



Dennis Longstreet of ETHICON, a Johnson & Johnson company

Feature Interview

Living by the J&J Credo

ETHICON Thrives in a Total Rewards Environment



Laura Thanasse, CCP, CBP,
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EDITOR'S NOTE: Dennis Longstreet is company group chairman of Johnson & Johnson and chairman of the ETHICON franchise. Johnson & Johnson (J&J), with ETHICON and five other sister medical device and diagnostic companies, is the largest medical device and diagnostic company in the world with annual sales volume topping \$12 billion. The medical device and diagnostics business group at J&J operates in addition to the consumer products business group, for which J&J is best known, and the pharmaceuticals and consumer pharmaceuticals business groups. J&J is the largest and most diversified healthcare product company in the world.

ETHICON, a medical device company that provides the tools and products used by surgeons and physicians primarily in the hospital setting, develops and markets medical products for several surgical areas: wound closure and wound care, women's health and cardiovascular surgery.

WorldatWork Journal asked Canadian advisory board Chair Laura Thanasse to interview Dennis to get an inside perspective of how ETHICON operates and how it leverages HR to fulfill its organizational objectives.

Laura Thanasse: Given that you're part of such a large conglomerate, how does ETHICON achieve that small company environment described on the J&J recruiting Web site?

Dennis Longstreet: ETHICON is one of the 20 key J&J franchises or worldwide businesses. We are responsible for our own research and development (R&D), manufacturing, sales and marketing and profitability. A global management board, made up of ETHICON company worldwide presidents and worldwide functional heads, reports to me. And while this structure contributes to the “small company environment” you reference, as a part of the J&J family, we are governed by a set of principles called our credo. All of senior management understands that markets differ, businesses differ and companies differ. What holds our global business together is abiding by the same integrity-based set of principles set forth in the Johnson & Johnson credo.

Our credo dictates that our first and foremost responsibility is to our customers (doctors, nurses, consumers). Second, we focus on our employees. We make sure they are treated with dignity and respect, and given opportunities to maximize their potential. Third, we are responsible to the communities in which we live and work – being good corporate citizens – and finally, the shareholder. We believe that if we meet our responsibilities to customers, employees and the community, then the shareholders of Johnson & Johnson will realize a fair return. It has been a sound formula for success since the history of J&J has been one of steady growth and great return.

ETHICON is an important contributor to creating shareholder value for J&J and has been a key business for J&J over the last 40 years. It continues to be the largest medical device business for J&J and a world market leader in most of the markets in which we compete. But like all of our J&J counterparts, we’re managed under that credo framework.

Laura: I like the way you describe it as “being part of a family.” You have an overall sense of values that ties you together but you may have different jobs or different roles.

Dennis: Right. When I was involved in the pharmaceutical business for J&J, we had a different customer, an office-based health care provider customer. The medical device business customer is a hospital-based physician or surgeon. One customer prescribes our pharmaceuticals; the other purchases medical devices and adopts new surgical procedures. But things are changing. We are now introducing medicated devices – think of them as medical devices with active pharmaceutical components. We are also introducing more technology-based consumer products. Our businesses are collaborating more than ever.

Laura: There are four business units that operate separately under the ETHICON umbrella. From a total rewards perspective, do they have a common philosophy or are they different?

Dennis: Every company group chairman does this a little differently. We have been given autonomy to run the business based on how we feel we can maximize value for J&J, accelerate growth, drive invention and provide development opportunities for our people. I have a global management board and the four worldwide presidents of ETHICON’s business units are members of this board. Although they represent four separate businesses and have their own management committees, our operating principle is “One ETHICON, One World.” So despite differences across our businesses, we share a common vision. We’re globally oriented and our first commitment is to ETHICON overall.

Our rewards system reinforces this vision – we reward our people based on how well ETHICON as a whole performs, not necessarily on how well one individual company or functional group performs.

It starts at the top. I tell my global management board that 50 percent of their performance evaluation is based on how well they run their worldwide business

“Our commitment [is] to finding and developing the right people.”

— *Dennis Longstreet*

or functional area. The other 50 percent is based on how well they help me move ETHICON forward.

Laura: It sounds like a good balance.

Dennis: I reward my direct reports not only for their functional expertise but also for their contributions as senior managers responsible for running the business. Senior management responds well. So does the rest of the organization. They understand that they will be rewarded not only based on the performance of their local department but also based on how the enterprise performs.

Laura: So, they don't lose sight of the larger goal?

Dennis: No. The organization understands the rewards systems and specifically the bonus pool. It affects how people listen, how they make decisions and how they work across organizations and departments.

Laura: Great. Could you describe your rewards packages?

Dennis: While we have autonomy as a business, we also try to fit into J&J's overall rewards philosophy and structures. You will find that at J&J, both our business goals and the way we reward people is based largely on long-term performance and long-term rewards.

We target our base salary rates so they are competitive with those of other top companies, but we also look at opportunities to provide long-term security through programs like our 401(k) plan and through stock options. We believe our long-term stock option incentives are an important motivator for our people and we allocate these based on our assessment of an associate's long-term potential.

Combining short-term and long-term incentives is important to us because of the long-term tenure of our work force — perhaps higher than most U.S. corporations. We think that is a reflection of our rewards structure and our commitment to finding and developing the right people. We offer a competitive base salary and a performance-based bonus system. The bonus pool is based on a businesses' ability to meet its annual financial commitments and in preparing the business of the future. From that bonus pool we allocate stock and cash awards based on an individual's performance in his or her function and as I stated previously, based on how their performance contributes to the enterprise overall.

We've also gone out of our way from the very beginning to recognize the importance of work and family. When I talk to friends outside of J&J and look at some of their policies around maternity leave, family leave and so on, J&J is generally more generous and ETHICON, of course, follows that policy. We have a good vacation policy. We have a matching gift program. J&J provides a two-for-one match on eligible charitable donations made by our employees. Again, if you look at the J&J credo, giving back to the community is a large part of what we stand for.

Laura: You talked about valuing long-term employment and the fact that the average tenure at ETHICON and J&J seems to be longer than average. As it relates to benefits and the fact that we have an aging work force, employees are paying more and more attention to their

retirement picture. What role should the employers play to help secure their employees' future? What are your thoughts on retirement programs, in general?

Dennis: We do have a very generous benefits program as a whole and it includes long-term retirement benefits through a defined benefit pension plan and 401(k) savings plan. I think the combination of the two gives employees an appropriate opportunity for generating retirement savings – through a company-funded plan and a plan that allows them to make their own decisions about savings contributions and investments.

Laura: So, you're basically sharing the responsibility effectively? You're helping them save for retirement but are also giving them the opportunity to plan and save for themselves?

Dennis: Yes. I still think it's very important, too, that we encourage them to be a part of the community. We encourage them to give back where they can.

Laura: You talked about the J&J credo and how ETHICON emphasizes the value of the work/life balance. How do you encourage employees to live the credo? Do you give them time off for charitable work, as an example? Do you place a value on the work/life experience? Does it help you to recruit or help in other HR areas? Is it something that differentiates you as an employer?

Dennis: I think it does. I think the J&J credo is ever-present. Anyone who comes into the company hears about it and knows about it. If you were to visit J&J headquarters in New Brunswick, N.J., and you came into the lobby of our corporate headquarters you will see a wall made of stone and on the wall carved into the stone is the credo. Whenever I host visitors at J&J, I always take them by there and say, "Look at this. This is

carved in stone and this is truly how we manage our business."

We are cognizant of our employee's needs to balance work and family issues. In most all of our major facilities, particularly in the United States, we have on-site childcare centers. We offer family leave – and it's not limited to leaves for the care of newborn children. Our managers and leaders are trained to recognize and support the need for time off to support family members who are ill or in need of special care. We also encourage flextime when it fits an individual's circumstance.

There is a sense of caring within the company, both for the employee and also for people who are not as fortunate as we are. For example, the United Way is a major campaign for J&J. We encourage giving to United Way and it starts at the top with senior executives at J&J and it flows all the way down to salary and wage employees. You can feel that, as well. As I mentioned, I've been in five different companies within J&J and you feel it in each one of them.

Laura: What do you see as the primary business challenges in the next five to 10 years?

Dennis: Our primary business challenge is to remain the technology and innovation leader in the medical device field. And, to find the right people, with the right skills, to steer our future. For your readers who may not be familiar with the health care products industry, let me point out that what drives our business is technology. But it's not just about introducing new medical products that raise the standard of care. It's also about delivering innovation that lowers the overall cost of health care. Because we have to run a business and serve the interests of our shareholders, we're looking for technology that's going to improve care, and deliver the right business opportunity and ROI.

“[ETHICON] has a rewards system that focuses on high potential employees.”

— Dennis Longstreet

We do it based on the J&J credo, which values integrity. It's been that way for 112 years. It's not just our response to some of the events of the last 12 months. The value of J&J comes through because of our commitment to these principles and how we've built our businesses based on these principles. As a result, we're one of the most respected corporations.

From the human capital point of view, developing the people and the skill sets to lead this type of a future is a challenge. In my years at J&J I have been successful in finding and developing good talent. But I see it as our biggest need today and for the future.

Laura: How do you think ETHICON motivates and retains its best employees? How do you keep your key people from leaving for so-called greener pastures? How do you keep them? How do you get them?

Dennis: It starts with J&J's worldwide reputation. Because we are viewed as one of the world's most respected and desirable corporations to work for, we can generally bring in top talent. So, then it becomes a matter of taking care of our people. We do a good job around performance, potential management and people development. We set in place careful programs for making sure that performance reviews are done, that people are developed and career development discussions take place.

Because we are so big and diversified as well as global, we also have an ability to provide challenging assignments. We encourage people to move from one function to another when they have the interest to do so and the characteristics that will make them successful. We do a fair amount of moving people across geography and provide assignments outside the United States through a global rotation program. We do a lot of MBA recruiting and bring in people who are diverse in both their backgrounds and their race and geography.

We also have a rewards system that focuses on high potential employees. At the executive committee and at my global management board, we manage high potential people personally and very carefully. I know the business issues of the day sometimes always seem to be of paramount importance when you're having a board meeting, but we apply discipline to make sure that we talk about our key people and also talk about people development and people issues. As a matter of fact, in the vision for ETHICON, 'Powerful People' is the phrase we use as we list the four or five key things that we're about. Powerful People is always on that short list.

So to sum it all up, we find really strong people and then we give them challenging assignments. We take performance management and employee development very seriously. And we reward results.

Laura: In Jack Welch's autobiography, he mentioned how much both he personally, as well as GE, leaned on HR and valued human capital. How much do you rely on HR as a strategic business partner?

Dennis: My view about human resources and HR executives is that the first thing they have to do is to be at the table where the decisions are made. I feel that the senior HR person has to stay very close to the CEO and that their associates have to stay close to other senior management. By staying close, I mean being there as a counselor and adviser. Be connected.

Secondly, the HR executive needs to understand the business. Benito Cachinero joined us in October of 2001 as VP of Human Resources. When he came in I wanted him to go out on customer calls to a surgeon, a hospital and a physician. I wanted him to see what our professional representatives do when they introduce new technologies and how they help train surgeons to use the product. In addition, I wanted him to understand how hospitals work, the value of innovation and new products as well as the importance of market position and the leverage you get when you're the share leader. It's critical for all of our functional department heads – like HR – to understand the business and what it means to be a health care products company.

Thirdly, HR plays a critical role in helping to realize the vision that the chairman and senior management has for the company. The HR professional has to be a catalyst for culture change, serve as an adviser and make sure that employees understand the vision, the leadership characteristics we want and support contribution and rewards systems that will provide the right incentives.

Finally, HR is a counselor for the people, the organization and the productivity decisions around human capital.

Laura: To follow on that, how can HR influence and improve employee performance and productivity and then, in turn, positively impact the bottom line?

Dennis: It comes from having an understanding of human resource allocation, workload, processes and management systems. I expect HR to be in tune with what's going on in terms of productivity by department and by division. For example, when we make a decision to add employees and resources in one area and downsize in another, it's the result of a strategic process involving the business leaders, leaders from finance and

HR. It means that HR has a seat at the table, understands what we're trying to get done and can help ensure that we're putting the right people in the right place. The HR executive should be suggesting to me, "Well, you know that you need to get more efficient in worldwide manufacturing. Take some of the savings and apply it in the areas of research and development in order to improve the product pipeline that's going to lead to a more robust future." That type of a decision is not necessarily the directive from the CEO. It's collaborative and involves advice from HR and finance.

Laura: Working in partnership with finance and HR allows you to work as a team and solve problems more effectively.

Dennis: Right. What I find interesting is that some HR executives I've worked with view their job as, "Let me keep track of things. Let me keep track of head count. Let me make sure that training is taking place. Let me look at turnover. Let me look at work force make-up." That's fine. I've told HR that I want to be best in class and I understand that tracking is important. We want to be best in class for how we do performance appraisals, people development and recruiting as well as compensation and succession planning. Yet, I also need HR sitting at the table as we discuss how to increase our growth rates and where we make our investments. Any investments or acquisitions involve people.

Laura: One of the things that you alluded to was the ethical, high reputation that J&J enjoys worldwide. Certainly in the past year executive compensation has been in the media spotlight. What are your thoughts on that topic? What has transpired over the past year?

Dennis: J&J's executive compensation practices have not been cited as inappropriate. We reward people appropriately. We have good rewards packages across all

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levels of the company. Again, our packages consistently include short-term and long-term incentives. We’re pretty careful and have been for years to make sure that there’s some congruency.

The reason we focus on long-term rewards is because that’s the way that we manage our businesses. We’re not encouraging people to do things in the short term that are going to cause short term wins but mortgage the future.

Laura: You talked earlier about the importance of technology in maintaining your market leadership position. Have you implemented any programs such as variable pay to reward your R&D groups for break-through ideas? How do you support innovation from a compensation perspective?

Dennis: That’s an interesting point and one that we’ve been discussing over the past few months. We’ve been asking ourselves how much variability do we need to have from an overall rewards perspective with our R&D group? Of course, we have programs that recognize and reward numbers of patents granted. And, we provide autonomy to discovery groups or discovery teams so

that they can come up with ideas with the understanding that a lot of them may never move out of the discovery phase. However, once an idea moves into product development, we take a much more cautious and organized approach to ensure that we end up marketing a product that’s safe and effective and delivers on what we say it does. But we provide a fair amount of room in the early discovery and entrepreneurial stages. As I say, we have bonuses for patents filed and J&J-wide recognition programs for innovations that evolve into important market successes. That being said, we continue to look for ways to continue to raise the level of innovation. I don’t have any specific answers right now for your readers, but it’s an area we intend to focus on.


Laura: Do you have any special training or development programs for your research group?

Dennis: Yes, we do and we also have mentorship programs particularly around discovery. We have people in our labs who are terrific engineers and who are great at delivering final products. The entrepreneurial inventor who comes up with the new idea and who works in the lab to come up with something that’s totally different; those are what we call technical leaders. We want our technical leaders to feel as valued as the vice president of R&D because frankly they are as valued. We go out of our way to give these folks what they need, give them some room, give them some budget and let them invent. There are people on the outside of large corporations, who would say, “Large companies are not entrepreneurial enough. They can’t invent so it’s got to be start-ups with venture capital to come up with the devices that really change patient care.” We don’t believe that.

The other thing that J&J and ETHICON do particularly well is to find technology in its start-up phase. Maybe it was someone’s idea in a hospital or in a lab.

We get in touch with those folks, particularly when it's in a field of interest to us – wound closure or women's health, medical devices or chronic wound care. When we see technologies with potential, we bring these inventors and their technologies in house, we staff the initiative, resource it and build it into something significant.

Laura: That's fantastic. Is there anything else that you would like to add in terms of total rewards or HR?

Dennis: In summary, I believe that ETHICON, as part of J&J, is a very well managed corporation that takes time to worry about people development, management development, managing for the long term and acting in an ethical way. My experience has been that we go out of our way to make sure that people who join this company have a chance to maximize their potential. Everybody has different potential but we give people opportunities to succeed and spend the time on training and development. We try to have a proper work and family balance. By the way, I should also mention that every 24 to 36 months we do what we call credo surveys. Every J&J company around the world, all 190 that are part of the 20-plus franchises, do credo surveys to measure employee attitudes and perceptions. We measure how we are doing based on the principles articulated in the credo, how we are doing in terms of providing development opportunities and how management is performing. We've tracked it for years and see trends. The interesting thing is that you can determine the health of an organization just by continuing to track these credo surveys. 

Authors

Dennis N. Longstreet is a company group chairman for Johnson & Johnson and Worldwide Franchise Chairman of Ethicon. He assumed this role in January, 2001. Longstreet is also senior executive in charge of Johnson & Johnson medical devices and diagnostic products for Latin America. Longstreet's most recent position was company group chairman of Johnson & Johnson and Worldwide Franchise Chairman of Ethicon Endo-Surgery, which he assumed in 1998. Previously, he was chairman of Johnson & Johnson Health Care Systems, a position he assumed in 1994.

Longstreet began his Johnson & Johnson career with Ortho Pharmaceutical Corporation in 1969 as a medical sales representative. He advanced through positions including national sales manager, executive director of sales and marketing and vice president of corporate development. He was elected to the Ortho Pharmaceutical board of directors in 1984. In 1991, Longstreet was named president of Ortho Biotech Inc., responsible for the U.S. marketing of Johnson & Johnson biotechnology products, which he founded in 1986.

Longstreet serves on the Board of Trustees of Rider University and the Board of Governors of the Muhlenberg Regional Medical Center, Plainfield, NJ. He is also the Johnson & Johnson board representative for the Medical Device Industry Association (AdvaMed) and is currently AdvaMed Board Chairman.

Longstreet graduated from Rider University, Lawrenceville, NJ, and has studied at the J.L. Kellogg Graduate School of Management, Northwestern University, and the Columbia University Graduate School of Business.

Laura Thanasse, CCP, CBP, GRP, CHRP (thanasse@chrysalisgroup.com) is managing director of Chrysalis Group. Prior to joining Chrysalis, Thanasse was vice president of HR and communications for Corus Entertainment Inc. Previously, she was director of compensation, benefits and rewards for Labatt Brewing Company, Ltd. She has held senior management positions for the Hay Group and Watson Wyatt and worked as a HR generalist for Liquid Carbonic.

Thanasse holds an honors bachelor's degree in psychology from the University of Waterloo, a certificate in human resources management from Centennial College and a post-graduate diploma in HR and training from the University of Leicester, England.

She is a WorldatWork Canadian Advisory Board member and is chair of the Canadian Education Council. She has contributed to the expansion of the 2002 Canadian certification course schedule, implemented on-site coordinators at Canadian courses to assist faculty, recruited new faculty and trained new and existing faculty at a Canadian Faculty Academy. As a WorldatWork faculty member, she teaches T3 (Quantitative Methods) and T4 (Strategic Communication in Total Rewards), and has been a WorldatWork member since 1990. She is a member of Human Resources Professionals Association of Ontario (HRPAO), and is vice chair for the Aurora Public Library.