It Will Take More Than a Band-Aid

INTRODUCTION

When it comes to a corporate crisis, Johnson & Johnson (J&J) and its subsidiary Tylenol have historically demonstrated what a company should do in responding to stakeholder concerns. With its handling of the Tylenol tampering in the early '80s, J&J secured its status in the history books for effective crisis management. Since then, J&J has won numerous accolades for consumer safety and for its social responsibility initiatives. In 2010, Barron’s magazine named Johnson & Johnson #2 among the World’s Most Respected Companies. Targeted at top investors, the survey ranked winners according to their strength of management, business strategy, ethical business practices, competitive edge, shareholder orientation, and consistent revenue/profit growth. More recently, in 2018, Johnson & Johnson was ranked 20th on Fortune’s “Change the World” list.

As with most major companies, however, J&J has received its share of criticism in regard to Tylenol and other medicinal products. The 2012 waves of Tylenol recalls and other over-the-counter medications, resulting from bacterial contamination, nauseating smells, and metallic flakes, cost the company financially and reputationally. It has also elicited criticism from the Food & Drug Administration (FDA) on Johnson & Johnson’s slow response time. The problems escalated so much that the House Committee on Oversight, Government Reform, and the Justice Department began investigating the company.

Similarly, Johnson & Johnson experienced criticism over the more recent allegations of their products causing ovarian cancer and mesothelioma. Although the company had developed a reputation for baby-safe and natural products, it is also taking a hit from a string of lawsuits and litigation proceedings. This case will therefore analyze some of these crucial issues as well as how Johnson & Johnson attempts to maintain its industry-leading reputation through its day-to-day operations and commitment to its Credo of Values.

COMPANY BACKGROUND

Robert Wood Johnson began his career as a pharmaceutical apprentice. During the Civil War, the world of healthcare and innovative medicine peaked his interest as he saw huge room for improvement. After witnessing countless infectious outbreaks and poor medicinal practices, he knew that he could make a big difference.

In 1886, Robert and his two younger brothers Edward Mead and James Wood, began this journey to improvement by beginning Johnson & Johnson. Opening their first manufacturing plant in New Brunswick, New Jersey, the company launched with 14 employees, eight women and six men. After manufacturing the world’s first mass-produced, sterile surgical supplies, Johnson & Johnson soon discovered that a large part of the issue stemmed from the lack of knowledge of various medical professionals. In 1888, J&J published Modern Methods of Antiseptic Wound Treatment, teaching medical professionals how to perform antiseptic surgery and best practices for medical safety. This publication became widely distributed across the U.S. throughout the remainder of the year, thus beginning Johnson & Johnson’s commitment to the development and innovation of their products to serve their consumers.
Today, J&J is an international company, still headquartered in New Brunswick, New Jersey, with locations in more than 60 countries with 260 operating companies. They maintain 134,000 employees, $76.48 billion in sales, and they are ranked number 42 in the Fortune 500. In addition to developing a company code of ethics, J&J has their Credo (a set of values and beliefs meant to inspire and guide the actions of all J&J employees) etched in stone outside their headquarters building.

J&J has three main business segments: (1) Consumer – which includes many everyday drugstore lines for skin and hair products including Neutrogena and Roc, and wound care, including the Band-Aids brand and baby care. (2) Pharmaceutical – They offer a drugstore line of products such as Tylenol, Motrin, and Benadryl, among others. It also includes controlled pharmaceutical drugs for hospitals and prescribed use medicines for vaccines, infectious diseases, and therapies for cardiovascular, arthritis, oncology and hypertension and others. (3) Medical Devices and Diagnostics - specialized equipment and surgical instruments; technology and surgical products used by hospitals, physicians and healthcare professionals.

JOHNSON & JOHNSON CREDO

While many organizations have developed ethics initiatives only recently, J&J was a pioneer in developing a sound code of ethics. Robert Wood Johnson, who acted as chairman of J&J from 1932 to 1963, developed the Johnson & Johnson Credo of values in 1943. Before stakeholder orientation became a major business concept, J&J recognized that a set of company morals would not only maintain an ethical corporate culture but also help to ensure business success. The J&J Credo emphasizes putting the consumer first—a concept that would make all the difference during the mass Tylenol recalls in the early ‘80s. The Credo identifies four primary stakeholders and addresses the company’s duty to each group. These groups include consumers, employees, communities, and stockholders.

Consumers
The J&J Credo begins by addressing the groups it sees as its most important stakeholder:

“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...”

The Credo seeks to serve consumers by (1) keeping costs low so reasonable prices can be maintained and (2) promptly and accurately servicing customer orders. Access to medicines and medical care is also an issue that J&J is addressing with its Access2wellness program. This program was created to help those without medical insurance to get the care that they need. J&J claims to have provided over 1.7 million units of medicine to over 300,000 patients within a two-year time span.

Employees
The second section of the Credo addresses J&J employees:

“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...”
To address the needs of its employees, the Credo maintains that J&J will provide (1) a sense of job security, (2) fair and adequate compensation, and (3) clean and safe working conditions. Job security became more problematic in light of the recent global recession, but J&J believes its bonus overhaul will make the pay system more equitable by tying in bonuses to performance. To create a more open workplace environment, employee suggestions and complaints are encouraged. Internally, J&J operates numerous programs that seek to help the physical and mental well-being of its employees. For example, J&J offers the Mental Well-Being employee assistance program, which helps employees in matters pertaining to mental health. Under this program, employees have access to resiliency training; employee assistance programs, which include counseling and intervention; and work-life programs including flexible schedules, compressed work weeks, telecommuting, and flextime.

Communities
After addressing consumers and employees as individuals, J&J's Credo goes on to address itself within the community:

“We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens…”

J&J defines good citizens as those who “support good works/charities and who accept their fair share of taxes, with the belief that these will encourage civic improvement and lead to better health and education within each community.” Included within this stakeholder group are the following environmental and disaster relief initiatives:

Environmental Goals
Reviewed and updated every five years since 1990, J&J’s environmental goals seek to reduce the company's environmental footprint. J&J works with various stakeholders, including government officials, environmental groups, and academic leaders, to achieve its environmental goals. These goals are organized into ten categories, such as energy use, product stewardship, and external manufacturing. Thus far, the program has seen positive results for the many of its goals. For example, when the program first began in 1990, J&J set a goal of reducing its carbon dioxide emissions by 7 percent within the next twenty years. By 2007, the company had already surpassed its goal and reduced their emissions by 12.7 percent. To mark its 100th anniversary, J&J launched Healthy Future 2015 goals for the next five years. Among its many goals, J&J plans to increase fleet emissions efficiency by 20%, reduce water usage by 10%, and reduce waste disposal by 10%.

Disaster Relief
As part of its Credo, Johnson & Johnson also works to provide disaster relief, both domestically and internationally. Within one month of Hurricane Katrina, J&J had contributed $5 million in cash and $250,000 in disaster relief products. After the 2010 earthquakes in Haiti and Chile, J&J leveraged its international connections and partnered with several nonprofit companies to quickly transport resources to victims. The company has pledged to support long-term efforts to provide health care services for women and children within these countries. The company also donated money to Japan after the 2011 earthquake and tsunami. Additionally, Johnson & Johnson maintains its U.S. Matching Gifts Program, in which employee’s personal contributions are double matched by the company.

Stockholders
The last section of the J&J Credo addresses stockholders:
“Our final responsibility is to our stockholders. Business must make a sound profit...We must experiment with new ideas...”

Johnson & Johnson emphasizes the importance of innovation in generating a fair return for stockholders. To develop new ideas, J&J is committed to (1) conducting research and developing new programs, (2) purchasing new equipment and facilities to aid in launching new products, and (3) creating reserves for protection in adverse climates. A small, but significant, section of the Credo states that mistakes must be paid for. This was widely demonstrated during the 1982 Tylenol recalls that will be discussed later in the case.

Despite Johnson & Johnson’s recent problems, the company's long-term and consistent returns have continued to maintain the positive relationship it has with stockholders. Combined with its Credo of Values and its actions during the 1982 product recalls, J&J has earned a stellar reputation that is demonstrated through stockholder returns.

**ISSUE 1: TYLENOL PRODUCTS AND RECALLS**

Tylenol sells a variety of self-healthcare products to tackle some of the most common issues of a cold or flu, including relieving pain, reducing fevers, and relieving the symptoms of allergies and coughs. Tylenol’s goal is to become the leader in over-the-counter (OTC) products worldwide. The Tylenol product line consists of hundreds of products that fit into categories such as Head & Body (back pain, headaches, muscle aches, and cramps); Arthritis; Sinus and Allergy; Cold and Flu (coughs, sore throats, congestion, and multi-symptoms); Pain and Sleeplessness; and Children (fever, aches, cold, cough, flu, and non-medicated). In addition to tablets, J&J has come out with Tylenol chewables, drops, and meltaways.

While it isn’t unusual for pharmaceutical companies to experience crisis situations, it is highly unusual and frightening for firms to experience the type of crisis that Johnson & Johnson faced during the 1980s. Despite the fear that gripped the nation, Johnson & Johnson tried to maintain a sense of calm and concern for consumer well-being that reassured its customers. While Johnson & Johnson certainly lost money in the short-run, its quick actions served to create a favorable reputation as a firm that pursued the right course even when it cost it financially. Indeed, Johnson & Johnson’s effective crisis management likely increased its market share in the long-term as customers could feel confident that the company had their best interests at heart.

**THE TYLENOL POISONINGS**

Johnson & Johnson’s Credo took on prime importance during the crisis of the 1982 Tylenol recalls. The crisis started on September 29, 1982, in the Chicago area when 12-year-old Mary Kellerman was pronounced dead at a hospital after her parents found her on the bathroom floor. Adam Janus was later found collapsed on his living room floor in another part of town and died in the hospital shortly thereafter. Afterward, Adam’s brother Stanley and sister-in-law Theresa gathered at his house. Suffering from a headache, they found a bottle of Extra-Strength Tylenol on the kitchen counter and took some capsules. They collapsed soon afterward and died later in the hospital. Three more deaths were reported the next day. All of these deaths occurred after the victims had consumed Tylenol. The news of the incident spread quickly, causing a nationwide panic.

Investigations revealed that the sudden deaths were a result of cyanide poison discovered in the Tylenol capsules. The capsules had been opened and filled with 65 mg of cyanide—up to 10,000 times that which was needed to kill a person. Since the tampered bottles came from different
factories and the seven deaths had all occurred in the Chicago area, the possibility of sabotage during production was eliminated. Instead, the culprit was believed to have entered various supermarkets and drug stores over a period of weeks, pilfered packages of Tylenol from the shelves, poisoned their contents with cyanide at another location, and then replaced the bottles. In addition to the five bottles which led to the victims' deaths, three other tampered bottles were discovered. These poisoned bottles were discovered at different stores in the Chicago area.

JOHNSON & JOHNSON'S REACTION

The crisis was every company's worst nightmare. Some predicted that Tylenol would never sell again. What followed, however, is one of the most often used examples of effective crisis management. J&J took its consumer responsibility outlined in its Credo seriously. It immediately recalled 31 million bottles of Extra-Strength Tylenol worth over $100 million from all retail stores across the United States. In addition, the company offered to exchange all Tylenol capsules already purchased by the public with solid tablets. Johnson & Johnson also distributed warnings to hospitals and distributors that Tylenol production and advertising would be halted until further notice. According to an analyst, Johnson & Johnson suffered a loss of $1.24 billion due to the depreciation of the company's brand value. Immediately after the crisis, Tylenol's share fell from 37% of the U.S. over-the-counter pain reliever market to just 7% by late 1982. Yet rather than drop the brand as a lost cause, J&J President James Burke poured millions into reviving the struggling brand. Within six months, its share was back up to 30 percent.

Tylenol managed the crisis in two steps: public relations (reacting to the crisis) and its comeback stage. Even though the deaths were not a fault of the company, it took responsibility and, unlike many companies in similar predicaments, put consumer safety over profit. In addition to its country-wide recall, J&J partnered with the FBI, the Chicago Police, and the FDA to track down the culprit, even offering a $100,000 reward for anyone who could volunteer information about the killer. Perhaps most importantly, J&J did not deny the link between the deaths and its products, a mistake that many companies make immediately following a product crisis.

In Tylenol's comeback stage, Johnson & Johnson needed to find a way to restore consumers' trust in the brand. The company took several actions to demonstrate Tylenol's safety. Tylenol products were introduced with new triple-seal tamper resistant packaging. It also offered a $2.50 off coupon on the purchase of its Tylenol products, which could be found in newspapers or by calling a toll-free number. A new pricing program was introduced that provided discounts of up to 25 percent.

Additionally, more than 2,250 salespeople made presentations to members of the medical community. Johnson & Johnson’s actions effectively restored customer goodwill toward the company. In fact, in a survey taken shortly after the crisis, 90 percent of respondents stated that J&J was not to blame for the situation.

Unfortunately, product tampering did not stop with the 1982 Tylenol poisonings. In 1986, the company faced another crisis after a woman died after taking Extra-Strength Tylenol capsules. Once more, cyanide was to blame. This time Tylenol was not alone. The incidence of product tampering appeared to rise after the 1982 Tylenol murders, including incidents of poisoned chocolate milk, orange juice, Excedrin, and Sudafed. J&J responded with another recall and a promise to only release Tylenol in caplet or tablet form.
Although J&J has been praised countless times for its quick actions during the Tylenol poisoning crisis of 1982, the company encountered criticism for not reacting quickly enough to another crisis. In 2009, Johnson & Johnson recalled many of its children’s Tylenol common cold and allergy medications. Nearly two dozen varieties of its children’s Tylenol were voluntarily pulled off the shelves because of a bacterial contamination in its Fort Washington, Pennsylvania facility. Johnson & Johnson took precautionary steps to voluntarily recall some of the Tylenol product line after an internal lab test found bacteria in the raw material that went unused in the making of its product. Although the bacteria *Burkholderia cepacia* was found in a portion of the raw material that went unused, none of the bacteria was found in finished products. As a precaution, however, all products were recalled that had used any of the raw material manufactured at the same time as the raw material that tested positive for the bacteria. The effects of the bacteria can be dangerous for those with weakened immune systems or chronic lung diseases, with symptoms ranging from none at all to serious respiratory infections.

Unfortunately, the bacterial contamination didn’t stop there. In addition to the previous recalls, J&J also recalled millions of bottles of Tylenol, Benadryl, Zyrtec, and Motrin on April 30, 2010. The recall was issued because of possible safety violations in the medications, including too much of an active drug, metal specks, or ingredients that had failed testing requirements. Due to the massive amounts of recalls and seeming lack of oversight on the part of J&J’s subsidiary McNeil Healthcare, the issue was investigated by a Congressional committee. Documents were also recovered which revealed that in 2009, McNeil Consumer Healthcare hired private companies to buy defective Motrin products from stores, without reporting it to the FDA. A McNeil spokeswoman said that since the products did not prove to be a safety risk (they were defective in other ways), it was not a recall and thus did not have to be reported to the FDA. With accusations of rampant misconduct by governmental agencies, McNeil Laboratories and its executives (VP of Quality and VP of Operations) were charged with failure to comply with federally mandated manufacturing practices. In March of 2011, the FDA gave McNeil two options: to agree to a “consent decree” or to succumb to a lawsuit. McNeil chose the consent decree, which requires adherence to a strict timetable for bringing its facilities into compliance.

Additionally, Tylenol Arthritis Pain was recalled due to complaints of moldy odors, nausea, vomiting, and diarrhea. The scent was found to be a result of 2,4,6-tribromoanisole, a component of pesticides and flame retardants which were used to treat wooden storage pallets at McNeil’s plant in Las Piedras, Puerto Rico. These are only a few examples of 50 products that were recalled in a matter of 50 weeks. In addition, it was found that J&J had known of the odors for more than a year, but only recalled the product after an FDA investigation. The investigation also uncovered unsanitary conditions at the Fort Washington, Pennsylvania, facility. Thick dust and grime was found covering certain equipment. There was also a hole in the ceiling and duct tape-covered pipes.

Johnson & Johnson traced many of the problems to the Tylenol plant in Fort Washington, Pennsylvania. The company responded by shutting down the plant and submitting a plan to regulators addressing how it will fix the problems. Some of the proposed solutions included installing new equipment and revamping its operations to reduce the opportunity for product contamination. J&J stressed its commitment to upgrading the plant, which would remain closed until after these renovations. Such changes caused an elimination of 300 jobs at the plant, and analysts suspected that the plant’s closure and its renovation would cost J&J upwards of $500 million in lost revenue. To prevent future recalls—and the resulting negative publicity—J&J also
made changes in its management, hired an outside expert to help in redoing the plant, and improved its employee training and operational processes.

ORGANIZATIONAL ISSUES
As the recalls demonstrate, despite J&J’s early reputation of effective crisis handling over the last few decades, the firm has been presented with a myriad of costly issues. Some analysts say the causes of these issues lie in three possible areas: heavy profit focus, decentralization, and lapses in leadership oversight. Critics proposed that each division of J&J has its own separate culture, indicating that there is no sense of coherence in leadership or operations. Analysts also proposed that J&J is cutting too many costs to increase profits, thus sacrificing customer safety and increasing risk in this area. Then CEO of Johnson & Johnson William Weldon disagreed. Weldon claimed that the company had not placed profits over the customer, and he also discounted the idea that decentralization was the problem. He said that if decentralization was the issue, all of the divisions would have experienced problems and not just McNeil.

Other accusations levied against J&J include paying kickbacks, using financial incentives to encourage unauthorized use of drugs and devices, and taking actions to avoid a recall by sending employees into stores to buy up tainted products. J&J also created a strain on its relationship with FDA regulators throughout their investigations by not being immediately compliant. J&J denied claims regarding a lack of oversight. However, its annual report for 2010 outlines government criminal and civil investigations as well as thousands of private lawsuits covering a wide range of drugs, devices, and business practices.

ANOTHER SCANDAL: BABIES ARE OUR BUSINESS
The first concerns about talc and health risks came to light in 1971 when scientists found talc particles in ovarian and cervical tumor tissue. Talc makes up talcum powder, which is commonly used in cosmetic products such as baby powder and other consumer products, however, must be monitored to be below a certain amount. Personal Care Products, Inc. (formerly known as Cosmetic, Toiletry and Fragrance Association) sets a purity standard for the amount of talc ore in cosmetic products. This is the accepted testing level for personal care products (commonly known as cosmetic grade), which is the accepted standard by the U.S. Food and Drug Administration. Although Johnson & Johnson maintains that its products follow or even beat these standards, recent events have put the company’s credibility on the line.

LITIGATION AGAINST J&J
J&J has always touted that their products are safe enough, even for babies. Yet, in October 2015, the first lawsuit alleging their Baby Powder caused ovarian cancer was filed by Jacqueline Fox of Tarant, Alabama, a small town near Birmingham. Beasley and Allen, a law firm in Montgomery Alabama, represented Mrs. Fox and contended that J&J knew the hazards of their product for decades and sought to cover up the health risks by getting female oncologists to help defend against potential lawsuits. A St. Louis jury ultimately awarded Mrs. Fox $72 million, ruling that Johnson & Johnson’s Baby Powder and Shower to Shower, J&J products she used for feminine hygiene for more than 35 years, caused her ovarian cancer. The Fox family was awarded $10 million in actual damages and $62 million in punitive damages. J&J was found guilty of negligence, conspiracy and fraud.
The second lawsuit was filed by Stephen Lanzo III and his wife. Mr. Lanzo claimed he had used J&J Talcum Baby powder since infancy, and it had caused him to develop mesothelioma, a rare and often fatal cancer. He was awarded $37 million in compensatory damages by a jury in New Jersey. Since then, more than 1,200 lawsuits have been filed in Missouri, California, and New Jersey against the firm.

On July 13, 2018, a jury in St. Louis awarded $4.69 billion to 22 women who sued J&J, alleging that their ovarian cancer was caused by the J&J Baby Powder after using the product as part of their daily health and hygiene care. $550 million was awarded in compensatory damages and $4.14 billion in punitive damages, making it the largest verdict against the 130-year-old company. This award is currently under appeal.

J&J continues to state that clinical research does not show increased cancer rates by users of talcum powder. They cite The Nurse’s Health Study, funded by the U.S. government that looked into the risk factors for 78,630 individuals who were studied for 24 years. About 40 percent (31,789) of nurses answered that they had used talc on their genital area and the results reported no overall rate of ovarian cancer, regardless of how the product was used.

Another study by the Women’s Health Initiative was conducted in 1991 involving 61,576 women. Of these, 32,219 (53 percent) of the women admitted to using powder on their genitals. Once again, no evidence of an overall increase for ovarian cancer. J&J contends that other products or risk factors contributed to the ovarian cancers and a product recall was not needed. Recently, the firm removed 50 ingredients from their baby care product line and now refers to these products as natural and safe. J&J stands by their products, continuing to deny that they cause ovarian cancer, asbestos or mesothelioma. However, the firm has certainly treated this situation differently than the very proactive, values-driven approach of the past.

**CONCLUSION**

After its successful handling of the 1982 Chicago Tylenol murder crises, Johnson & Johnson was largely acknowledged as an industry leader in business and ethics. Until recently, Johnson & Johnson’s reputation management has been highly effective. However, the company’s massive product recalls of Tylenol and other medications, along with the allegations of harmful baby products, has brought into question the high quality of its products.

It would appear that J&J has slipped some in its careful handling of product development and consumer safety. This demonstrates that ethics is an ongoing process necessary for all companies, even those who have gained a reputation for ethically-sound management. In light of the scandals, Johnson & Johnson must work hard to defend the integrity of its products and operations. The company must commit its resources to rebuilding the trust of consumers, government regulatory agencies, and other stakeholders. As the litigation continues and the lawsuits are settled, the way in which Johnson & Johnson handles itself and the situation will better show how committed the company is to its Credo and values.

**QUESTIONS**

1. Johnson & Johnson was a leader in recognizing key stakeholders and in developing a credo for appropriate conduct. Why do you think that there have been a number of failures in product safety even though the company has tried to be responsible?
2. Even though Johnson & Johnson has received many awards for ethically and socially responsible conduct, why do you think that they were investigated for responding too slowly to the most recent product recall crisis?

3. Johnson & Johnson’s over-the-counter drugs such as Tylenol products have many risks associated with them in product quality and safety. How would you suggest Johnson & Johnson gain more control and decrease the possibility of misuse, safety defects, and other harmful consequences?

4. Do you think the recent lawsuits regarding their products causing cancer and asbestos undermine Johnson & Johnson’s credibility as a safe and innovative company?

Sources


