

Robert W. Campbell Award

Johnson & Johnson Business Case and
Interactive DVD

A hand holding a carrot in front of a globe. The globe is partially visible on the left side, showing the Americas. The background is a warm, golden-yellow color with a soft, glowing effect. The text is centered over the image.

**Is there a connection
between building
sustainable competitive
advantage and being
socially responsible?**

Johnson & Johnson



- Founded more than 120 years ago on the idea that doctors and nurses should use sterile sutures, dressings and bandages to treat peoples' wounds, the Johnson & Johnson Family of Companies has a long history of innovation and product diversification designed to improve human health and well-being.
- Through mergers, acquisitions and the formation of new companies, it has become the world's largest and most broadly based health care company.
- Today, the Johnson & Johnson Family of Companies employs approximately 119,000 people in more than 250 companies located in 57 countries. It sells products in more than 175 countries and serves the consumer, pharmaceutical and medical devices and diagnostics markets with a focus on research-based, technology-driven products. Total sales in 2007 were \$61.1.

Johnson & Johnson

Three Business Segments



- **Consumer** (\$14.5 billion/24% of 2007 sales) – principal products in the baby and adult skin care, women’s health care, wound care and oral care fields, as well as nutritional and over-the-counter pharmaceutical products. (e.g., JOHNSON’S® Baby, NEUTROGENA®, SPLENDA®, MOTRIN®).
- **Pharmaceutical** (\$24.9 billion/41% of 2007 sales) – medicines in therapeutic areas that include anti-fungal, anti-infective, antipsychotic, cardiovascular, contraceptive, dermatology, gastrointestinal, hematology, immunology, neurology, oncology, pain management, urology and virology (e.g., LEVAQUIN®, RISPERDAL®, REMICADE®, PREZISTA®).
- **Medical devices and diagnostics** (\$21.7 billion/35% of 2007 sales) – products include circulatory disease management products, orthopedic joint reconstruction and spinal care products, wound care and women’s health products, minimally invasive surgical products, blood glucose monitoring and insulin delivery products, professional diagnostic products and disposable contact lenses. (e.g., CYPHER® Sirolimus-eluting coronary stents, ACUVUE® contact lenses, OneTouch® blood glucose meters).

Johnson & Johnson

Business Performance



- Johnson & Johnson has reported more than two decades of double-digit earnings increases while the return on shareholders' equity over the past 5 years has averaged almost 30%. The compound annual growth rate over a 10-year period shows Johnson & Johnson shareholder returns exceeding other indices. The 179,000 registered shareholders have reason to be satisfied.

EXHIBIT 1: INCOME STATEMENTS 2002-2007

	2002	2003	2004	2005	2006	2007
Sales to customers (billions)	\$36.3	\$41.9	\$47.3	\$50.5	\$53.3	\$61.1
Net earnings (billions)	\$6.3	\$6.8	\$8.2	\$10.1	\$11.1	\$10.6
Percent return on average shareholders' equity	26.4%	27.1%	27.3%	28.2%	28.3%	25.6%
Cash dividends paid per share	\$0.795	\$0.925	\$1.095	\$1.275	\$1.455	\$1.620
Market price (year-end)	\$53.11	\$50.62	\$63.42	\$60.10	\$66.02	\$67.38

Johnson & Johnson

Our Credo



In 1943, Robert Wood (General) Johnson wrote *Our Credo*, a simple one-page document that outlines Johnson & Johnson's approach to conducting business. *Our Credo* states that the company's first responsibility is to the people who use its products and services; the second responsibility is to its employees; the third to the community and the environment; and the fourth to the stockholders. *Our Credo*, barely changed since 1943, still guides performance at Johnson & Johnson.

Johnson & Johnson

Our Credo



Our Credo

We believe our first responsibility is to the doctors, nurses and patients,
to mothers and fathers and all others who use our products and services.

In meeting their needs everything we do must be of high quality.

We must constantly strive to reduce our costs
in order to maintain reasonable prices.

Customers' orders must be serviced promptly and accurately.

Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the world.

Everyone must be considered as an individual.

We must respect their dignity and recognize their merit.

They must have a sense of security in their jobs.

Compensation must be fair and adequate,
and working conditions clean, orderly and safe.

We must be mindful of ways to help our employees fulfill
their family responsibilities.

Employees must feel free to make suggestions and complaints.

There must be equal opportunity for employment, development
and advancement for those qualified.

We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and work
and to the world community as well.

We must be good citizens – support good works and charities
and bear our fair share of taxes.

We must encourage civic improvements and better health and education.

We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.

Business must make a sound profit.

We must experiment with new ideas.

Research must be carried on, innovative programs developed
and mistakes paid for.

New equipment must be purchased, new facilities provided
and new products launched.

Reserves must be created to provide for adverse times.

When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson

Strategic Overview



- The Company recognizes its success is rooted in the Credo and its business strategy rests on a foundation of Credo values. Johnson & Johnson's business strategy is centered on four principles.
 - First, Johnson & Johnson strives to be broadly based in human health care. With sales over \$60 billion generated from three broad product lines distributed across the world, the company has followed through on its promise of wide coverage.
 - Second, Johnson & Johnson emphasizes decentralized management as a model of governance. The organization relies on this decentralization to promote faster decision-making in local areas and greater accountability for business-line success.
 - Third, Johnson & Johnson manages for the long-term, which requires its managers to balance short and long-term thinking in their decision-making. Managing for the long-term also focuses investment on technology innovation and research and development (R&D) as well as on building the company's investment in its people.
 - The final strategic principle is to focus on people and values, as embodied in the company's Credo. Internal company literature and Johnson & Johnson managers speak of "living the Credo," that is, delivering top products for customers, leading health and safety for its employees, investing in communities, and maximizing value to shareholders.

Johnson & Johnson

Business Principles & Conduct



- The *Principles of Corporate Governance*, adopted in 2006, apply to Directors and senior management. Behind these principles is the belief that the ethical character, integrity and values of directors and senior management are the most important safeguards of corporate governance.
- This is one of the reasons various internal safety and health campaigns have a senior level Champion to spearhead the effort. Corporate programs to encourage employee safety on the job and while driving, and initiatives to help employees stop smoking and increase exercise, are all led by a Champion who holds a title of Vice-President or higher.
- Additionally, senior managers subscribe to a *Policy on Business Conduct*. Its key elements include compliance, environmental laws and regulations, health care compliance, employment and labor laws, and political activities and contributions.
- This policy requires employees—and vendors, distributors, contractors and agents—to report information concerning any prohibited or unlawful act, without fear of reprisal. There are numerous other guidelines and standards that apply to the various business units, functions and businesses.

Johnson & Johnson

Health & Safety Vision Statement



- Health & Safety has its own vision statement to guide decision making.

EXHIBIT 3: JOHNSON & JOHNSON HEALTH & SAFETY VISION STATEMENT

We are committed to making Johnson & Johnson the world leader in health and safety by achieving healthy lifestyles and injury-free workplaces. We affirm that:

- *We hold health and safety among our highest values.*
- *Health and safety are everyone's responsibility.*
- *All accidents and injuries are preventable.*
- *All employees understand the value of active, healthy lifestyles.*
- *Health and safety metrics are key indicators of organizational excellence.*
- *Attaining healthy and safe lifestyles with our employees and their families creates a competitive advantage.*

We must consider health and safety in every decision we make and in every activity we perform. We care about the health and safety of our fellow employees, their families, their communities, our customers, contractors and visitors.

Johnson & Johnson

Public Policy Advisory Committee



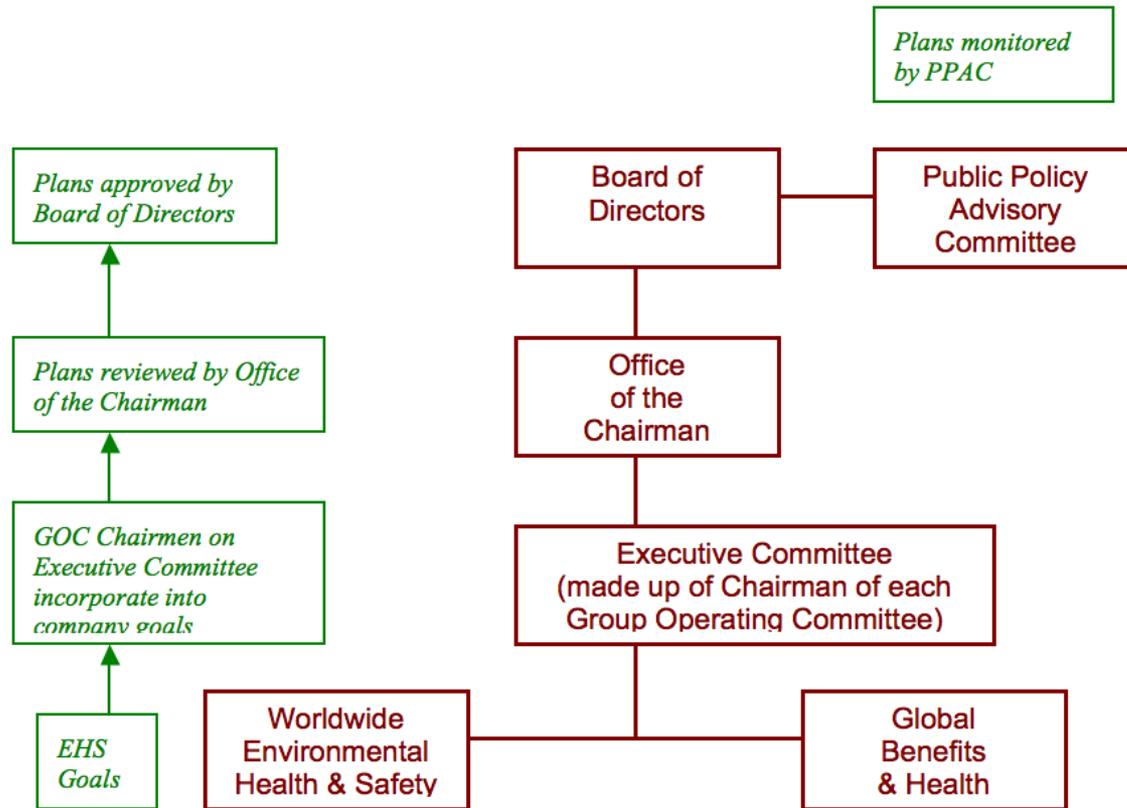
- The Public Policy Advisory Committee (PPAC) is the primary link to the Board of Directors for reviewing and making recommendations regarding company policies on public health issues, and the health and safety of employees and the environment. The Executive Committee is the principal management group responsible for the operations and allocation of Company resources. It oversees and coordinates the activities of the Consumer, Pharmaceuticals and Medical Devices and Diagnostics business segments. The Chairman of each of those three Group Operating Committees (GOC) is a member of the Executive Committee. Each Group Operating Committee has a strategic plan that includes a “compliance pillar.” That supporting pillar indicates their goals and plans for EHS compliance. Looking at it from the bottom to the top, the flow of strategic planning is as follows:
 - Worldwide EHS sets EHS goals in collaboration with franchise EHS leaders.
 - GOC Chairmen on Executive Committee incorporate EHS goals into company goals.
 - Company goals (with EHS goals integrated) are reviewed by Office of the Chairman.
 - Company goals are approved by the Board of Directors.
 - Enterprise-level EHS goals are monitored by PPAC.

Johnson & Johnson

EHS Organization in Corporate Structure



- This organizational chart indicates the level of the EHS organization in the overall Corporation, and how it “feeds” corporate decision-making. While it does not show the entire organization, it identifies the level of reporting required by Worldwide Environment, Health & Safety.



Environment, Health & Safety



Johnson & Johnson

Environment



- Environmental goals have been a part of the Johnson & Johnson strategic plan for over 15 years. As the world's largest health care company, it recognizes the interdependence of the health of people and the planet. Besides being the right thing to do as a socially responsible corporation, many of the green actions taken by Johnson & Johnson's operating companies ultimately affect the bottom line.
- One of Johnson & Johnson's Healthy Planet 2010 goals is to continue reducing greenhouse gas emissions (CO₂), which many scientists and business leaders agree is a measurable way to address the real problem of climate change. It also has a positive impact on business.
 - In 1999 Johnson & Johnson set a carbon dioxide reduction goal of seven percent by 2010 when compared to their 1990 baseline.
 - In 2006, Johnson & Johnson companies had cut CO₂ emissions by 16.8 percent since 1990 - more than double their goal. This occurred during a worldwide sales increase of 372%. Johnson & Johnson estimates annualized savings of \$30 million over the last 10 years due to CO₂ reduction projects.
 - The other targets of its Healthy Planet 2010 goals include energy and water conservation, and reductions in waste, paper and packaging.

Johnson & Johnson

Health



- Johnson & Johnson believes that promoting employee health and wellness makes good business sense for many reasons. First, company leaders have long held that because Johnson & Johnson is a health care company, it should practice what it preaches by promoting the health of its employees.
- Second, professionals in the health-care sector (e.g., research scientists, engineers) are generally concerned about health—including their own. Thus, providing a healthy work environment may serve an important function in attracting and retaining talented employees.
- Third, because value is created within the Johnson & Johnson strategy by people applying their talents to deliver innovative products to customers, it is critical for the employees to operate at peak performance.

Johnson & Johnson

Safety



- Rolled into the overall health and wellness strategy is the Johnson & Johnson emphasis on employee safety — from dangers as subtle as ergonomics to more observable hazards in the laboratory and on the road.
- Johnson & Johnson often develops corporate programs targeting specific safety risks that appear across companies and regions. These programs have a senior level Champion, and typically use on-site teams to help implement the program components. Examples include:
 - Machine Safety
 - ERGO (ergonomics)
 - Safe Decisions for Life (hand safety, fall prevention, on the job and at home)
 - Process Safety Management
 - Industrial Hygiene
 - Incident Investigation
 - Contractor Safety
 - SAFE Fleet

Johnson & Johnson

EHS Results



EHS Initiative	Annual Savings
One company modified a process to reduce emissions and waste. Besides savings, it also eliminated the need for retrofitting later, an unmeasured cost avoidance.	\$2 million
A new HVAC cleaning system in a Puerto Rican facility saved \$83,900.	\$83,900
Site in Belgium reduces CO ₂ , and saves in energy costs and annual maintenance costs.	\$417,000
Reduced packaging in India means less materials and cheaper shipping.	\$27,000
Converting scrap rather than landfilling it in Italy.	\$215,000
Health & Wellness Program data is not up-to-date, but it has historically shown, on average, a savings of \$224.66 per employee each year. Given that the current program (Healthy People) is even more robust, one can assume savings are at least comparable. [\$225 x 41,000 US employee participants]	\$9.2 million
Employee Assistance Program expected to yield \$4,000 per client (3,000 participating)	\$12 million
Insurance costs (worker's comp) were avoided because of an extremely low recordable rate (1.14) compared with industry standards (2.4).	\$2.6 million

Johnson & Johnson

Great Company, Great Results



- With the operating principles and results that Johnson & Johnson has achieved, a few tough questions have been presented to their Chairman.
 1. Is there a link between being socially responsible and creating sustainable competitive advantage? If so, how is that advantage created?
 2. What are the points where the business of Johnson & Johnson impacts society?
 3. How do society's expectations affect the ability of Johnson & Johnson to compete?
 4. How does excellence in environment, health and safety contribute to the achievement of corporate goals?
 5. Given the commitment to and attention from senior managers on environment, health and safety issues, what is the risk that EHS issues will crowd out more important management matters (e.g. driving existing business, pursuing mergers and acquisitions, etc.)?
 6. Johnson & Johnson is spending considerable resources to enhance environmental performance as well as workplace safety and health performance. The company is already recognized as being in the very top tier of global companies with respect to EHS performance. How do the leaders of Johnson & Johnson know when they've hit the point of diminishing returns? When does cost cease to justify the return?