

# Proactive Stakeholder Management: A Case Study of a Major Pharmaceutical Corporation

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*This study tries to explore the efficacy of stakeholder management. This study seeks to offer a comprehensive understanding of the benefits of stakeholder management and as a qualitative work focuses on building theoretical generalizations. The study consists of one primary and one secondary case study. The findings suggest that stakeholder organizations use stakeholder management as a differentiator from their competitors and benefit in terms of customer loyalty; employee loyalty and pride; positive reputation and goodwill; capacity for better decisions; and organizational flexibility. Finally, this work suggests that the Achilles' heel of stakeholder management is its complicated nature.*

## INTRODUCTION

There is a broad consensus among scholars that business firms do and should engage in stakeholder management (Verschoor, 1998; Greenley & Foxall, 1997; Ogden & Watson, 1999; Pajunen, 2006; Henisz, et al., 2014). However, in management literature, stakeholder theory is still going through the phase of establishing itself as a bonafide management theory (Freeman, et al., 2010). This study intends to contribute to the goal of improving the descriptive validity of stakeholder theory by describing the relational benefits of proactive stakeholder management.

It is argued that in stakeholder theory the unit of analysis should be relationships that organizations have with their different stakeholders (Post, et al., 2002). These stakeholder-management interactions occur in a social context. Hence, the benefits of stakeholder management should be studied as a social phenomenon by focusing on the mutual benefits of stakeholder-organization relationships. Furthermore, the emphasis on improving the descriptive validity of stakeholder theory is predicated on the argument that different stakeholder orientations influence the way organizations to interact with their stakeholders. In the presence of a multitude of ethical frameworks, there is a need to develop a distinct foundation for stakeholder theory (Jones, et al., 2007). Therefore, this study introduces a case study of a large pharmaceutical company to explore the effectiveness of developing proactive relations with organizational stakeholders, and argues that descriptive work in stakeholder theory, would, “catapult stakeholder theory into the ranks of major theories of organization (Jones & Wicks, 1999).”

Existing scholarly works on stakeholder management's instrumental value, as discussed later, represent substantial contributions, however, when the results of these studies are compiled and compared, the picture that emerges is far from clear. This lack of clarity may come from the fact that stakeholder management is a complex long-term strategy and requires a methodology that studies stakeholder management by focusing on the dynamics of stakeholder-management relations within a specific social context. Therefore, this work intends to contribute in two ways. First, this is an inductive

qualitative case study that intends to develop a contextual understanding of the mutual relational benefits of proactive stakeholder management gained through deliberate and meaningful interactions between organizations and their stakeholders. Second, this study treats stakeholder management as a social phenomenon; therefore, it goes beyond the proclamations of stakeholder management of the studied case and collects data from organizational stakeholders to assess organizational stakeholder orientation and its benefits.

## **ORGANIZATIONAL STAKEHOLDER ORIENTATIONS, LITERATURE REVIEW, AND THE INTENDED CONTRIBUTION**

### **Johnson and Johnson (J&J)**

J&J is a major pharmaceutical multinational with 250 subsidiaries. It employs about 120,000 people worldwide and operates in more than fifty countries. J&J is committed to its Credo<sup>1</sup>, decentralization, and a long-term view of business strategy (Fulmer, 2001; Genest, 2005).

Decentralization is achieved through creating a trusting environment between J&J and its subsidiaries, and by not having a corporate headquarters entrusted with centralized business planning (Genest, 2005). Though decentralized, the J&J subsidiaries are closely linked with corporate J&J through its Credo and mission-based strategy resulting in a “common language of global business practices” (Genest, 2005). As aptly expressed by a top J&J manager,

“What links us together is our Credo. We are out there being entrepreneurial we have to remind ourselves that we are bound to our common culture that is driven by patients, physicians, and our responsibility to the employees.”

The J&J credo not only culturally binds J&J with its subsidiaries but it is also the first manifestation of J&J’s stakeholder orientation. In essence, the credo underscores J&J’s overall approach to business that puts emphasis on a long-term strategy of serving its shareholders by serving its important stakeholders. As one senior J&J manager commented,

“Our primary goal is to strengthen the brand and drive profit...but you only do it within the parameters of the Credo.”

J&J’s stakeholder-oriented policies and actions have resulted in an excellent global reputation as a socially responsible company with sustainable practices (Turcsanyi & Sisaye, 2013; Hanson & Vangeel, 2014).

### **Tibotec Therapeutics (TT)**

J&J acquired TT in 2002. It is an independent division of Centacore Orthobiotech (a J&J subsidiary) focusing on virology, and specializing in HIV and Hepatitis C drugs. Given the decentralized nature of J&J, TT maintains an autonomous status as a separate operating company within J&J’s pharmaceutical sector. As for stakeholder management, TT has established a Department of Global Access and Partnering to advocated global health awareness about AIDS by maintaining effective links within local communities, NGOs, and advocacy groups. The actual stakeholder engagement transpires through an Advisory Board that consists of a representative sample of high-level prescribers, key opinion leaders, community physicians, nurse practitioners and a representative sampling of patients. It is a long consultative process, however, as commented by a senior TT manager, “stakeholder reactions are always going to be critical to the decisions that we are making.”

Finally, the details of how TT engages outside stakeholders are discussed in the analysis section. Suffice to say that in the AIDS-medication field TT makes an extra effort to reach out and engage its external stakeholders in its decision-making processes regarding new product launches, trials, pricing, and disease awareness. As explained by a TT manager,

“We have national customers that we interface with, and advocacy groups within [the] HIV community... We get their comments about how we are doing as an organization? What are some of their struggles and what can we do differently to help them with those?”

## The Existing Literature and the Intended Contribution

Scholars have found that in a majority of cases stakeholder management has a significant positive relationship with firm performance. However, a significant number of studies have also found a none-to-negative relationship between firm performance and stakeholder management (Margolis & Walsh, 2003; Orlitzki, et al., 2003). However, it is argued that these equivocal findings ignore relational benefits of stakeholder management, which is detrimental to the purpose of establishing stakeholder management as a valid business strategy.

Berman, et al., (1999) discussed two models of stakeholder management: intrinsic<sup>2</sup> and strategic<sup>3</sup>. Their results support the strategic model and show that only employees and product safety directly affect financial performance. Hillman & Keim (2001) also found support for the strategic stakeholder model and established a relationship between firms' primary stakeholders and strategic advantage. Cordeiro & Tiwari (2015) looked at the largest 500 US firms ranked by *Newsweek* and found that investors expect larger cash flow and higher stock prices in organizations that have a positive reputation among its important stakeholders. Finally, Galbreath (2005) found that in the short and intermediate terms firm performance was positively related to employee management, and had no relationship with social impact.

On the other hand, scholars have found a positive relationship between intrinsic stakeholder management and firm performance. Greenely & Foxall (1997) and Benson & Davidson (2010) found support for the relationship between multiple stakeholder management and firm performance. Verschoor (1998) found that companies that explicitly mention and give importance to stakeholders in their annual reports perform better in terms of profits, sales, net margin, and return on equity than firms that do not exhibit this avowed stakeholder commitment. Scholars have also found that stakeholder-oriented mission statements are linked to the financial performance of the firm (Bartakus & McAfee 2006; Moneva et al., 2007). Similarly, Global Reporting Initiative (GRI) reporting has been found to have a positive impact on stakeholder evaluation of the firm (Lee & Maxfield, 2015), and a negative impact on share price volatility (White 2006). Finally, Turcsanyi and Sisaye (2013) found, in a study on J&J, that long-term profitability can be maintained if social and environmental goals are made part of organizational strategic planning.

Some scholars have developed a more nuanced understanding of stakeholder benefits through qualitative studies. Kotter & Heskett (1992) linked to culture, stakeholder view, and firm performance. Their study considered three stakeholders, i.e., stockholders, employees, and customers, and proved that adaptive organizational stakeholder cultures, lead to higher firm performance. Post, et al., (2002) found that through stakeholder management, organizations can get the overall benefit of societal acceptance, i.e., "license to operate." Post, et al., (2002) considered this "license to operate" as important as any tangible assets the firm might possess.

The discussion on the merits of stakeholder management becomes more complicated as scholars consider other contextual variables. It has been found that stakeholder management has an adverse impact on short-term shareholder value, profitability, and firm performance, and a positive influence on long-term firm performance (Ogden & Watson, 1999; Preble, 2005; Garcia-Castro, et al., 2011). Shahzad, et al., (2016) found that when the environmental factors are not favorable, managers may resort to self-dealing and hence not indulge in stakeholder management. Finally, the overall understanding of benefits of stakeholder management gets even more nebulous when scholars find no or an insignificant relationship between stakeholder management and stock prices (Meznar et al., 1994), and financial performance (Omran, et al., 2002).

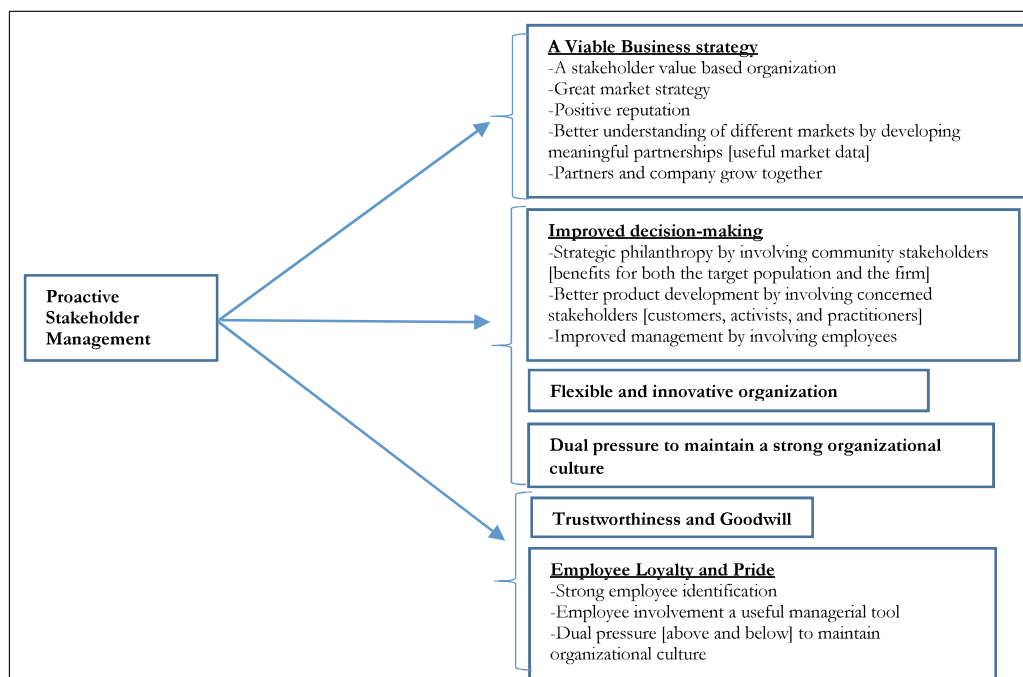
Given the preceding discussion, it is argued that stakeholder management is a social phenomenon involving complex evolving nature of several environmental imponderables (Agle, et al., 1999; Shahzad, et al., 2016). Hence, to have a comprehensive understanding of the benefits of stakeholder management there is a need to comprehend better the environmental variables and organizational stakeholders who maintain multiple claims on firms and, based on those claims, may rate an organization's stakeholder reputation differently (Walker & Dyck, 2014).

This study argues that stakeholder management is a social phenomenon in which organizations as open systems constantly negotiate with their environment to remain viable. The stakeholder view of the firm, hence, is predicated on the idea that organizations need to develop dynamic mutually beneficial

interactions with their stakeholders to create tangible or intangible benefits for them (Post, et al., 2002). If dynamic social interactions are the basis of stakeholder management, then the unit of analysis in stakeholder management should not be the firm but the networks of stakeholder-organization relationships (Post, et al., 2002).

Given the above arguments, this study focuses on the relational benefits of stakeholder management. It argues that development of effective relationships through proactive stakeholder management would allow organizations to achieve certain desirable results (Figure 1) that can be divided into three general categories. One, development of structures and processes that might improve the overall working of the organization. These improvements may include the ability of the organization to make better and more informed decisions, create organizational structures and policies that increase innovation and organizational flexibility, and build and sustain a strong corporate culture. Two, positive stakeholder relations may lead to strong employee identity with the firm resulting in loyalty towards the company. Stakeholder strategy may also allow the development of trust and goodwill in organizational relations with all other stakeholders. Three, proactive stakeholder management as practiced by value based organizations can be a viable business strategy. This finding supports the link between the intrinsic model and firm performance as opposed to the strategic model supported by Berman, et al., (1999).

**FIGURE 1**  
**LONG-TERM BUSINESS, RELATIONS, AND ORGANIZATIONAL BENEFITS**

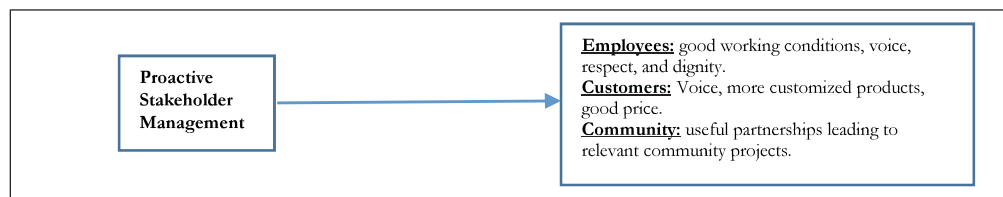


On the other hand, different organizational stakeholders accrue several benefits (Figure 2) from proactive stakeholder management. Employees experience good benefits, work life balance, autonomy, workplace voice, fairness, and receive a dignified treatment. Customers enjoy voice and some influence over product development that leads to the development of customized good quality products that are also fairly priced. Community not only gets support from stakeholder firms for different community concerns but they also benefit by being partners in community projects with the firm to create programs that meet community specific needs. Finally, the shareholders benefit from continued financial success.

Finally, the present study makes the following contributions to the extant stakeholder literature. First, a singular contribution of this study is that as a descriptive qualitative case study it intends to create a

theoretical framework to understand relational benefits of proactive stakeholder management. Second, the study seeks to offer a comprehensive understanding of the benefits of stakeholder management by treating stakeholder management as a social phenomenon. Finally, this study makes stakeholder relations as the focus of analysis. To achieve this goal the study collects and analyzes the views of organizational stakeholders regarding organizational proactive stakeholder management.

**FIGURE 2**  
**BENEFITS FOR THE STAKEHODLER**



## METHODOLOGY

Based on the exploratory objectives of the study, this is as an inductive qualitative work (Schutt, 2006) that utilizes a case study design to create a comprehensive description of the studied phenomenon. As an inductive study, the aim was to collect rich data, develop empirical generalizations based on the collected data, and theoretically advance the aspects of the instrumentality of proactive stakeholder management.

To achieve the stated purposes, this work follows the precepts of grounded theory development<sup>4</sup> (Strauss, 1990). Grounded theory approach is an iterative and inductive process of building theory in which researchers analyze each piece of data to inform and improve the quality of future data collection (Gephart, 2004). The robustness of this work was maintained by analyzing and refining raw data through coding, memo writing, theoretical sampling, information saturation, and employing multiple techniques of collecting data (Suddaby, 2006). Finally, case study approach was utilized to sharpen existing theory and use cases as illustrations to make conceptual contributions (Siggelkow, 2007).

The study consists of one primary and one secondary case: Johnson & Johnson (primary) with a specific focus on one of its subsidiaries, i.e., Tibotec Therapeutics (secondary). The methodological choice of a primary and a secondary case study was made because it was not possible to conduct interviews in all areas of an expansive company like J&J; therefore, several interviews were performed at the J&J headquarters to get a general and overall picture of the organization. Also, interviews were held at one of J&J's subsidiaries, Tibotec Therapeutics. The TT interviews served the purpose of evaluating the extent to which J&J's overall stakeholder strategies at the corporate level were reflected in only one of its smaller holding companies and understanding the benefits of stakeholder management at different levels.

Twenty-four interviews were conducted for this study. For details, a case study database has been created (Appendix I). Interviews averaged 40 minutes and ranged from 20 minutes to an hour producing almost 300 pages of transcription. Several interviewees were also asked additional questions via telephone or email to clarify points or to gather additional information. Lastly, a list of the documents used to obtain supplementary information on the firms has also been produced (Appendix II).

Selection of interviewees was made based on the principles of theoretical sampling. This technique allows the researchers to identify new theoretical themes and refine the next set of data by asking pertinent questions (Charmaz, 2007). To assess the benefits of proactive stakeholder management, specific pertinent questions were asked, focusing on organizational stakeholder strategies, policies, instruments to institutionalize these policies, corporate culture, and benefits of these policies and stakeholder culture vis-a-vis organizational stakeholders.

Data analysis in qualitative studies and especially in grounded theory methodology is an iterative process that starts with the first piece of data to the last. For this purpose, data analysis techniques like

coding and memo writing were used. Each piece of data was coded that led to the drafting of memos and informing the researcher to refine further research of evidence based on the research questions (Staruss, 1990). In maintaining the reliability and validity of the analysis, guidelines given by Yin (2000), which include multiple sources of data, following disconfirming evidence, considering competing explanations, questioning biases and preconceptions, creating a case study database, matching patterns, and building explanations based on data. For coding, memo writing, and categorizing data more efficiently, NVIVO 9 software was also used.

## **ANALYSIS AND DISCUSSION**

As already stated, the results of this study serve the purpose of developing a model of how stakeholder firms can successfully interact with their stakeholders for mutual benefit. Hence, they are not generalizable to all J&J subsidiaries and do not apply in situations where corporate J&J or any of its subsidiaries stray from proactive stakeholder management. In fact, a recent incident in which a J&J subsidiary failed to maintain its stakeholder orientation is discussed later to elucidate this point.

### **A Viable Business Strategy: Strategic Stakeholder Management**

The easiest way to make the point that J&J is a flourishing viable business organization is to look at its performance. J&J is in the global market for pharmaceuticals and medical devices. The global market for these industries is highly competitive, yet J&J has had fifty-two consecutive years of dividend increase with an AAA credit rating (J&J Report, 2014).<sup>5</sup>

However, to have a deeper look at the viability of J&J's value-based strategic stakeholder management, we must begin from its Credo. The first thing that is evident when one reads J&J's Credo is that J&J sees itself part of the larger society with certain obligations towards its societal stakeholders. The second characteristic, which is quite singular, is that as per the credo, customers, employees, and even community comes before stockholders on the priority list. Concerning this strategic positioning, all of the interviewed J&J executives, managers, and employees, with varying degrees of sophistication, give a similar answer that by serving all of the above stakeholders, J&J will be able to serve its stockholder better.

The J&J Credo was enumerated in a time of great uncertainty and turmoil, i.e., the time of the Great Depression, WWII, and the rise of fascism and socialism in Europe. General Johnson wanted to reform capitalism and saw the need to create an economic system wherein all society moved together towards prosperity. This belief was demonstrated by the fact that during the Depression, J&J consistently reduced prices of its products, helping customers in economic hardships, establishing a long-term relationship with customers, and eventually creating value for both the J&J and its stakeholders.

In the recent economic downturn, we see that J&J and its subsidiaries apply similar strategies. A senior TT official informed that every new [AIDS related] drug that came out in 2006 onward was priced at around a 5 percent premium on the last drug. The price reduction was not just a socially right decision – arrived at with the help of AIDS activists – but, as explained by the manager, was a rather a simple strategy to grow the market more rapidly. Particularly useful in the case of TT as the company was launching a new product and was trying to establish itself in a highly competitive market.

The study also finds that J&J's international philanthropic efforts can also lead to good business. Several interviewed managers from TT and Corporate J&J with experience in J&J's international philanthropy expressed views, which when analyzed, revealed that working with international communities, AIDS commissions, and academic institutes in different countries, allows J&J to build awareness in those communities regarding J&J. These efforts further create a mutual understanding between international communities and institutes and institute the basis for strategic partnerships. Finally, philanthropy is also a great marketing strategy in which J&J can place itself at a strategic advantage in the developing economies with the potential of growth in sales when these economies grow.

J&J reaches out to local communities as stakeholders and believes that as the local community develops, so will J&J. A senior manager took a long-term view of, "building up communities to be

healthy and self-sufficient... [is important] because in 10 to 15 years... they [the communities] may start to become business partners and markets for you.” In essence, the activities that are geared toward improving local capabilities and general healthcare setting are vital if sophisticated products are ever to be introduced in that setting. Therefore, it is important, from a strategic stakeholder perspective, to invest in organizational stakeholders constantly to improve their technological capacity. Additionally, by developing relations with the community, J&J gets an intimate access to a wealth of data about its markets, allowing J&J to assess more accurately customers' present and future needs. A senior manager explained that, “if you do not understand the stakeholders and the different issues, you effectively don't understand your market either.”

A similar link is observed in J&J's overall business strategy and stakeholder management in doing AIDS research and dealing with the activist community. TT in the process of developing its HIV/AIDS drugs reached out to the AIDS community, practitioners, and other stakeholders to help develop more robust drug trials. Such an outreach could be attributed, at least in part, to the normative motivations expressed in J&J's Credo. However, this work has found that this inclusive approach also served the firm's business strategy. With the support of AIDS activists and practitioners, TT was able to develop better drug trials, gain pre-approval marketing, and a quicker FDA approval. A TT manager commented,

“Activists push through...Early Access Programs so that once the drug comes into Phase 3 studies . . . The activist community asks the companies to open up expanded access to people who really need the drugs [and] who are not in clinical trial . . . From the company's perspective, what more could you want than to have a lot of people on your drug, before it even reaches FDA approval.”

AIDS activists<sup>6</sup> representing AIDS Treatment Activists Coalition (ATAC)<sup>7</sup> confirmed these efforts by TT. The activists' support was also manifested in the form of a high ATAC Report Card grade – an important indicator of goodwill earned, and a piece of very positive publicity in a contentious field.

J&J also, through its government relations department interacts with the U.S. and foreign governments to express and gain support for company or industry interests. These efforts, in which the US and other governments are seen as stakeholders, also result in trust building and reputational benefits. In the case of the U.S. government, the interaction serves the purpose of preempting possible legal or institutional changes in the pharmaceutical industry and allows J&J to keep the government informed of its interests. Additionally, J&J's long-term relationship with the government allows for establishing trusted partnerships with the U.S. government on healthcare-related issues.

At the global level, one of the top managers in the department offered an example of India, which was in the process of reconfiguring its healthcare system. J&J already has a major presence in India and is respected and trusted based on its products. To build onto this confidence and eventually get involved in the discussion on healthcare, J&J began going to like-minded Indian and international companies in healthcare, trade associations, and other multinational associations in the field of healthcare. J&J also sponsored several national conferences on health care, which brought a broader representation of stakeholders like international experts, patient organizations, physician organizations, and governmental representatives to have an open discussion around selected topics of healthcare reform. In essence, they reached out, as the manager explained, in “concentric circles.” The benefits of these efforts are twofold. First, sound national policies will directly increase J&J sales in these countries, by increasing the number of people who can afford J&J products. Second, elevation of J&J's reputation at the national level may indirectly allow J&J to achieve greater future business presence in these countries.

### **Improved Decision-Making**

This study finds that J&J's stakeholder management leads to better decision-making. Simon (1950) argued that individuals are unable to reach higher levels of rationality as their rationality is bounded by how much they know. Hence, by forming organizations, human beings can improve their bounded rationality through the integration of knowledge. The claim of better decision-making in this work is predicated on a similar principle. It is argued that organizations through stakeholder engagement can improve their information about their relevant constituencies and gain access to the knowledge and

experience of the concerned stakeholders. This enhanced level of information and related input pushes the limits of organizational bounded rationality.

In philanthropy, J&J and TT include stakeholders at all levels, i.e., local, national, and international. The stakeholders are involved in setting standards for J&J's charitable programs. The main idea is to understand, by involving concerned stakeholders in discussion and dialogue, the core issues of the population that J&J aims at serving. A senior official from Elizabeth Glaser Pediatric AIDS Foundation informed that J&J achieves a deeper involvement in the local cultures by partnering with organizations and individuals who have already been in the field. J&J officials also frequently travel to the targetted countries to understand the on-the-ground realities, and operating through its local offices and employees who have an intimate understanding of the local needs. This deeper involvement necessarily produces comprehensive philanthropic programs that are more attuned to the needs of the target communities and lead to potential success and good reputation. According to a foundation interviewee, J&J, unlike most pharmaceutical companies, starts its projects from understanding and doing a needs assessment of the target countries. This meaningful philanthropy allows J&J the reputation of "being a world leader in products and services . . . [and] for having a long-term commitment to funding some of these [philanthropic] programs."

In the case of J&J and TT, external stakeholders are also important when it comes to product development. As discussed earlier, TT involved ATAC and other interested parties in the field of AIDS medication in developing its drugs. One pivotal benefit of this involvement was that TT was able to develop a drug that was more suited to the needs of specific patients. As one senior manager who was part of the team that had dialogues with ATAC and other stakeholders explained that the activists who have a closer interaction with the patients contributed to the drug trials and data gathering by helping the physicians understand the needs and concerns of the end users.

On the other hand, lack of an inclusive approach to drug development could lead to disasters. As one ATAC official recalled that in the early days of drug development for AIDS many drugs were given preliminary approvals without adequate evidence. One such drug was called Viramune, which was approved even though there were very few women involved in the trials. The result was that after a few weeks several women, who were put on this drug, died of liver failure. The pharmaceutical company was unable to discover this hepatotoxicity due to lack of data on women in the trial studies. In the opinion of the ATAC official, this tragedy could have been avoided if the pharmaceutical company had involved the AIDS community in the process of designing the drug trials.

Employee engagement is considered as an excellent diagnostic tool at J&J. Therefore, employees are engaged as stakeholders to benefit decision-making in two ways: gauging J&J's performance in achieving the precepts of the credo and keeping a finger on the pulse of employees to understand their concerns to create future policies. To engage employees, J&J has created the Department of Employee Advocacy and Workplace Engagement. The role of the department is to conduct surveys to assesses employees' views on all aspects of the organization, including their work and understanding of strategic organizational goals; views on their immediate managers and management in general; and opinions on J&J performance from a business and credo perspective. This employee involvement at J&J is a way for management to remain cognizant of employee views and to create a better atmosphere in the organization. One senior HR manager put it in these terms,

"You have a baseline . . . . That is our barometer [to] figure out what are the two or three areas that we want to work on. It is a tremendous diagnostic tool, for management and HR [Department]."

Another senior HR manager closely involved in the employee survey process noted,

"What the employees say could be a leading indicator [of employee attitudes]."

Finally, the department also conducts, every two years, a "Credo Dialogue," which is a vital tool utilized to update and reassess J&J's most vital source of guidance, i.e., the J&J credo. In fact, the first credo dialogue was conducted to amending the credo in the 1980s. This dialogue resulted in the addition of the paragraph on the community in the credo.



## **Flexibility and Innovation**

It is argued that today no business can stand up to global competition without innovation. The need to win diverse markets around the globe means that the days of unspecialized, non-differentiated mass production belongs to the past (Heckscher, 2007). Furthermore, due to highly developed communications technology, individual knowledge, and organizational capacity have increased tremendously. For business organizations, this translates into an environment in which an increasing number of entities can affect business organizations. In essence, organizations now need to be highly innovative and flexible to survive in a volatile environment and achieve a broader acceptance among its present and future audiences (Harrison & St. Caron, 1996).

This study argues that the solution lies in stakeholder management. Stakeholder management allows organizations to keep a finger on the pulse of their stakeholders. Organizations with a strategically instituted stakeholder culture become flexible and innovative as they are constantly guided, in their operations, by stakeholder values and needs. They create organizational processes and structures to elicit stakeholder opinion and initiate change if needed. Stakeholder management rejects the notion that whatever the organization believes is right. Rather, a stakeholder outlook accepts that there is no final process, and there is a constant need for change and improvement.

J&J is a value based stakeholder organization. The main assumption behind J&J's stakeholder orientation is that it will have positive future outcomes by satisfying certain entities. As discussed in the preceding sections, J&J has created several processes and mechanisms to elicit the opinion of its stakeholders and has developed structures to include its stakeholders in organizational decision-making to develop shared goals. However, a necessary corollary to this assumption is that stakeholder interests change, which is why J&J interacts with stakeholders so that it can adjust its products or decisions in accordance with the demands of its stakeholders as commented by a senior manager in TT's Communications and Public Affairs Department,

“Our group interacts a great deal with external stakeholders. One of the responsibilities is, in fact, to help translate potential stakeholder reactions to the decisions that we make . . . So, I would say [that] with our decision-making, stakeholder responses, stakeholder reactions are always going to be critical.”

If TT deems collaborating with the AIDS community as an important organizational strategy and invites their input in the process of its decision-making, then TT will need to create flexible organizational structures to incorporate the demands of the AIDS community. Resultantly, TT's organizational structures will become aligned in such a way that their focus would be the AIDS community and will have the capacity to adapt to the changing needs of its customers. In essence, having a stakeholder orientation, at its core, assumes that the organizational processes will change with the changing stakeholder expectations.

## **Dual Pressure to Sustain a Strong Culture**

By all indications, J&J and TT have a strong stakeholder culture. The employees of these two organizations, it would seem, have internalized J&J values leading to a strong psychological connection with their respective organization and its values. However, we have also found an extension of organizational identity in which the employees not only have congruent values with their organization, but they have also taken upon themselves to protect these established organizational values. Thus creating a dual pressure—from the top management and from the employees—to maintain and perpetuate organizational culture.

As a value-based organization, it makes sense that top leadership plays the leading role in creating and perpetuating J&J credo-based culture. However, the company's policies of employee involvement and autonomy at various levels promotes an urge to defend the credo values at lower levels of J&J's hierarchy. This bottom-up pressure is instituted when employees are selected on the basis of their affinity to the credo values, trained to treat these values as their own, assessed and promoted on the basis of their understanding and application of the credo values, and provided with the confidence to point out to their superiors—without the fear of retaliation—that decisions taken by the latter were not in accordance with

the credo. These employees then identify with J&J values, they feel a sense of achievement and pride in them, and based on the internalization of the credo values they become self-appointed preservers of organizational culture.

The evidence for this conclusion does not come entirely from direct quotes. Nevertheless, as indirect evidence, there are some occasions when employees and lower level managers pointed out that they are supposed to support and uphold the credo values, and in doing so they can point out to their superiors, without fear of any retaliation, any decision that goes against the credo. As one senior manager at J&J commented,

“There have been occasions when I have been really blown away, when [people] have said, what would the credo demand us to do? What’s the right decision from the credo-perspective?”

A senior J&J manager recounted that when she was a mid-level manager, she criticized the decision proposed by a president of one of J&J subsidiaries. The subsidiary wanted to take Resperol, a drug for people with schizophrenia, off the list of drugs donated by the J&J philanthropic foundation in New Jersey because with similar generic drugs in the market Resperol had ceased to be a longer a cost-effective product. She opposed this action because it was against J&J’s Credo that claims patients as the top priority. The decision was discussed and eventually reversed, and more importantly, there was no retaliation against the manager. The role of all levels of employees in maintaining and perpetuating this culture is also evident from the comments of a senior HR manager,

“It feels like that everyone has a responsibility to have us live up to who we are. I feel it’s more that we all want it [stakeholder culture] and they [management] make it happen.”

### **Employee Loyalty & Pride**

In almost all J&J interviews, the data suggests a widespread feeling of employee pride. It was observed that J&J employees and managers believe in J&J’s credo, and take genuine pride when they explain the accomplishments of their company. Additionally, as discussed earlier, we have found a unique impact of employee pride and organizational identification, i.e., bottom-up pressure to maintain J&J’s stakeholder culture.

A pertinent question here is, how is such loyalty and pride cultivated? In this sense, the J&J top management that intends to perpetuate an inclusive stakeholder culture at J&J plays an important role. At J&J, employees are not only valued, but their views are heard in the organization. A middle-level manager at TT described the role of management in sustaining employee pride,

“I think that they [TT] fulfill that commitment . . . I feel that we are respected, we are listened to, [and] we are valued.”

A high-ranking manager from the J&J office in India, who has many years of experience working with several multinationals commented,

“In Johnson & Johnson, the moment you come in, you can see that great respect towards the individual. They help . . . people, and they [take] time to listen to you . . . In terms of work-life balance, they meet that standard 100 percent.”

As already discussed, employees are not only respected, but they are also engaged in a dialogue at J&J for important insights. These insights are then synthesized into organizational policies by the management. The purpose of employee engagement is, in essence, to create a corporate culture with the help of employees in support of the organizational values. Additionally, this inclusive approach creates a strong link between individual values, organizational values, culture, and strategy. Leading to, as explained by a TT manager, a sense of pride in organizational achievements. This close cognitive link between the employees and J&J is evident in most interviews when a majority of J&J employees and managers show great interest in the history of the company. The name of General Johnson is mentioned quite often as a source of inspiration, and there is a distinct impression that the interviewees believe what they say. Just by way of empirical confirmation, these views and beliefs were consistently expressed in more than two-dozen interviews at different levels and J&J locations. As an example, in the words of a J&J employee,

“There’s a sense of . . . pride . . . [in] work[ing] for a company that’s doing so much good for so many people . . . . I am proud of the shareholder return that we give . . . and . . . having been in HR, I’m proud of the way that we work with our employees.”

### **Trustworthiness and Goodwill**

Mayer et al., (1995) identify three characteristics of trustworthiness, i.e., ability, benevolence, and integrity<sup>8</sup>. The present study argues that organizations could help their stakeholders develop feelings of trustworthiness and goodwill towards them through practicing accommodative or proactive stakeholder management.

A consistent theme in all interviews, especially, of the senior managerial levels, is that J&J hopes to derive from its stakeholder strategy trustworthiness and goodwill with its stakeholders. The management believes that trustworthiness would eventually lead to certain relational benefits like easy access to financial resources when the company needs them, attraction and retention of good employees, positive employee attitudes like organizational identification, job satisfaction, and loyal customers.

Creating trust is evident from the TT process of developing drugs for AIDS. Before acquiring TT, J&J did not have a footing in the field of AIDS and HIV medication. Entering a new market was even more challenging for TT, as generally AIDS activists do not have a high opinion of existing pharmaceutical companies. Hence, building trust, in such a situation, was not easy. It required all three components of trustworthiness to be established through transparency, the inclusion of stakeholders, and open communication by inviting activists and AIDS/HIV-healthcare-related individuals to a discussion from the start. As one TT manager involved in drug development explained,

“[At] the earliest development stages of our drugs, [we] said look, here’s what we’re planning to do. Do you have input? [They reviewed] all of our clinical trials, they [saw] the protocols. They [recommended] doctors that we [should] go to, [in order] to have them participate in [our] trial.”

This inclusive approach gave the activists confidence in what TT wanted them to be: not just occasional consultants, but permanent partners. A senior TT manager from Global Professional Affairs aptly described this TT concept and philosophy behind strategic partnerships,

“Partnering means you . . . are an active participant . . . Part of being a partner is finding that place where you might disagree, and if you can’t find consensus, at least you agree to disagree, and you do it in a respectful way. And when they see that we are willing and able to work in that way, it really gives us [the] credibility.”

This sense of partnership allowed the activists to feel that they are a part of the company and its processes. Eventually, this resulted in the development of trust. However, to achieve this trustworthiness, not only was it important for the activists to be included in the discussion early on, it was imperative that they understand they are being heard and their suggestions are being considered and acted upon. As one TT manager from the department of Drug Development explained,

“[Inviting activists to the forum] won us some trust . . . but further trust [was based on] not just them having have a seat at the table, but . . . listening, really listening and valuing the feedback that they provided.”

Corroborating evidence comes from the ATAC officials who felt that there were times when TT could have cut corners or could have disinvested from a drug, but they did not. One AIDS activist, attesting to TT’s collaborative policy, stated that,

“The company proactively called together members of the activist community in both the United States and Europe at a very early stage in the development process . . . They didn’t give in to everything that the community asked for, but in my perspective, they did a pretty good job of explaining why they [chose] not to accept, or incorporate [such requests] . . . they made the effort to explain why they disagreed with us.”

Additional evidence comes from the ATAC Report Card that grades pharmaceutical companies in the field of AIDS medication. The Report Card covers several aspects of the AIDS medication industry. It assesses pharmaceutical companies based on many factors like, do they: have fair marketing practices (to avoid overstating benefits or understating side effects); follow FDA guidelines and warnings which are

based on FDA post-marketing studies, but are non-mandatory and do not carry FDA fines; cooperate with community requests for price setting; and maintain the required demographic diversity in their drug trials. Based on all of these parameters, TT came out on top of the list. As one ATAC official commented,

“I think that . . . even members [who] probably had some of the most adversarial feelings towards the industry . . . would have to agree that, on average, Tibotec gave us more of what we were asking for, than probably any [of the] other companies.”

Finally, as already discussed, J&J has also been able to develop trust in its employees by creating and sustaining structures and policies that allow employees to be involved in organizational decision-making.

## **STAKEHOLDER MANAGEMENT’S ACHILLES’ HEEL**

It is pertinent here to put the discussed results in their right context. The preceding analysis suggests that since the studied organizations practice stakeholder management, they accrue certain benefits from it. Therefore, these organizations or any other J&J subsidiary will not enjoy the benefits of stakeholder management if they are not fully applying the strategy. The comprehensive application of stakeholder management is difficult as stakeholder management is a complex strategy and needs continually to be updated and renewed by inculcating its principles in every succeeding generation of employees and management. This argument is amply illustrated in a recent example of the failure of stakeholder management in a J&J subsidiary, which almost 30 years ago set the standard for proactive stakeholder conduct.

In 1982, McNeil—a J&J subsidiary since 1959—recalled Tylenol after finding out that some unknown terrorists had laced it with cyanide. McNeil and J&J dealt with this crisis in an ideal way. They acted quickly with complete openness, kept customer safety a priority by removing the immediate source of danger—a comprehensive recall was carried out at a heavy cost to the company, approximately \$100 million. Finally, in the immediate aftermath of the incident, McNeil developed a tamper-proof sealing to ensure that the problem would not recur (Alabi, 2012).

In the recent situation, McNeil and J&J did everything in the opposite way (Anisfeld, 2011). The Congressional Committee held J&J responsible and found that J&J thwarted the process of investigation, lied to the Committee regarding the volume of recall, concealed the fact that it knew the defects much earlier, tried to solve the problem through “phantom recalls” by involving third party vendors, and in general tried to cover up the whole incident. A detailed analysis of this incident is beyond the purview of this study. However, this study does explore the of what went wrong at J&J for it to act opposed to its avowed values based on primary<sup>9</sup> and secondary sources of data.

J&J/McNeil acquired Pfizer for \$16.6 billion in 2007. Under J&J’s pressure, McNeil attempted to merge Pfizer products into its product lines cost effectively. Additionally, under Bill Weldon (J&J CEO) and Peter Luther, there was a documented trend of cutting funds from quality control from 2005-2009 (Monseau & Lasher 2015). In essence, cost containment defeated the need to follow best practices (Anisfeld, 2011; Monseau & Lasher, 2015). However, one must ask that why a strong stakeholder culture cultivated and perpetuated through decades of top management commitment and employee support could not check these anti-credo tendencies. The interviewed managers felt that J&J has let its customers and employees down and admitted that J&J mishandled the situation in many ways and should have been more forthright in its approach. However, interestingly the managers believed that the credo was increasingly becoming a tool to assess employee satisfaction and organizational actions. In their opinion, the credo principles should be used to scrutinize current business decisions, but it would seem that vetting had inadvertently become the main purpose of the credo.

As a result, as per the interviewees, the intended efficacy of the credo might have deteriorated in several imperceptible ways. First, this application of the credo has somewhat taken the focus away from stakeholder engagement in decision-making processes. Hence, at the employee and lower management levels, this has resulted in a reduced understanding of exactly how to balance competing stakeholder interests. Second, the partial application of the credo has created a sense that the job of engaging stakeholders must be left to the management, hence, diluting the individual’s responsibility to support the

engagement in stakeholder management at all levels of the organization. Finally, the model of testing a business decision against a set of principles becomes a negative exercise rather than a creative process of finding new ways to satisfy stakeholders and retards the development of a culture of ethical engagement of stakeholders.

Considering the preceding discussion, one can hazard an explanation that the deterioration of the stakeholder culture at J&J caused the recent debacle. The maintenance of organizational culture is the responsibility of the leadership. Hence, it was the responsibility of the top management to ensure an undiminished application of the credo. However, in the case of J&J and the discussed dual-pressure to maintain the J&J credo, partial blame must be put on employee complacency, which might have been caused by the fragmented application of the credo that reduced the use of the credo to a dogmatic ritual.

In sum, it is entirely possible that the dilution of the credo principles had been happening for some time and eventually led to the rise of individuals to top managerial positions who did not believe in the credo values or were not fully in touch with its true spirit. In the final analysis, it is argued that stakeholder management is a complex strategy to implement. It requires, among other things, a constant inculcation of the chosen value system in each generation of managers and employees to avoid ritualistic reverence. J&J's failure to act responsibly in the recent Tylenol crisis is not an indictment of stakeholder management but in fact, establishes the need for a constant effort to maintain a stakeholder culture.

## CONCLUSION

This study provides evidence that proactive stakeholder management results in several relational benefits for organizations and their stakeholders. Stakeholder strategy provides businesses with a viable business strategy and helps them survive in a volatile business environment. On the other hand, stakeholder management is a difficult strategy to implement. However, difficulties and issues related to stakeholder strategy are more because of implementation gaps by the firms and not because of any conceptual problems in the strategy itself.

The present study is a qualitative, inductive work that aims at developing theory and theoretical generalizations. The findings of the study do give some validity to instrumental stakeholder strategy. However, this work builds theory and is not empirically generalizable. Further understanding of the efficacy value of stakeholder management would require broader quantitative studies.

## ENDNOTES

1. The Credo outlines J&J's basic philosophy. General Johnson created it in the 1940s. It has four parts expressing J&J's commitment to organizational stakeholders. The stakeholders in order of priority are patient (i.e. the customer), employees, community, and stockholders.
2. Greater emphasis on performing stakeholder management for ethical purposes as theorized by Donaldson & Preston (1995), a broader model that looks beyond strategic stakeholders.
3. Managers performing stakeholder management purely for economic gains, a narrower model that only looks at strategic stakeholders.
4. A methodology, discussed in detail by Strauss (1990), which helps to arrange and analyze data through techniques like memo writing, coding, and theoretical sampling.
5. Taken from: [http://files.shareholder.com/downloads/JNJ/1284461511x0x815170/816798CD-60D9-4653-BB5A-50A66FD5B9E7/JNJ\\_2014\\_Annual\\_Report\\_bookmarked\\_.pdf](http://files.shareholder.com/downloads/JNJ/1284461511x0x815170/816798CD-60D9-4653-BB5A-50A66FD5B9E7/JNJ_2014_Annual_Report_bookmarked_.pdf). On February 4<sup>th</sup>, 2016.
6. One was a professional HIV/AIDS advocate for over 20 years and the other a volunteer with over 15 years of experience.
7. ATAC is a national coalition of AIDS activists. It was created essentially to give one voice to the AIDS activist community.
8. Ability refers to specific competencies and skills that allow an entity to establish influence in certain areas of interest for the trustor. Benevolence is the extent to which the trustee is believed to be willing to do good to the trustor. Integrity represents the trustor's perception of how much the trustee observes values accepted by the trustor (Mayer et al., 1995).
9. The primary data includes the original interviews and some additional interviews of key interviewees conducted after the incident came out in the press.

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**APPENDIX 1**  
**CASE STUDY DATABASE OF INTERVIEWS AND SITE VISITS**

Organization	Summary of Case Study	Site Visits	In-depth Interviews	Importance
<b>Johnson &amp; Johnson</b>	Pharmaceutical industry; a large multinational with headquarters in New Brunswick (NJ)	Seven visits of the Corporate Headquarters between the Summer of 2009 and Fall 2011	A total of 14 interviews conducted	One of the main case studies. J&J represents a large proactive stakeholder organization with a long history of stakeholder orientation.
<b>Tibotec Therapeutics</b>	A J&J subsidiary that works in the field of AIDS and Hepatitis C research and medication manufacturing	Three visits to Tibotec Titusville, NJ Office from Fall 2009 to Fall 2010	A total of 7 interviews conducted	As one of the subsidiaries TT gave some understanding of how J&J subsidiaries act upon the precepts of J&J credo
<b>Elizabeth Glaser Pediatric AIDS Foundation</b>	A leading U.S. national non-profit organization	Not visited	1 interview conducted	This organization works, among other large corporations, with J&J and gave a stakeholder's and partner's perspective to J&J's philanthropic activities
<b>AIDS Treatment Activists Coalition</b>	A national coalition of AIDS activists	Not visited	2 interviews conducted	These interviews gave a stakeholder's view on J&J's/TT's involvement with potential and current stakeholders

**APPENDIX 2**  
**LIST OF IMPORTANT DOCUMENTS**

Details of Documents	Organization	Information Obtained
Global Leadership Profile	Johnson & Johnson	It is linked with the credo and is one of the tools to train and assess managers
Global Survey	Johnson & Johnson	Explains the link between J&J credo and management practices and what is measured in terms of J&J performance from the employee perspective
Customer Survey	Johnson & Johnson	This document is not just a customer satisfaction survey but actually assesses J&J performance as a value based organization
ATAC Report Card	Aids Treatment Activist Coalition	Assess the performance of pharmaceutical companies in the AIDS medication field.
General Johnson Speeches and Quotes	Johnson & Johnson	Gave useful insights regarding the bases of J&J's credo and value system.
Corporate Philanthropy Flyer	Johnson & Johnson	Gave facts about J&J national and international philanthropic activities and volume
Logic Model for Community Programs	Johnson & Johnson	This document was an example of how J&J involves local partners in their philanthropic work. It clarified the process through which partners are chosen and how success in such programs is assessed.