CASE Organizing "People, Values, and Environment" at Johnson & Johnson

The typical pharmaceutical company relies on global integration due to steep product development costs and potential scale economies.[1] Meanwhile, it must respond to local market conditions, obtaining government approval for each product in each country, and establishing local sales and distribution systems. This task requires configuring locally responsive value chains that are then coordinated through sophisticated collaboration between headquarters and subsidiaries. Building an organization that can meet this mission is tough. One standout company that does so is Johnson & Johnson (J&J).

A LITTLE BACKGROUND

How J&J Grew

Since the start of its U.S. operations in 1886, J&J has evolved into the most broadly based health-care company in the world. International activity began in 1919 with J&J Canada. J&J, headquartered in New Brunswick, New Jersey, now lists more than 250 operating companies across the world and sells products in more than 175 countries. It employs about 119,000 people worldwide, with nearly 70,000 working in 57 countries outside the United States. Its steady success is renowned. It holds nearly 54,000 U.S. and foreign patents and is the world's leader in a several medical segments, such as adhesive bandages, contact lenses, prescription pharmaceuticals, and medical devices. Through 2007, J&J's annual sales had grown for 75 consecutive years, reaching $61 billion by 2009. It has maintained profitability since going public in 1944, with 45 consecutive years of dividend increases. Surveys rank J&J as the most admired pharmaceutical company in the world.

What J&J Sells

J&J develops, manufactures, and markets products to consumers and health-care professionals worldwide. It aims for industry leadership in pharmaceuticals, medical devices and diagnostics, and consumer products. The pharmaceutical segment includes products in areas like anti-infective, cardiovascular, dermatology, immunology, and oncology. These products are distributed to retailers, wholesalers, and health-care professionals for prescription use by the public. The medical devices and diagnostics segment includes products distributed to wholesalers, hospitals, and retailers and used in professional fields by physicians, nurses, therapists, hospitals, diagnostic laboratories, and clinics. The consumer segment makes and markets products used in the baby and childcare, skin care, oral and wound care, and women's health-care fields, as well as nutritional and over-the-counter pharmaceuticals. These products, available without prescription, are marketed to the public and sold to wholesalers and to retailers throughout the world.

How J&J Is Run

J&J's nine-member Executive Committee is the principal management group responsible for operations and allocation of the resources worldwide; it oversees and coordinates the activities of the business segments. Executive committee members also chair worldwide Group Operating Committees (GOCs), composed of managers who represent operations within the group as well as management expertise in other specialized functions. The GOCs coordinate the activities of domestic and international units that fall in the pharmaceutical, medical device and diagnostics, and consumer segments.

DECENTRALIZED DECISION MAKING

Decentralization is the heart of J&J's organization—it allows managers who are closest to customers and competitors to make decisions. As the company says, it aims to be big and small all at once, building a global profile based on the conglomeration of many small units. By design, each unit operates with substantial autonomy, commanding the freedom to act as it sees best given local market conditions. Each operating company acts as its own small business, entrepreneurial in character and aware that success depends on anticipating customers' needs and delivering meaningful solutions. Decentralization, explains Ralph Larsen, CEO from 1989 to 2002, "gives people a sense of ownership and control—and the freedom to act more rapidly." His successor, William Weldon, concurs, adding, "The magic around J&J is decentralization." He expanded on these ideas, explaining:

> *The decentralized manner in which we operate our businesses marries the best qualities of smaller companies with entrepreneurial drive for growth and close proximity to customers with the resources, know how, and investment capital of a Fortune 500 company. This strategic approach gives us many advantages over a centralized operation. One is a strong sense of ownership, entrepreneurship, agility and accountability seldom seen in large multinational corporations. The leadership and employees of our*

> *250 operating companies around the world are intensely competitive. We look to the leaders of our decentralized businesses to grow their businesses faster than their competitors. They are driven to innovate . . . [and] to bring greater value to the marketplace through internal discoveries, application of new science, technology, in-licensing and acquisition. We believe our decentralized approach to running the business yields better decisions—in the long run—for patients, health professionals and other customers, because the decision makers are close to the customers and are in a better position to understand their needs. Finally, our decentralized approach to managing the business is a tremendous magnet for talent, because it gives people room to grow and room to explore new ideas, thus developing their own skills and careers.*

This philosophy enables J&J to behave like 250 small, innovative, entrepreneurial firms, responding to the unique opportunities and threats in their local markets. Yet at the same time, each unit can tap the know-how and resources of a large, successful MNE, thereby giving it access to deep pools of products, processes, and people.

Supporting Subsidiaries

J&J entered new markets by adding subsidiaries through investment, alliance, or acquisition of companies. Upon startup, J&J did not dispatch armies of home-office managers directed by headquarters-based generals. Rather, J&J provides the subsidiary the resources that local managers believe support achieving superior results. Its philosophy is that people who understand how the company creates value, have familiarity with the company's core competencies, and are culturally familiar and physically close to the market ought to be running the local business. Thus, for example, baby oil managers in Italy decided how big a bottle to use, even if that bottle differed from the one sold in Germany, Japan, or Mexico.

The heads of J&J's foreign subsidiaries once commanded so much autonomy that they were seen as "kings of their own countries." Headquarters would install some systems to coordinate activities among countries, often negotiating financial targets with the heads of the separate business units. It would then leave them to figure, given local market conditions, how to achieve those targets. With few exceptions, each international subsidiary is run by citizens of the country where it is located.

Growing pressures for global integration tested J&J's commitment to decentralization. Senior management conceded that decentralization resulted in inconsistent market development and duplication of efforts. For example, J&J launched Tylenol in 1960 as an over-the-counter pain reliever in the United States. Although it was available to local operating units shortly thereafter, the Japanese unit did not begin local sales until 2000. Therefore, although decentralization enabled J&J to respond to local needs, it slowed the global diffusion of products and programs.

Decentralization also created agency dilemmas for local management, creating questions regarding their primary allegiance: should they improve local performance at the expense of global corporate objectives? The risk came into play in 2007 when J&J revealed that some of its foreign units made improper payments related to the sale of medical devices in two "small-market countries." Management did not disclose details of the payments but said they were "contrary to the company's policies" and "may fall within the jurisdiction of the Foreign Corrupt Practices Act." Simultaneously, the company announced the early retirement of the executive responsible for the units, the then worldwide chair of medical devices and diagnostics.

Streamlining Coordination and Control

Senior management has since streamlined the way country managers coordinate value activities, recentralizing certain activities from the 250 subsidiaries to headquarters. The GOCs now deal with issues common to operating units, such as human resources, finance, science and technology, and government affairs. Managing certain activities at headquarters frees the units to concentrate on day-to-day performance. It also improves headquarters' coordination of production and marketing around the world. Input from local managers is still sought in formulating a unified marketing strategy; for example, they may debate whether cleanliness or beauty is the better promotion theme. Ultimately, though, when J&J rolls out a product, country managers no longer have the option to reject it.

Coordination has proven beneficial. For example, implementing an updated version of Windows across all operating units at the same time saved J&J an estimated $80 million. Still, years after starting to integrate information technologies, benign changes still meet resistance. Some business units, for instance, argue that they cannot adopt corporate technology standards or bear their share of the cost for infrastructure upgrades. For example, when she first started to integrate information technology, the then-chief information officer had difficulty getting answers on what type of systems were in operation. Similar sorts of problems have led to selective use of market control systems to benchmark the performance of operating units against competitors and each other.

The value of leveraging knowledge and expertise across the company shapes J&J's structure. J&J aimed to improve the global perspective of local decision making. Channels of communication and forums for discussion cut across the organization, encouraging and enabling far-flung units to share their ideas. Self-directed councils—for research, engineering, and operations, among others—meet to swap ideas. Successful employees rotate among operating units, sharing their expertise with their new work groups.

PEOPLE, CULTURE, AND THE CREDO

Management maintains that people and values are J&J's greatest assets. As they often note, every invention, every product, and every breakthrough the company has brought to human health and well-being has been powered by people. The bedrock of the organization was J&J's organization culture—what former CEO Ralph Larsen referred to as the "glue that binds this company together." The basis of this "glue" is a one-page ethical code of conduct, "Our Credo," that guides how J&J fulfills its business responsibilities (see Figure 15.1). Crafted in 1943 by Robert Wood Johnson, company chair from 1932 to 1963 and a member of the company's founding family, the Credo defined J&J's vision of organization.

The Credo tells J&J managers worldwide who and what to care about and in what specific order. J&J's "first responsibility is to the doctors, nurses, patients, mothers and fathers who use our products and services." It addresses the communities where J&J operates and the roles and duties of J&J employees.

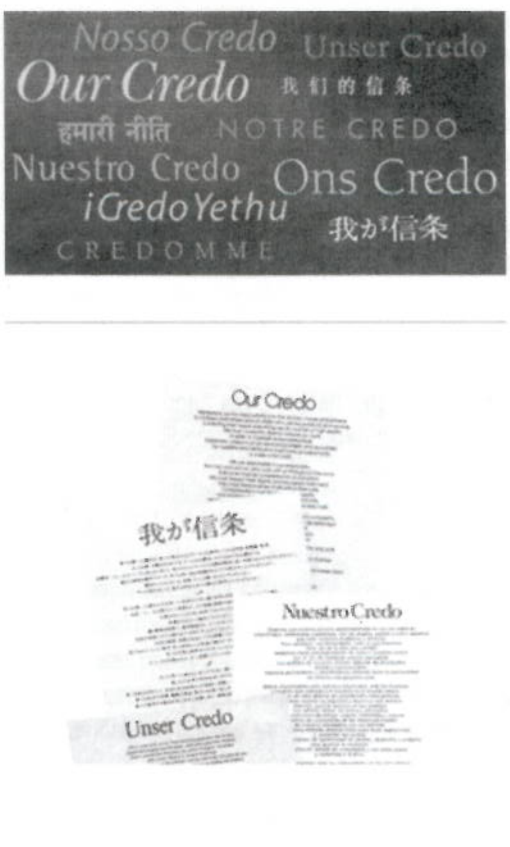

FIGURE 15.1 The J&J Credo

Originally spelled out in 1943, the J&J Credo has been updated over the years to reflect the changing markets and circumstances of J&J.

Source: Johnson & Johnson, "Our Company: Our Credo" (November 14, 2005), at www.jnj.com.

Notably, shareholders come last. The Credo declares that shareholders receive fair returns only upon tending to the other constituents; essentially, the company holds that the business will be well served by putting the customer first. As declared on the title sheet of the 2006 annual report, the "Credo underscores J&J's personal responsibility to put the needs . . . of the people we serve first. It liberates our passion and deepens our commitment to delivering meaningful health innovations." The company maintains that the Credo is more than just a moral compass. Rather, J&J believes it is the basis of success and finds proof in the fact that it is one of a handful of companies that have flourished through more than a century of change.

Translating the Credo

The Credo is available in 36 languages across Africa, Asia-Pacific, Eastern Europe, Latin America, the Middle East, and North America. Executives worried that the language and attitude differences might distort the clear, shared understanding of the company's mission among its global workforce. Consequently, the company periodically surveys employees on how well J&J meets the call of its Credo. These assessments are returned to senior management and, where there are shortcomings, the company takes action. J&J continues to update some of the language of the Credo as the world evolves; adaptations include the environment and the balance between work and family. Despite revisions, management believes the founding spirit of the Credo endures.

No matter the details of its particular structure, systems, and culture, J&J's leaders believe that the basis of the company's continued success is building an organization that is flexible enough to leverage the knowledge held by employees. Indeed, given the choice between staffing international operations with folks who implement top management's orders or hiring local people who are entrepreneurial innovators, J&J opts for the latter. Management reasoned that the benefits of front-line managers capitalizing on their initiative, developing their capabilities, and broadening their perspectives exceeded the risk of poor decisions. Decentralization has been, is, and will be the foundation of J&J's continued success. More pointedly, explained the CEO, "I am here to passionately protect the values of J&J. Our Credo is value-based. It comes down to people, values, and environment."

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Case Review Note

Introduction

Artfully engineering an organization that coordinates global activities to meet the mandates of multinational operations is the frontier of international business. Competitive advantage follows from devising an organization that directs value creation in the face of pressures for worldwide integration versus local differentiation.[2] Therefore, this chapter examines how managers build an organization to implement their strategies.

Organizing is the process of creating the structure, systems, and culture needed to implement the company's strategy.

Strategy as a Process We begin with the premise that an insightful strategy is a necessary, although insufficient, condition for long-term success. An MNE must implement its strategy, putting into practice what it has planned. The task turns managers' attention to how they should organize international operations. J&J exemplifies this situation, (1) showing the power of building an organization that integrates a network of decentralized national units, (2) tailoring technology, human resources, reward systems, and information systems to coordinate and control value activities, and (3) relying on its Credo to sustain a meaningful organization culture.

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Throughout these tasks, managers articulate what must be done to sustain the company's competitive advantage. They focus on how employees do their jobs, how the company coordinates interdependencies among value activities, the means taken to control situations that go awry, and the values that define its culture. In this way, J&J gives a sense of the efforts managers make to build the organization that implements their strategy.