Business Case

Johnson & Johnson

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

BUSINESS CASE SCENARIO

Perry Somers, a second-year MBA student, thoroughly enjoyed his summer internship at one of Wall Street's top investment banks. His mentor had taught him the value of looking beyond standard financial analyses to truly understand the underlying logic that supports an organization's decisions and their ultimate impact on the long-term success of a company. The intense research and systematic analysis required to gain unique insights appealed to the engineer in him (Perry graduated cum laude from an engineering program five years ago).

Perry's summer experience had also solidified his commitment to famed economist Milton Friedman's claim that *the* social responsibility of business is to increase its profits.[i] While many of his classmates were off at rallies and conferences advocating for more corporate involvement in social causes, Perry stayed focused on his prime reason for attending business school: learning how to create value for shareholders.

Perry was especially energized when he learned that his business school had named William Weldon, CEO of Johnson & Johnson, its Business Leader of the Year. Perry had studied the pharmaceutical industry during his internship and had a number of lingering questions. He hoped to have an opportunity to ask Mr. Weldon those questions when the CEO came to campus to receive the award and give his acceptance speech.

As Perry reviewed his notes from the summer, Johnson & Johnson's stated commitment to "socially responsible" policies and practices raised questions for him. As he thought about the company's goals to deliver innovative health care products to customers and a strong return to investors, he saw incongruities. Products and profits were on target but excellence in environment, health and safety seemed costly, and, Perry felt, put the first two goals at risk.

Though Johnson & Johnson had reported 75 consecutive years of increasing revenues, Perry thought that if CEO Bill Weldon had studied business instead of biology at Quinnipiac University, he would critically question the large annual expenditures associated with being a leader in environment, health and safety. Through calculation of these costs, Perry estimated that an additional $100 million could flow to the bottom line annually if the corporation focused solely on meeting regulatory requirements. However, Johnson & Johnson sought to be more than compliant with the U.S. government's Occupational Safety and Health Administration (OSHA) and Environmental Protection Agency regulations.

When Professor Lee Mitchell invited students to submit questions to Mr. Weldon in advance of his speech, Perry was thrilled. He provided his questions to Professor Mitchell and marked the event "High Priority" on his electronic calendar. His overarching question was: ***Is there a connection between being socially responsible and building sustainable competitive advantage, or are these two objectives, as he thought, at odds with each other?***

JOHNSON & JOHNSON BACKGROUND

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 billion split among its three business segments:

1. **Consumer** ($14.5 billon/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®).
2. **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®).
3. **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).

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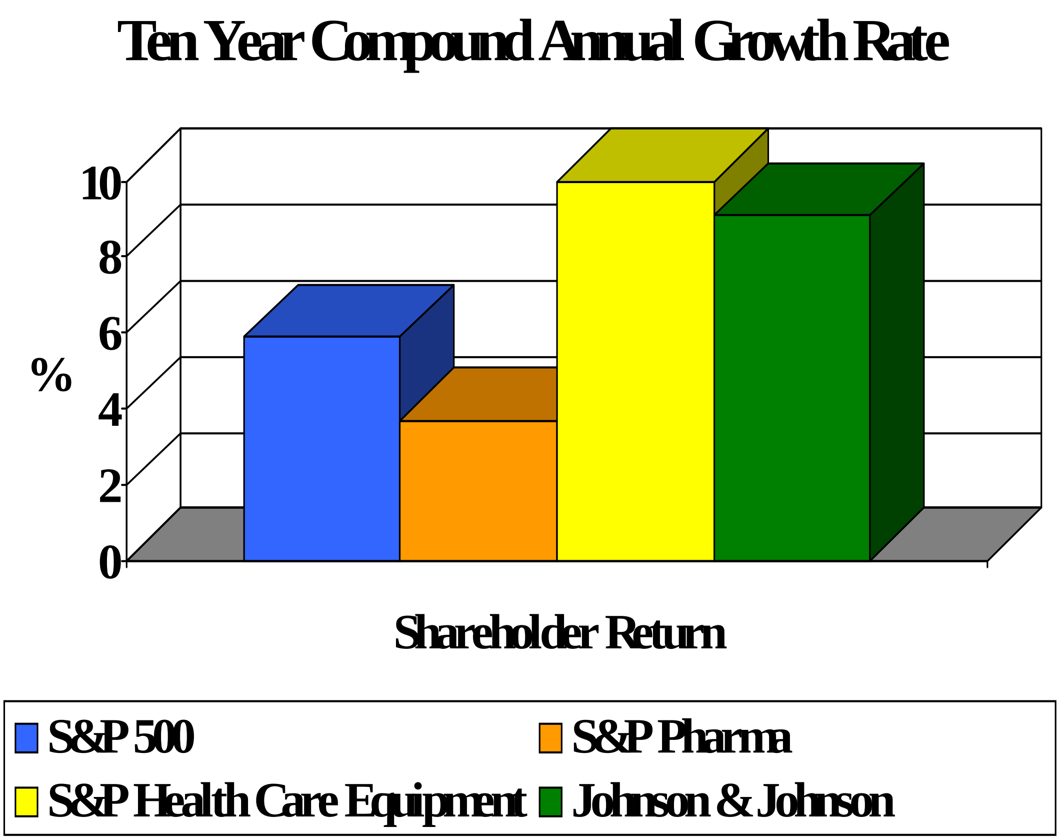
Johnson & Johnson has reported more than two decades of double-digit earnings increases while the return on shareholders' equity over the past 5 years has averaged almost 30% [Exhibit 1]. The compound annual growth rate over a 10-year period shows Johnson & Johnson shareholder returns exceeding other indices [Exhibit 2]. The 179,000 registered shareholders have reason to be satisfied:

- Johnson & Johnson has issued dividends to shareholders every quarter since 1944.
- Sales have increased each year for 75 consecutive years.
- Dividends have been raised each year for 46 consecutive years.
- There have been earnings increases for 24 consecutive years.
- Johnson & Johnson is one of only five industrial companies with a Triple A credit rating.
- Johnson & Johnson was ranked 36th on the 2007 *Fortune 500*.
- Total investment returns for shareholders have averaged more than 17% over the past 20 years.

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

EXHIBIT 2: SHAREHOLDER RETURN (%)
10-YEAR COMPOUND ANNUAL GROWTH RATE, 1998-2007



2007 Johnson & Johnson Annual Report

LEADERSHIP

Over the course of more than 120 years, only eight individuals have led Johnson & Johnson. Robert Wood Johnson and then his brother James led the firm for the first 46 years. When Robert Wood (General) Johnson, who was the son of the founder, took over in 1932, the company was well established as a leader in the healthcare field. Though committed to the core strategy, General Johnson brought some new approaches to the business. Under his leadership, a policy of decentralization was initiated, giving the divisions and affiliates both the autonomy and the opportunity to chart their own futures.

In 1943, 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 environment; and the fourth to the stockholders. *Our Credo*, barely changed since 1943, still guides performance at Johnson & Johnson today.

An example of its power in action is how leaders addressed the TYLENOL® crisis of 1982, when the McNeil Consumer & Specialty Pharmaceuticals product was tampered with and contaminated with cyanide. When seven people in Illinois died after taking Extra-Strength TYLENOL® Capsules, company managers and employees turned to the philosophy embodied in *Our Credo* and conducted an immediate product recall across the U.S., amounting to about 31 million bottles and a cost of more than $100 million. They also halted all advertisement for the product. While it was determined that Johnson & Johnson was not responsible for the product tampering, the company assumed responsibility. By putting public safety first, Johnson & Johnson was able to recover quickly from one of the largest crises in medical history.

The first paragraph of *Our Credo* drove the TYLENOL® decision: concern for customers. But the outcome was ultimately positive for shareholders, too.

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.

STRATEGY

This approach to building the company's success did not begin or end with the TYLENOL® incident. 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. One of the programs that enables central office influence in the face of a decentralized model is MAARS—Management Awareness and Action Review System. Over time it has evolved into a critical tool in the leadership toolbox for identifying and controlling environmental, health and safety risks. The MAARS action plans address ways to close the gaps between Johnson & Johnson global standards and local plant operations.

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. From the invention of the BAND-AID® Brand Adhesive Bandage to the latest advances in medical technology, the Johnson & Johnson Family of Companies has been a leader in R&D. In 2005, the company spent $6.3 billion on research and development, which was 12.5 percent of sales. Today, Johnson & Johnson invests these funds in a wide variety of projects that address current medical needs (e.g., HIV/AIDS), as well as future ones.

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. Further, employees complete biannual "Credo" surveys that allow them to highlight areas in which Johnson & Johnson can improve in its application of Credo values.

TALENT

Though no institution is perfect, Johnson & Johnson has been widely recognized as a good place to work with awards that include:

- *Working Mother* magazine, which named Johnson & Johnson in the top 100 best places to work for mothers. Johnson & Johnson and IBM are the only companies that have been on the list for each of the 21 years since the list began.
- *DiversityInc* Magazine: Johnson & Johnson has earned a spot on the "2008 DiversityInc Top 50 Companies for Diversity®" list, ranking 8th overall.
- *FORTUNE* Magazine listed Johnson & Johnson as one of the top 10 most admired companies.
- The Harris Interactive® Reputation Institute named Johnson & Johnson as having the best corporate reputation in America for seven consecutive years.
- *Barron's* on-line survey of the world's largest companies conducted among investors ranked Johnson & Johnson #2 as the "Most Respected Company" in 2007.

While the above list is not exhaustive, it is indicative of the strong employment brand that Johnson & Johnson has developed, which provides advantages to Johnson & Johnson in the market for talent. Depending on the type of position, the number of applicants for a job at Johnson & Johnson, or one of its companies, can reach upwards of 300. Having large numbers of applicants allows Johnson & Johnson to be highly selective. In 2007 in the United States, Johnson & Johnson received 1.2 million external plus 110,000 internal applicants (an applicant is defined as someone who submits an application, meets the minimum requirements and doesn't voluntarily withdraw) for 6,000 positions filled. Turnover across Johnson & Johnson in the US for that same year was 8.7%, about half as much as 2006 voluntary turnover rates in manufacturing (16.5% according to Bureau of Labor Statistics).

More recently, Johnson & Johnson has placed greater emphasis on the attraction, acquisition and development of capable, values-based leaders. *Chief Executive* Magazine recognized the company's leadership by naming it one of the "Top 10 Best Companies for Leaders" in 2007. Johnson & Johnson has developed the Global Leadership Profile to ensure that the company has a consistent framework for the development and assessment of future leaders across all of its businesses around the world. This framework defines the leadership behaviors the company values in employees at all levels. To help cultivate the leadership capabilities of individuals, Johnson & Johnson continuously assesses its talent management processes, tools, and leadership effectiveness. The wide range of jobs (from administrative staff to sales professionals to scientists) across the diverse business lines operating around the globe renders aggregate voluntary employee turnover difficult to compare to competitors. However, it is widely believed that low rate of turnover within the Johnson & Johnson Family of Companies contributes considerable value to the enterprise.

PRINCIPLES DRIVE PRACTICES

In addition to following *Our Credo*, employees, officers and directors are held to several other policies, guidelines and standards. 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.

Health and Safety has its own vision to guide decisions that may affect either [Exhibit 3].

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:

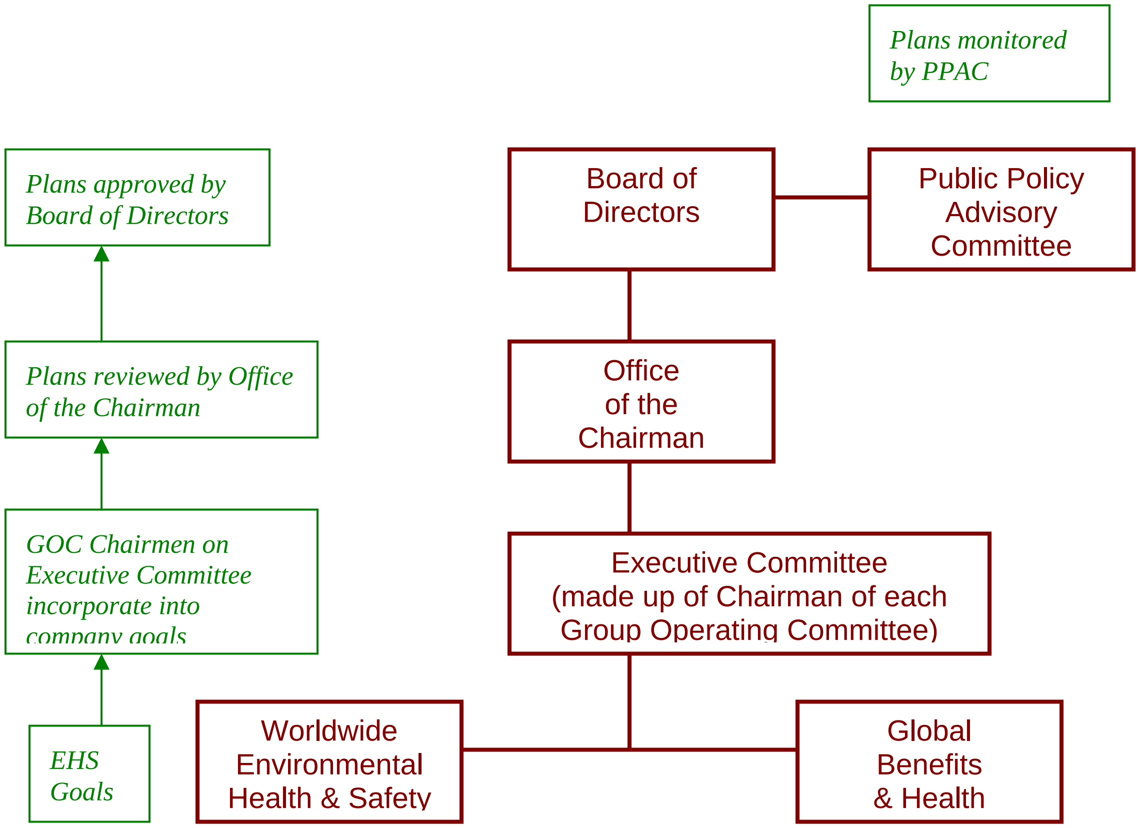
- *We hold health and safety among our highest values.*
- *Health and safety are everyone's responsibility.*
- *All accidents and injuries are preventable.*
- *All employees understand the value of active, healthy lifestyles.*
- *Health and safety metrics are key indicators of organizational excellence.*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

Standards for Responsible External Manufacturing extend Johnson & Johnson's commitment to health, safety and the environment. Like many companies, Johnson & Johnson is increasing the amount of production that is outsourced. Consequently, it seeks supply chain relationships with companies that *behave ethically and with integrity*, who *promote the safety, health and well-being of employees,* and who *operate in an environmentally responsible manner*.

The next page shows an organizational chart [Exhibit 4] indicating 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.

EXHIBIT 4: ORGANIZATIONAL STRUCTURE & RESPONSIBILITIES (ABBREVIATED)



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 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:

1. Worldwide EHS sets EHS goals in collaboration with franchise EHS leaders.
2. GOC Chairmen on Executive Committee incorporate EHS goals into company goals.
3. Company goals (with EHS goals integrated) are reviewed by Office of the Chairman.
4. Company goals are approved by the Board of Directors.
5. Enterprise-level EHS goals are monitored by PPAC.

In addition to PPAC, the Corporate Compliance Committee provides ongoing oversight. Worldwide EHS and compliance leaders from each of the Group Operating Committees provide regular updates on EHS compliance. Significant issues are escalated to Executive Committee members and monitored until successfully resolved.

EHS PROGRAMS AND INITIATIVES

In addition to its emphasis on attracting talented job candidates, Johnson & Johnson has long believed that healthy employees form a healthy company. The Corporation believes that the health and safety of its employees is also inextricably linked to the environment. The Johnson & Johnson Worldwide Environment, Health & Safety (WWEHS) organization has created its own identify to promote sustainability [Exhibit 5], and has developed initiatives to measurably improve its performance in all three areas.

EXHIBIT 5: EHS LOGO

ENVIRONMENT

We are responsible to the communities in which we live and work and to the world community as well…We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

—From Our Credo, paragraph 3

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 (CO_2), 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 CO_2 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 CO_2 reduction projects. The other targets of its Healthy Planet 2010 goals include energy and water conservation, and reductions in waste, paper and packaging.

Renewable Energy & Waste Reduction

Johnson & Johnson recognizes that funding capital projects to reduce greenhouse gas may have lower rates of return than typical business investments. But the help of government incentives makes these projects feasible. By balancing projects with good financial returns (cogeneration) and projects that may take a decade to return the investment (on-site solar installations), Johnson & Johnson meets its objectives to reduce greenhouse gases, and ensures profitability.

One of the ways Johnson & Johnson reduces emissions of greenhouse gases (GHG) is by purchasing renewable energy. The corporation is now the fifth largest purchaser of renewable energy (hydro, wind, solar) in the US; over 400 million kilowatt-hours representing 39 percent of energy use by its operating companies worldwide. This has earned them the EPA's Green Power Leadership Award for six consecutive years. Since 2005 Johnson & Johnson has provided funding for nearly 50 clean energy projects, resulting in an investment of more than $100 million, and yielding a 16.3% internal rate of return.

Purchasing methane gas from a closed municipal landfill, one Johnson & Johnson company produced enough electricity in 2006 to offset 5,200 metric tons of CO_2. The energy savings of this project was equivalent to taking 1,000 cars off the road for a year.

The sun is an example of a renewable energy source. A 1.1 megawatt solar tracking system installed in the fall of 2007 in Vacaville, California provides half of the pharmaceutical facility's electric energy during peak hours when the sun is shining. This system brings the corporation's total output of solar photovoltaic panels to 4 megawatts worldwide, making Johnson & Johnson the second largest corporate user of on-site solar power in the U.S.

Johnson & Johnson sites around the globe find creative ways to conserve energy in ways that reduce emissions, waste, and expenses. For example:

- Using a computer-based tool to rate processes based on environmental factors (energy use, water use, hazardous material requirements, process efficiency and yield, and non-product generation), one operating company modified a pharmaceutical manufacturing process. They improved performance, minimized costly retrofits to address environmental problems that may arise later, and cut raw materials consumption and waste generation in half. The annual cost savings was $2 million.
- A new HVAC water cleaning system in Puerto Rico enabled a facility to achieve a 34% reduction in daily wastewater discharge, yielding a $83,900 savings annually. Because the system minimizes corrosion and improves heat transfer, the equipment may also last longer.
- A site in Belgium upgraded old refrigerant equipment to save $374,000 in energy costs and avoid 1,061 metrics tons of CO_2 emissions annually. Added benefits were significant noise reduction, and a $43,000 decrease in annual maintenance costs.
- Packages are being redesigned on all Johnson & Johnson Family of Companies products to reduce packaging waste. A facility in India simplified its suture packaging, and as a result reduced paper use by 9,200 kilograms, created faster throughput on the packing line, and saved about $27,000 in reduced shipping costs and materials use.
- An Italian site found a company to take its production scraps and convert them into plastic components. This project cost nothing to implement, and yields about $215,000 savings annually.

The environmentally friendly practices of Johnson & Johnson were cited when the U.S. Environmental Protection Agency and Department of Energy recently named the company "Green Power Partner of the Year." The award represented the sixth consecutive year Johnson & Johnson received an EPA Green Power Partnership Award.

HEALTH

We must be mindful of ways to help our employees fulfill their family responsibilities… We must encourage civic improvements and better health and education.

—From Our Credo, paragraphs 2 and 3

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.

Corporate health and wellness initiatives are developed and offered to operating companies around the globe. Each is free to design and implement programs that meet local needs and priorities. That can mean free vaccinations in some countries and healthy eating programs in others. All Johnson & Johnson health initiatives focus on prevention. Studies abound on the value of investing in employee health before illness strikes. Cost avoidance can be measured in terms of less time off the job for medical visits and recovery; lower medical bills; fewer mental health visits; lower absenteeism; and greater productivity due to healthy workers with higher morale.

The preventive approach to employee health management at Johnson & Johnson has evolved over the past 30 years, and now has willing participation by over 90% of U.S. employees (approximately 41,000) in programs that are likely to increase their lifespan. Following are examples of Johnson & Johnson programs in employee health.

LIVE FOR LIFE®

For those who think the notion of creating a healthy workplace is a fairly recent phenomenon, Johnson & Johnson's LIVE FOR LIFE® program was piloted in 1978. The Chairman of the Board at that time, James Burke, believed that unhealthy behaviors such as smoking, overeating, alcohol abuse, emotional stress, hypertension, and unsafe driving were responsible for a large share of the company's health care costs in the U.S. Consequently, he directed the organization to build a program to help employees address these problem areas.

James Burke was right. From 1979 to 1983, Johnson & Johnson companies that implemented LIVE FOR LIFE® had hospitalization costs at one-third the rate of non-LIVE FOR LIFE® companies, and absenteeism rates of 18% less. The reduction in medical and absenteeism costs yielded a 1.7:1 return on investment according to a study published in an independent, peer-reviewed journal.[ii]

Health and Wellness Program (HWP)

Building upon the success of LIVE FOR LIFE® and its expansion across its many companies, Johnson & Johnson began to look for ways to integrate all of the many aspects that the company saw as central to health and wellness. In April 1995, the LIVE FOR LIFE® program was reformed as the Johnson & Johnson Health and Wellness Program (HWP)—an integration of occupational medicine, fitness, wellness, employee assistance, and disability management.

The program placed a greater focus on proactive measures—such as disease prevention and health promotion—than its predecessor. It even offered a $500 reduction in the cost of the health care premium for employees who underwent an initial health risk assessment so Johnson & Johnson could track the progress of its efforts. The resulting profiles allowed Johnson & Johnson to identify behavioral and physical risk factors that could lead to more effective programs in the future. Johnson & Johnson management believed that the cost of the program was offset by this proactive and integrated approach to long-term healthcare.

As with LIVE FOR LIFE®, Johnson & Johnson spent substantial sums on the evaluation of HWP in 2000. The study revealed substantial savings of $224.66 for each of the 41,000 involved U.S. employees per year over a four-year period. Savings were due to reductions in hospital use, mental health visits, and outpatient service. Most of these savings did not show up until three years into the program [Exhibit 6]. A consortium of doctors and professionals also found improvements in aerobic exercise, high blood pressure, dietary fiber intake, seat belt use, tobacco use, and drinking and driving habits. However, HWP appeared unsuccessful in curbing risk factors often linked to increased age, such as high body weight and a high-fat diet. Nevertheless, Johnson & Johnson management clearly perceived HWP as adding significant value to its employees and the business.

EXHIBIT 6: SAVINGS PER EMPLOYEE PER YEAR AFTER HWP BEGAN

Type of Care	1 Year After Start of HWP	2 Years After Start of HWP	3 Years After Start of HWP	4 Years After Start of HWP	Weighted Average Per Emp Per Year
Emergency Room Visits	-$12.15	-$14.43	-$7.27	-$8.06	-$10.87
Outpatient/Dr. Office Visits	-$35.04	-$3.85	$146.60	$121.93	$45.17
Mental Health Visits	$78.42	$55.05	$51.49	$103.43	$70.69
Inpatient Days	$60.76	$94.25	$164.72	$195.80	$119.67
Total Savings	**$91.99**	**$131.02**	**$355.54**	**$413.10**	**$224.66**

Healthy People

With HWP's favorable assessment, Johnson & Johnson implemented a new strategy to link health promotion with measurable outcomes, risk reduction goals, and cost savings. This strategy is Healthy People—a program that focuses on—and has shown measurable reductions in—tobacco use, blood pressure, cholesterol, and inactivity [Exhibit 7].

Johnson & Johnson estimates cost avoidance of about $9.2 million in 2006 with the Healthy People initiative—in addition to important, but hard to measure, productivity gains that will aid the bottom line.

EXHIBIT 7: HEALTHY PEOPLE

	Johnson & Johnson Healthy People Progress				
Indicator	Baseline (avg. 1995-99)	2003 Results	2004 Results	2005 Results	2006 Results
Smoking Tobacco Use	12%	6%	6%	5%	4%
Blood Pressure Above 140/90	14%	10%	9%	10%	6%
Cholesterol Above 240	19%	9%	9%	8%	6%
Inactivity 30 min of activity < 3 days/wk	39%	41%	38%	38%	35%

At a national level, according to the Centers for Disease Control and Prevention (CDC), smoking cost the United States $92 billion in lost employee productivity from 1997–2001. Additionally, the data revealed that during this same time, an estimated 438,000 deaths occurred as a result of smoking and exposure to secondhand smoke. One step Johnson & Johnson took to reduce smoking is establishing a Worldwide Tobacco-Free Workplace Policy. In addition to prohibiting smoking at all company locations, vehicles and company sponsored meetings, Johnson & Johnson offers employees a variety of free programs and services to assist in tobacco cessation.

There is increasing evidence that healthy employees are more productive than unhealthy ones. According to the Wellness Councils of America, employee wellness programs have shown reductions in absenteeism and health plan costs, increases in morale and productivity, and improvements in employee recruitment and retention.

Employee Assistance Program (EAP)

Ensuring quality of employee life is fundamental to *Our Credo*, and a target improvement area for Johnson & Johnson. The company recognizes the impact that personal and professional struggles have on performance. That is why Johnson & Johnson has expanded its Employee Assistance Program (EAP) from 40% to 75% of its global workforce, with about 3,000 people participating. Significant investments have been made in counseling, intervention, and preventive screenings, but there is confidence that the outcome will be greater than the investment. Since programs were created to address parenting concerns, substance abuse and workplace stress, Johnson & Johnson has measured a 96% decrease in absences among EAP participants, and a 91% increase in productivity. Ultimately, leaders expect the Employee Assistance Program to save about $4,000 per EAP client annually.

SAFETY

We are responsible to our employees, the men and women who work with us throughout the world…working conditions [must be] clean, orderly and safe.

—From Our Credo, paragraph 2

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:

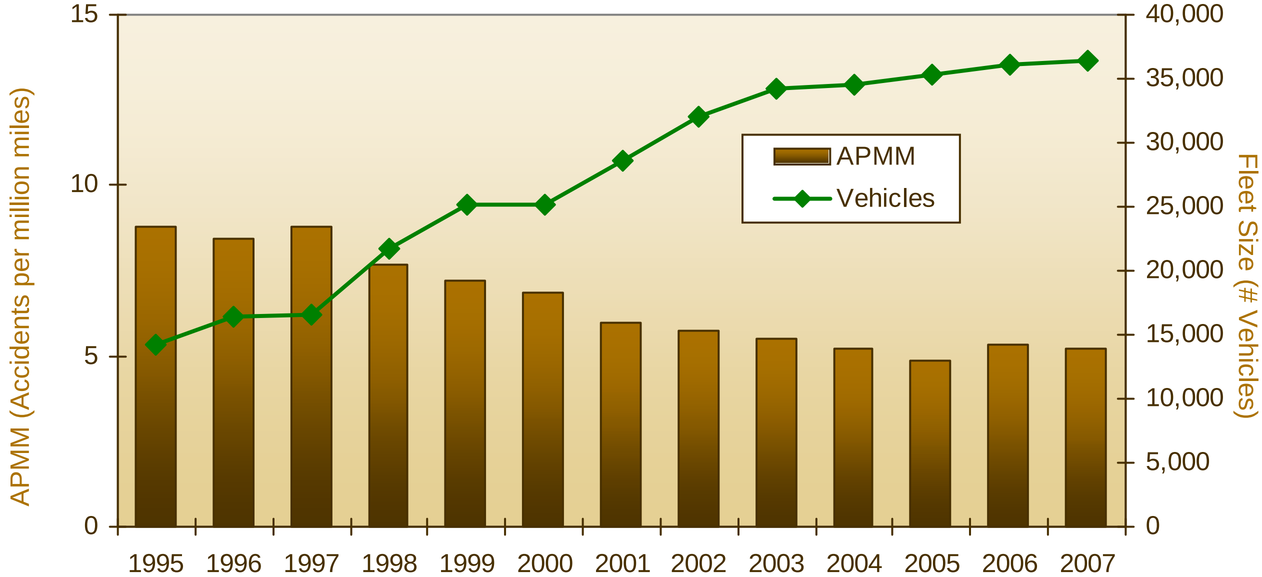
- Machine Safety
- ERGO (ergonomics)
- Safe Decisions for Life (hand safety, fall prevention and driving safety, on the job and at home)
- Process Safety Management
- Industrial Hygiene
- Incident Investigation
- Contractor Safety
- SAFE Fleet

The SAFE Fleet initiative has earned global attention for its process and results. It has dramatically reduced the rate of incidents and injuries related to driving a vehicle, which is an integral part of about 30% of the global workforce's daily job. More details follow.

SAFE Fleet

Fleet safety is a major concern at Johnson & Johnson. The company has a significant number of sales and service people who drive vehicles during much of their work-day (for some, 40-60% of work time is spent driving). The vehicle is considered part of the workplace and is statistically the highest risk of all workplaces. Globally, Johnson & Johnson has about 36,000 employees who drive a company vehicle or get reimbursed for using their own vehicle as part of the job. Johnson & Johnson created the SAFE Fleet program in 1995. It includes behind-the-wheel training in defensive driving, regular communications, careful accident reporting and investigation, and an assessment program to determine the effectiveness of program implementation and results. SAFE Fleet has demonstrated consistent success in reducing vehicle-related accidents and injuries [Exhibit 8].

EXHIBIT 8: FLEET SAFETY — APMM REDUCTION



	2000	2001	2002	2003	2004	2005	2006	2007
APMM	6.85	5.98	5.74	5.52	5.19	4.86	5.32	5.21
# Vehicles	25,128	28,643	30,803	34,183	34,467	35,382	36,056	36,383
Miles Driven (millions)	565.99	627.26	678.85	764.38	776.34	795.00	799.65	754.94
# Accidents	3,877	3,751	4,014	4,219	4,027	3,862	4,253	3,932
% Fleet in Accidents	15%	13%	13%	12%	12%	11%	12%	11%

From 1995 (when Johnson & Johnson began the SAFE Fleet initiative) to 2005, it reduced its accidents per million miles (APMM) rate by 40%. More telling of the program's success is that during those same 10 years, there was 150% growth in fleet size. The vehicle accident numbers tell a financial story, too. Each accident has direct costs of $5,500 on average. That includes more than the cost of bent metal. Listed below are some of additional direct costs of an injury.

- Medical
- Compensation Insurance
- Legal Fees
- Loss of efficiency due to interrupted schedule
- Extra cost of overtime work

The indirect costs of auto accidents have been estimated to run three to five times the amount of direct costs associated with the accidents.

- Uninsured medical costs covered by company
- Failure to fulfill customer commitments
- Reduced company competitiveness
- Time lost defending lawsuits
- Cost of wages paid to supervisors for time spent on investigations
- Time lost from work by the injured employee

- Decreased output of injured worker after return to work
- Lost time by fellow workers
- Cost of training a new worker
- Dented employee morale
- Economic loss to the injured person's family

Companies acquired by Johnson & Johnson provide ongoing opportunities to test the value of SAFE Fleet. Sales organizations at target companies typically have accident rates that are 1.5 to 2 times higher than Johnson & Johnson. This is one fact among many that is revealed during the due diligence exercise that precedes the acquisition. While environmental, health and safety concerns are always addressed in the Johnson & Johnson merger and acquisition process, they rarely are deal breakers. In fact, in many cases the Company sees opportunities where others have failed. Given its expertise and experience, Johnson & Johnson is generally able to generate substantial savings post-acquisition by applying its proven practices.

Implementing a comprehensive fleet safety program is another reflection of the fact that company decisions are driven by *Our Credo*. In addition to saving employee lives, the initiative yields financial rewards from avoiding the costs typically associated with vehicle crashes. In Exhibit 8 the APMM reduction each year translates to accidents avoided. Johnson & Johnson began calculating accidents and related costs avoided in 2003, using 2002 APMM as a baseline. They estimated that, with APMM reduced from 5.74 in 2002 to 5.52 in 2003, the company avoided 169 accidents that year. While no financial data are presented in the exhibit, at an estimated $5,500 cost per incident, it is easy to calculate accidents and costs avoided each year due to the SAFE Fleet initiative.

Injury & Illness Costs vs Insurance Rates

It is costly to design, implement and maintain safety programs. Given reductions in injuries, illness, severity and lost workdays due to these programs, Johnson & Johnson perceives costs associated with these programs as investments that yield savings. Are these costs justified?

The Corporation's ability to reduce incidents and injuries, and associated lost workdays, has a measurable impact on insurance (worker's compensation) costs. Using 2006 as an example, Johnson & Johnson had a recordable* accident rate in the US of 1.14. That rate represents the number of recordable accidents per 100 employees for a US-based workforce of 46,000 people. With an average cost of $4,539 per accident, the total cost is $5,174 per 100 employees. The industry average recordable rate is 2.4.

**From Bureau of Labor Statistics: Recordable cases include work-related injuries and illnesses that result in one or more of the following: death, loss of consciousness, days away from work, restricted work activity or job transfer, medical treatment (beyond first aid), significant work-related injuries or illnesses that are diagnosed by a physician or other licensed heath care professional; additional criteria include any needle-stick injury or cut from a sharp object that is contaminated with another person's blood or other potentially infectious material, any case requiring an employee to be medically removed under the requirements of an OSHA health standard, tuberculosis infection as evidenced by a positive skin test or diagnosis by a physician or other licensed health care professional after exposure to a known case of active tuberculosis.*

While the data and examples discussed here are representative of EHS efforts at Johnson & Johnson, they are not exhaustive. The case also does not present the implementation costs of these efforts. However, the benefits include (in addition to saving dollars): sustaining an impressive reputation among consumers and the public, attracting employees and preserving their health, and securing the respect of the Johnson & Johnson working communities.

CASE QUESTIONS

When Mr. Weldon's office received the list of potential questions to be asked at the upcoming Business Leader of the Year Award event, the quality of the analysis accompanying Perry Sommers' questions stood out.

Mr. Weldon thought about the questions from the young graduate student wondering the extent to which Johnson & Johnson's socially responsible investments really feed the bottom line. Especially now, as conditions in the broader economy as well as within the pharmaceutical industry force cutbacks across all businesses and regions, Perry's questions might be the same ones that many shareholders want answered. Mr. Weldon was confident that the Johnson & Johnson investments in employee health and safety, and the environment were consistent with *Our Credo*. He also had seen plenty of data that specific EHS investments were paying off in more ways than positive reputation for the Corporation. But he saw the grad student's questions as an excellent opportunity to fully consider the hard and soft costs of sustaining healthy people and a healthy planet to the extent that Johnson & Johnson did.

Mr. Weldon discussed each of Perry's questions in-depth with his EHS senior managers:

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 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 performance on environmental performance as well as workplace safety and health. 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 the cost cease to justify the return?

ENDNOTES

[i] “The Social Responsibility of Business is to Increase its Profits,” Milton Friedman; The New York Times Magazine, September 13, 1970.

[ii] Ozminkowski, R.J., et al. (2002). Long-term impact of Johnson & Johnson’s health and wellness program on health care utilization and expenditures. Journal of Occupational and Environmental Medicine, 44, 21-29.