No Guarantees: The “Fall” of J &J ?
Ethix Magazine   February 2011

by David W. Gill   **www.davidwgill.org**

Johnson & Johnson’s recent troubles are such a downer for those of us who have held the company up as a paragon of virtue for decades. J & J competitor Merck lost its halo earlier this decade with its shameless promotion of Vioxx when it knew of clear risks but buried this fact while frolicking in boatloads of cash extracted from its gullible customers. In the auto industry, Toyota’s problems over the past couple years are similarly a difficult pill to swallow for long-time admirers. What troubles? In a nutshell it is a loss of quality and safety for customers who had come to trust implicitly in the drugs (or automobiles) produced by these companies.

Can it be that Toyota continued to sell its cars while knowing about braking or acceleration defects? How could they do this? The story is not completely written yet and it seems that at least some of the “sudden acceleration” problems were actually caused by driver error. Other flaws requiring huge Toyota recalls suggest, however, that there has indeed been slippage on the commitment to quality. This becomes an ethical issue, not just an engineering or financial one, when harm is threatened to customers or when quality or performance promises are broken. The best explanations so far are that, in its obessive quest to overtake GM as the largest auto manufacturer in the world, Toyota began putting quantity over quality and lost its way, at least temporarily.

The Johnson & Johnson story is one of massive product recalls over the past year, following customer complaints, and leading to a serious shattering of public confidence in their products from Tylenol to Rolaids to Sudafed to Motrin to contact lenses and hip implants. This has not been a story of one or two isolated problems but a systematic, company-wide breakdown. How can this be? Since 1943 J & J has operated by a famous “Credo” mission and values statement that puts the safety and well-being of patients and customers above everything else. Long before other companies in pharmaceuticals or other industries adopted such statements, Johnson & Johnson was out in front.

Johnson & Johnson has recognized its problem and taken steps to improve factory cleanliness, inspections, and overall quality and safety. They could hardly do otherwise. Back in 1982, when seven Chicago-area people died from poisoning traced to Tylenol, J & J made history by pulling its drug off every shelf in America instantly, no matter what the cost to the company. It turned out to be a case of criminal tampering that had nothing to do with J & J. It led to improvements in tamper-resistant packaging for drugs, among other things. And J & J’s aggressive response to protect its customers won a huge amount of trust and admiration everywhere. So the recent “fall” is extremely disappointing.

The initial commentaries from those close to J & J have pointed the finger at cost-cutting measures that reduced or decentralized staffing and oversight, and delayed equipment repair and replacement. Others have suggested that J & J lost sight of its Credo in its pursuit of profits. In any case there is a lot of work ahead for J & J to restore its culture and values, improve operations --- and then hope for reputational recovery.

*   *   *   *   *   *   *

One of the lessons here is that there are just no guarantees that “once ethical, always ethical” or “once reliable, always reliable.” Corporate reputations, like corporate cultures, have *momentum* but no assured permanence. Arthur Andersen was probably the most highly thought of, ethical, excellent accounting firm in the world. But in the 1990s they all-too-quickly lost their way and gave in to corrupt schemes at Waste Management, Enron, and elsewhere, and were forced out of business altogether. No guarantees.

Jim Collins, in his little book *How the Mighty Fall and Why Some Companies Never Give In* (2009), identifies five stages of decline in the fall of the great companies: (1) hubris born of success (arrogance, entitlement), (2) undisciplined pursuit of more (overreaching, obsessed with growth), (3) denial of risk and peril (blaming, refusal to face facts), (4) grasping for salvation (panic, desperation, silver bullets and star CEO recruits), and finally (5) capitulation to irrelevance or death.   Marianne M. Jennings, in her book *The Seven Signs of Ethical Collapse* (2006), points to (1) pressure to maintain the numbers, (2) fear and silence in the culture (3) a "star CEO surrounded by young sycophants" incapable of dissent, (4) a weak board," (5) a failure to recognize and root out conflicts of interest (family, financial, etc.), (6) a claim of "innovation like no other" (i.e., we are doing things our way because no one else has figured it out as well as us yet), and (7) a justification that goodness in one area (e.g., corporate philanthropy) atones for evil in another (corporate crookery).

We can't see all of these factors at work in either J & J or Toyota but some of it is certainly relevant. For all leaders of organizations it is probably worth reviewing the analyses of corporate decline and fall by Collins, Jennings, and others at least once a year. Nobody and no company is invincible --- especially when we think otherwise.