack invited me with him every weekend. It actually got kind of embarrassing for me, because my family didn't have a lot of money and I went to school on an athletic scholarship. I told him outright, I didn't even have money to chip in for gas for the ride home. He just said, 'Forget about it.' And wherever we went in New York City, the Rainbow Room or to see Guy Lombardo play, he paid for everything."

Seyda, who now lives in Las Vegas and lost contact with his college buddy years ago, said he got to know New York City like his own hometown.

"Jack went way beyond the call of duty," he said. "He took into account that I was away from home, that I didn't get home except for Christmas, which he didn't have to do."

A CAREER CHANGE

Gallagher graduated from college in 1953, and for a while it appeared that his life would follow a predictable course. He went into the family tire business; married Grace Stein, a schoolteacher from Philadelphia, and started a family.

But the tire business was changing, and so was Jack. About the same time the business was being sold, two things happened: Jack's father suffered a blood clot under his scalp, bringing Jack into close contact with North Shore Hospital in Manhasset, and Jack had a chance encounter with Ned Sweet, a college buddy who was working as an administrator at Huntington Hospital.

Sweet's enthusiasm for his job was infectious.

"It was like a small city," said Sweet, who now lives in Alexandria, Va. "When you went to work, you never knew what that day would bring. You were dealing with everything. One minute you'd be talking with some janitorial people and the next minute you'd be talking with physicians and nurses. It ran the whole gamut."

It was also very fulfilling. "You knew you were helping people - that's what Jack was missing in the business world," he said. "The Jesuits do a good job of instilling those values in you, that you had a contribution to make, that God gave you certain talents, and if you weren't utilizing your talents for others, you were missing out on something."

Though Gallagher is reluctant to discuss himself at length, he acknowledged he had become fed up with "the double standards and crazy ethics of business."

So in 1961, at the age of 30, Jack Gallagher went back to school, this time to Yale University. He earned a master's in public health, spending five days a week in New Haven and going home on weekends.

He was already planning a future at North Shore, and his thesis - a comparison of the hospital's emergency surgery patients with patients whose surgery was scheduled - showed a budding preoccupation with planning. The emergency patients, the student noted, showed up at random times, were less likely to have medical insurance and tended to have a longer recuperation period than the scheduled patients.

"It is hoped that this report will be useful in planning hospital facilities, as the needs and demands of the population so indicate," he wrote. "Knowing the factors that can be uncontrolled, this will permit prediction in the anticipated results of a course of action, and ultimately, control of the remaining factors."

THREE DECADES AT NORTH SHORE

From the moment he wheedled his way onto the staff at North Shore in 1963 by pressuring the hospital to create an internship tailor-made to fit Yale's master's degree requirements, Jack Gallagher left his stamp as an innovator possessing the dual qualities of foresight and follow-through.

Those are qualities that even his detractors in the tight-knit Long Island hospital industry - and there are many - find impossible to ignore.

"He's done a lot of good things," said one of his rivals, who asked not to be identified, adding, almost reluctantly, "He's done a lot of things I wish I had done."

Another, speaking in a similar vein, said, "In terms of creating a vision and moving forward, North Shore has, more than anyone else, carried that vision forward to fruition."

During his first decades at North Shore, as an administrator working for then-executive vice president Dennis Buckley, Gallagher oversaw a building boom that transformed a small hospital into a mammoth, 720-bed campus with the addition of the 10-story Bayson-Whitney Tower, an extended-care facility; a biomedical research institute, and the first freestanding ambulatory care surgery center in the state.

His brother Tom ran a concrete business at the time. Despite the obvious business opportunities, Tom says he couldn't pry even a word of introduction to contractors out of his brother.

"I'm glad to say it now, but at the time I wasn't too happy about it," Tom Gallagher said recently. "He doesn't want even the smell of a conflict of interest at any time. He was a real pain about it."

North Shore, which became a teaching hospital in 1969, was also expanding its mission, improving mental health services, sponsoring health clinics for the poor and uninsured, and making innovative therapies, such as cutting-edge cancer treatments, available for the first time on Long Island.

But even though he was rising rapidly through the ranks, he maintained an open-door policy with employees, according to all accounts. North Shore was still a small, intimate hospital, and Gallagher, who knew most employees by name, was an enthusiastic participant in interdepartmental softball games and tennis tournaments, emceeding volunteer award nights and company Christmas parties. Employees often called on him to help solve their personal problems as well, said Dr. John Mountain, former chief of surgery at Manhasset and the doctor who operated on Gallagher's father.

"We were always going down to the jail to bail someone out for DWI or talk to a judge," Mountain recalled. "We would be standing in the cafeteria and a maintenance employee would come up to Jack and say, 'About that problem with my sister . . .'"

On Thanksgiving, every employee received a turkey, and Christmas parties were elaborate, lavish affairs, Mountain said.

"One time, back in the '60s or '70s, a cafeteria worker was at a Christmas party with his four little kids. They were like steps, ages 4, 3, 2 and 1. The fellow went home that night and got involved in an altercation with a drunk neighbor, and he got shot. Paralyzed. Jack made sure he was taken care of, for the long run. He never lost his job."

But while Gallagher took a paternalistic interest in his staff, and still says he believes that only poor managers resort to layoffs, his administration fought unionism tooth and nail. In 1977, when the registered nurses at North Shore voted 368 to 96 in favor of a union, the hospital waged a fierce legal battle challenging the governance structure of the union, the New York State Nurses Association. Eight years later, the administration won a ruling that quashed the North Shore unit, leaving the nurses without union representation to this day.

For some of that time, Gallagher was the No. 1 man at North Shore. In 1982, the hospital's board of trustees elected him as Buckley's successor, giving him the title executive vice president.

"When the time came," said Kaufman, the former chairman, "there was no question in anyone's mind."

SHAPING AN EMPIRE

But by the beginning of the 1990s, a new era of health care was dawning. Cost containment was paramount, and New York's not-for-profit hospitals, which for years had relied on state-set rates, felt the walls closing in. Managed-care companies were demanding discounts from hospitals, government programs were downsized and deregulation was coming. Managed-care companies had even begun intruding into an area where insurers historically feared to tread: telling patients which hospital they could use, when they could use it and, sometimes, for how long.

But Jack Gallagher was already hatching a plan.

After his first foray into a consortium with other Long Island hospitals went bust - the U.S. Justice Department in 1994 essentially nixed Classic Care, a network of eight hospitals, after accusing it of violating antitrust laws by attempting to fix prices - Gallagher followed a piece of advice branded on a mug he keeps prominently displayed in his office: "If at first you don't succeed . . . Change the rules."

He started all over again, this time building a network that would be a single corporate entity, large enough to achieve economies of scale, offer a broad array of services and reach a large number of consumers but centralized enough to negotiate as one over prices, plan strategies and avoid duplication.

Although the idea for an integrated health system hadn't completely crystallized yet, North Shore University

Hospital purchased the Glen Cove hospital in 1990. Since then, it has added eight more hospitals to its network, including three it bought outright and five it controls through sponsorship agreements that give it the last word over decisions.

Basically, Gallagher borrowed common-sense principles from the business world and grafted them onto the health care field.

The idea was that a large network with a reputation for outstanding care would have tremendous clout when negotiating with

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insurance companies - and be able to demand higher payment rates
- because it covered so much ground that health plans competing on

Long Island would be incomplete without it. A strong network might even strive to take over the role of insurer, eliminating the middleman and retaining more money for patient care, although North Shore officials say this is not on their agenda now.

"Bertrand Russell's definition of a genius is a person who can see the obvious when no one else can see it," Kaufman said. "In that sense, Jack Gallagher is a genius. He saw what was coming, and he knew that a network was the answer to everything."

But where Gallagher's admirers see brilliance, his rivals see bald-faced empire building. Gallagher's critics, including some former Classic Care partners, felt betrayed by his change of course toward a centrally controlled system. They feared the potential consequences of having a Goliath of a health care system in their back yards. And while some critics question his objectives, saying Gallagher is taking enormous risks by investing so much in the acquisition of hospitals, most concentrate their attacks on his methods and strategies, especially his insistence on being the one who makes the rules in any network arrangement, leaving them only a subservient role.

"The sense I have is that you do a deal with him, and the road only goes in one direction: toward Manhasset," said one hospital administrator, who, like others, refused to be identified by name or institution.

North Shore's incursions into Suffolk County - the health system encompasses Huntington Hospital and Southside Hospital in Bay Shore and is actively courting University Medical Center at Stony Brook - have received the same warm welcome accorded to carpetbaggers in the Old South.

Ken Roberts, president of J.T. Mather Memorial Hospital in Port Jefferson and chairman of a fledgling Suffolk hospital coalition, attacked North Shore's "coercive, restrictive and exclusionary tactics" in a Newsday story published in September, charging that a marriage between North Shore and Stony Brook would "place a chokehold" on Long Island and its community hospitals.

And though Gallagher's reputation, according to many who have been his adversaries in difficult negotiations, is one of decency and straight shooting, critics say he plays "good cop, bad cop," delegating the dirty work to underlings.

"Jack always manages to distance himself. Nothing bad ever gets attributed to Jack," said one critic who refused to be named.

Gallagher's goal, as he explains it, is to make sure North Shore maintains the fourfold mission emblazoned in its bylaws: to provide high-quality patient care, to be a center for scientific research and medical education, to serve the community and to care for the poor. At a time when for-profit insurance companies often second-guess doctors' judgment, Gallagher is also determined to run a provider-controlled network - a health care system in which physicians and hospitals are powerful enough to call the shots.

"The providers, the doctors and the hospitals, have their careers engrossed in patient care. They came into the business to render good patient care. That's their profession," Gallagher said. "Not so the managed-care companies. They don't provide anything. They just provide a bank to collect the money."

"I don't think you should ask the guy that's going to make all the profits and take all the money out of the system to be the manager and the overseer of quality. They have a different goal. Hospitals and doctors are here to take care of patients."

Gallagher seems intent on making sure the health system can honor that commitment. Even though he has reached the age of retirement, he has made it clear he is not going anywhere, and recently told a lifelong friend, former Eagle Scout John Catoir, that 65 is no time to retire.

In any case, he has neither groomed nor clearly identified a successor, raising questions about who will fill his shoes when the time comes.

Perhaps one reason for the absence of an heir apparent is that, in some ways, Gallagher is North Shore. Robert Wild, who has worked with Gallagher for years as an attorney for the health system, says Gallagher enjoys the job so much that he makes it look easy. He compared Gallagher to the legendary baseball player Joe DiMaggio.

"DiMaggio was the best ballplayer I ever saw, and what made him so wonderful is it never looked like he was working hard to catch a fly ball," Wild said. "He always made the catches look easy. By the time the ball came to the ground, he was underneath it. And Jack is like that, too. He doesn't appear to be straining to do what he does. He just does it."

1994 Compensation of Some Metropolitan Area Hospital Chiefs

[Table]

Paul Marks CEO Memorial Sloan-Kettering Cancer Center	\$923,959
John W. Rowe President Mt. Sinai Medical Center	\$744,685
David Dantzker President Long Island Jewish Medical Center	\$516,427
David P. Rosen President Jamaica Hospital Medical Center	\$435,180
Gladys George Pres./CEO Lenox Hill Hospital	\$398,926*
John Gallagher President North Shore University system	\$360,608*
Michael Rodzenko Exec. Dir South Nassau Communities Hospital	\$317,468
Michael Maffetone Dir./CEO University Hospital, Stony Brook	

\$240,000* Kenneth D. Roberts President Mather Memorial Hospital \$239,579 Patricia Delgiorno Admin. Flushing Hospital Medical Center \$225,554

[Table]

Joseph Erazo Director Nassau County Medical Center	\$172,828*
Andrew Mitchell President Syosset Community Hospital	

\$170,262

* Not including benefits.

SOURCES: U.S Internal Revenue Service; Nassau County Medical Center;

State University Hospital, Stony Brook.

JOHN GALLAGHER AT A GLANCE

John 'Jack' S.T. Gallagher

Title: President and CEO of North Shore University system

Age: 65

Education: BS in Business from Holy Cross College in Worcester, Mass., 1953; Masters degree in Epidemiology and Public Health from Yale University, New Haven, Conn., 1963

Work History: Worked in his family's tire business in Long Island City. Joined staff at North Shore Hospital in Manhasset, in

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1963, as an administrative resident. Was named Administrator of North Shore University Hospital in 1971.

Appointed executive vice president in 1982, a title upgraded to President and Chief Executive in 1992.

Professional and Civic Activities: Past president of the

[Table]

Nassau-Suffolk Hospital Council, board member of Greater New York Hospital Association. Recipient of the American Heart Association's Distinguished Leadership Award (1993) and the American Lung Association's Health and Humanitarian Award

(1993). Named Man of the Year by the Nassau County Economic

Opportunity Commission in 1975 and received the Boy Scouts of America Good Scout Award in 1983.

Hobbies: Tennis, windsurfing, boating and playing the piano.

Family: Married, with six children and several grandchildren.

Quote: "All I'm trying to do is to live in this new managed care

environment. I'm not trying to hurt anybody."

[Illustration]

Charts- 1) 1994 Compensation of Area Hospital Chiefs- Includes names, institutions, and salaries- SOURCES: U.S. Internal Revenue Service; Nassau County Medical Center; State University Hospital, Stony Brook; 2) John Gallagher at a Glance- Includes brief biographical profile (see end of text); 1) Newsday Color Cover Photo by Paul J. Bereswill- John Gallagher, President of North Shore Health System; 2) Newsday Photo by Audrey Tiernan- Edie Marden, a nurse at North Shore, chats with president John Gallagher; 3) Newsday Photo by Audrey Tiernan- "I didn't get into this business to make a lot of money," says Gallagher, left.; 4) Photo- A young Gallagher, left, at Xavier H.S., an all-male Jesuit military academy.; MR. ENIGMA. Hard-headed but affable CEO shuns spotlight and raises while building an empire at North Shore. Newsday Color Cover Photo by Paul J. Bereswill- John Gallagher, President of North Shore Health System

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