



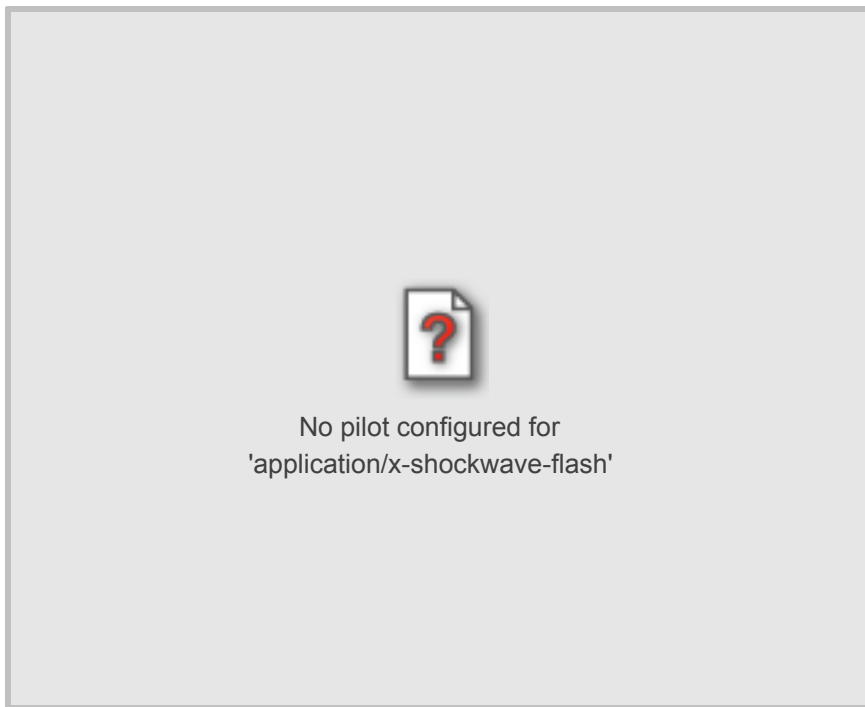
Johnson & Johnson CEO William Weldon: Leadership in a Decentralized Company

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Consumers tend to associate Johnson & Johnson with Band-Aids and baby shampoo, but those well-known products are only part of a much larger picture, according to William Weldon, chairman and CEO of the New Brunswick, N.J.-based firm. In fact, Weldon has the mind-boggling task of overseeing more than 200 operating companies across three sectors, including the consumer products that have made Johnson & Johnson a household name; pharmaceuticals like Tylenol; and medical devices. On June 18, Weldon spoke at the 2008 Wharton Leadership Conference about the challenges of running the Johnson & Johnson family of companies. In an interview with Knowledge@Wharton, he elaborated on how J&J's decentralized structure informs his leadership style and what he sees as key issues for the health care industry in the coming decade, among other topics.



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A transcript of this interview is available below.

Knowledge@Wharton: Many of our readers are familiar with Johnson & Johnson consumer products. But, they may not be familiar with the Johnson & Johnson family of companies and what that actually encompasses. Can you give us an overview?

Weldon: The way that we look at our organization is that we have three business segments we work in. One is the consumer business, which you alluded to, and it is a lot of the baby products, baby shampoo, baby powder, band-aids. But then it also includes Neutrogena and Aveeno and a lot of consumer companies that people would not know belong to the J&J family.

The second part of our business is our medical device and diagnostics business, which by itself is the largest medical device and diagnostics business in the world. That consists of everything from cardio-vascular products for stents to joint replacements for knees and hips to contact lenses with ACCUVUE, blood glucose meters, surgical Ethicon sutures and endoscopic instruments. So it covers a broad array of products.

And then, we have our pharmaceutical business, which is our largest segment. It's over 40% of our business. That really deals with cardio-vascular products, oncology products, immune mediated products for rheumatoid arthritis and those types of areas and a lot in the Virology area for HIV AIDs and Tuberculosis. So when you look at J&J, most people think of it as the consumer side, but it's actually our smallest portion of the business. And, we have about \$61 billion in revenue and anywhere from \$180 billion to \$200 billion in market capital.

Knowledge@Wharton: What are the main challenges of leading in a decentralized corporate environment, including across countries and cultures?

Weldon: You know it's interesting. I think there are pluses and minuses to decentralized and centralized. I think J&J is probably the reference company for being decentralized. There are challenges to it, and that is you may not have as much control as you may have in a centralized company. But the good part of it is that you have wonderful leaders, you have great people that you have a lot of confidence and faith in and they run the businesses.

If you look at Japan, for example, we have the local management running the companies. They understand the consumer, they understand the people they are dealing with and they understand the government and the needs in the marketplace. Whereas it's very hard to run it from the U.S. and to think that we would know enough to be able to do this. And so I think it really affords us a lot of opportunities by being decentralized; what you do lose is control. But, with our credo and the value system that we work under, we feel very confident about our leadership and our management -- and you have to have trust and confidence in them.

I think the other thing that decentralization does is that it gives you a tremendous opportunity to develop people. You give them a lot of opportunity to work in different areas, to work in smaller companies, to make mistakes and to ultimately move to larger companies. I also think that the benefit of the cultural side that you asked about is that you do have local people running the businesses. The men and women who run our businesses around the world usually are people who grew up in those markets, understand those markets and develop themselves in those markets. They can relate to the needs of the customer, whoever that customer may be.

The challenge really... I see it as a great benefit, rather than a challenge. This is because the problem with centralization is if one person makes one mistake, it can cripple the whole organization. This way, you've got wonderful people running businesses. You have to have confidence in them, but you let them run it -- and you don't have to worry about making that one big mistake.

Knowledge@Wharton: When you became CEO in 2002, what was the biggest challenge you faced and how did you overcome it?

Weldon: I think the challenges always are around the area of people and making sure that you have enough really outstanding leaders to run the businesses. We just talked about decentralization and allowing people to run the business. We have over 200 operating companies; we need 200 great leaders. I think that the challenge is always developing great leaders who can run the businesses. I think that that is always the biggest challenge.

The thing that is really the challenge for anyone who goes into a role like the one that I went into is worrying about who is going to sit here next. You can think about shareholders, but you have to think about the 120,000 employees and families that we are responsible to. And, you want to make sure that when you leave, you are leaving it in the hands of people who you feel very comfortable with.

We had challenges in our Pharmaceutical pipeline. And we had to really revamp and do a lot of things in our R&D organization, to make sure that we strengthened our pipeline; because when you think about it, it is dependent upon people in the pipeline. So you look at the pipeline of people and the pipeline of

products -- and those are the two things that I think we have to be focused on all the time.

Knowledge@Wharton: Your field, like many, requires a heavy focus on innovation in order to stay ahead. How does Johnson & Johnson's decentralized corporate structure relate to innovation and how does it enhance it?

Weldon: I think that where decentralization helps in innovation is that it allows different people with different skills, different thoughts, to bring together different products and technologies to satisfy the unmet needs of patients or customers. For example, we had a meeting where we brought together our engineers from our MD & D Group and our scientists from our pharmaceutical businesses. They came up with putting a drug on a stent ... for cardio-vascular disease, which was a huge breakthrough. This actually brought the skills and knowledge from two different sets of people together.

We are now working on a product that we have just launched in Europe and will launch here shortly which did the same thing. It brought the skills of the engineers together with the skills of the scientists to develop a patch which will deliver a narcotic for post-operative use, so that patients don't have to carry around PCA pumps and everything else with them all of the time. They just touch it, it is about the size of a credit card, you hit it and you get your dose of narcotic. It has a battery which makes sure that it's delivered properly, the right amount, at the right time and the right frequency. You look at the convergence of these skills, technologies and products and then people -- and I think that it offers us a distinct competitive advantage.

If you fast forward into the future, I think that you are going to see a lot more personalized medicine. We are going to look at bio markers, genomics and genetics. We are going to be able to identify who will respond to a product, who won't respond, who will get a side effect, who won't get a side effect. That takes the skills of our diagnostics group and our pharmaceutical group and puts them together to identify the patient who will respond to these products.

I think that decentralization and having this broad array of companies actually fosters innovation and stimulates those who are working in similar areas.

Knowledge@Wharton: What are the downsides to that structure? With so many subsidiaries I would image that coordination must become quite an issue.

Weldon: I think that you have hit upon it. I think that the downside to decentralization or innovation is actually the coordination. It is trying to get people together and moving in the same direction. One of the real challenges, as I've said before, is that we have our pharmaceutical group, our medical device and diagnostics and our consumer group. They each have their responsibilities in the markets they compete in.

When we try and bring people together, across the different groups, sometimes there is enough to do in their own group and now we are asking them to cross boundaries and work together. Sometimes we'll set up skunkwork groups, where we will send them off on their own. We call that our internal ventures. But, that is the challenge -- the coordination. It's not so much that there is replication, but finding the right people to be able to give the resources to this convergence of technologies as opposed to just working in their own areas.

If you look at straight innovation, as you would in any pharmaceutical group, or medical device, or consumer group, we have all of those working in our R&D organizations. It's the ability to work across the boundaries that really brings true innovation, and is going to take some real breakthroughs and will bring real breakthroughs in the future. But, it also does take some coordination and some sacrifice from the individual. That is the toughest thing, getting people to get outside of the silos that they work in and work across the groups.

Knowledge@Wharton: Can you identify the formal and informal ways that Johnson & Johnson identifies new innovations?

Weldon: We have a few things. One is we have what we call internal ventures. The internal ventures would be somebody working in the organization or a group of people, who may put

forward a recommendation for something that can be done. We are doing a lot of work in stem cells, for example - where none of the groups will take ownership of it, but there is a great opportunity there. So they put together a business plan, present it, put together a budget with it and then we allow that group to go off and work on that.

We create other environments, for example, if we're looking at the area of oncology, where we may bring people from the consumer, pharmaceutical and medical device and diagnostics groups together to share what they are doing. And, out of that, they will generate ideas where they can work together to bring products forward. It's usually better when they generate them rather than when we try and impose upon them.

We did do a review of our pipeline, probably about a year ago. And, we found that there were 80 products in our pipeline that had some form of convergence that was necessary. Now, the important thing for us to do is to make sure that we understand the value that those bring. And, maybe of the 80 of them, we ought to work on half a dozen of them. It's being able to bring those down into a focused area.

We have another product going on in our medical device group, in our Ethicon group, which is primarily in the suture and wound closure area that needs the skill sets of the people in our biotechnology area. It is actually a product to stop serious wound bleeding, but it has to have a bio base on it. We actually brought scientists from the biotechnology area over to work specifically in the Ethicon group. So we have a lot of both formal and informal ways that we can create this environment.

Probably the last thing that we do which has been very successful is we've created our own Internet for our scientists, so that they can go online and see what others are doing and communicate with each other. Then if there's an interest in one area, they can get skunkwork people to get together, think about those areas and work together to bring products to the market.

Knowledge@Wharton: What are the major challenges facing drug and healthcare companies, both in the U.S. and abroad?

Weldon: If you look at the cost of health care, I think it's a responsibility we all have to figure out how to get it under control. It's driven by demographics. It's driven by the aging population, the emerging middle class in other parts of the world and technology. People want to live longer, they want to live better and they want to live healthier. I think that we have a couple of responsibilities. One is to get up front and look at prevention and wellness, healthy people and how do you keep them healthy and treat them on the other end, where they need the treatment. And so the cost of health care is a big challenge.

I think that the regulatory environment has become another huge challenge. People are looking for products that can be risk free. You get up in the morning and you walk across the street -- that's not risk free. So don't think that you're going to be able to deliver a product in a patient. Drugs by definition have good effects and side effects. I've had a knee replaced and you know there's a risk associated with having your knee replaced; mine has worked out extremely well. But it could have also gone another way.

There are all kinds of issues there and I think that everybody is looking for this risk free environment -- and it's not risk free. There are risks associated with it. I think that we have to define them. We have to do good research. We have to look at evidence-based medicine and see what is going to come out of it. But I think that the regulatory environments have become somewhat risk averse, if you will, in trying to find out everything. And usually with patients, many times you don't find everything out because of the way somebody may use a product or what not. So, I think that it is in the area of cost control. I think that it is in the area of regulatory -- they are probably the two biggest. No matter where you look in the world, there are barriers that we have to overcome.

This puts the onus on the industry and this isn't all bad. It puts the onus on us to do better work when we do our clinical trials, when we do our research and when we have full transparency and disclosure. I think that's really important and I think that that comes from the ability of the regulatory bodies and the industry to work together. We've been advocates of strengthening the regulatory bodies, because the stronger they are in science, the stronger it will force us to be and the better it will be for patients.

And, then with the cost side, we just have to be willing to step up. I think that the industry does support

indigent people. We've actually supported in Sub-Saharan Africa our HIV products; we've made them available there at very low prices. If there are indigent patients here in the United States, they just have to file a form with us or any other pharmaceutical company and we will supply them with products free of charge if they qualify, which is a very low level to qualify. I think that we are doing all that we can, but we have to continue to do more.

Knowledge@Wharton: Johnson & Johnson has operated in India for more than 50 years now. Recently, there was a big shake-up among drug companies there when the Japanese firm Daiichi Sankyo bought out Ranbaxy. What is your view on that deal and does it say anything about the state of the pharmaceutical industry in India?

Weldon: I could be wrong on this but I think that about 70% of drugs dispensed are generics, here in the United States today. There is a big opportunity in the generic field because of large products going off patent. But, I think that if you are a research-based company, you need to really commit yourself to research. If you are a company committed to your employees, you need to make sure that they are treated appropriately and properly -- and there are costs associated with that.

Each company has its own choices that it has to make. Personally, I think that if you have good research, if you understand the needs of patients and if you can deliver good products into the market, that is the most important thing to be doing and that is where we've committed ourselves so far.

But that is not to say that we wouldn't go into generics or other companies. I think that there is a big market emerging and big opportunities in the future. Each company has its own business model that it thinks is the best; some may be both research-based and a generic company; others just research-based and others just generic-based. I think that it is an individual choice. But as the generic industry has evolved, it's evolved into very good products. Many reputable companies are going there and feeling that that's part of the model that they want to choose. So, I guess it's just really a personal choice for the company.

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