JOHNSON & JOHNSON: A Model for Sustainability Reporting

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As an accountant or financial professional, you've probably heard lots lately about sustainability reporting. The concept, which is relatively new and gaining wider acceptance, refers to how firms handle nonfinancial factors related to environmental, social, and governance issues that potentially impact the company's future performance, income, and value. Viewed as a companion to financial reporting, the increased use of sustainability reports (SRs, for short) symbolizes the ever-growing demand by stakeholders for more transparency and accountability.

A Statement on Management Accounting (SMA), *The Evolution of Accountability—Sustainability Reporting for Accountants*, issued by IMA® in 2008, details the evolution of sustainability reporting. Recognizing that this phenomenon is still in its "infancy," IMA observed that "while some organizations…are leading the way, many are either ignoring the issues, have not yet made a start, or are trying to figure out what to do, how to do it, and how to take action in a way that adds value."

Though only 32% of the top 100 U.S. companies in terms of revenue that were surveyed in 2005 issued stand-alone sustainability reports, the reporting rate increased to 73% by 2008.

Toward that end, to provide guidance for nonreporting or newly reporting firms, we conducted a case study of a publicly traded company at the forefront of sustainability reporting: Johnson & Johnson. Based in New Brunswick, N.J., and employing approximately 119,000 people worldwide, J&J began issuing formal sustainability reports in 1993 for which it has received widespread praise over the years. Using both content analysis and interviews with company executives, we reviewed Johnson & Johnson's trend toward broadening its sustainability reporting in ways that increase both value and transparency, with the purpose of providing a framework for other firms to model.

How Sustainability Reporting Came About

Sustainability reporting includes terms such as corporate social responsibility (CSR), environmental reporting, and triple bottom line, although a 2008 website examination of the Global 100 Most Sustainable Companies revealed that "sustainability" was the term they used most frequently. Sustainability encompasses a wide range of corporate initiatives related to issues such as environmental impacts, employee programs for healthier living, community development programs, customer safety programs, and fair trade practices. Multiple stakeholders—including socially responsible investors, consumers who want "green" products, and community groups concerned about environmental impacts—show growing interest in these issues. As evidence of this trend, professionally managed assets invested with a social responsibility focus have grown dramatically, with IMA reporting that socially responsible investments in the United States increased from $639 billion in 1995 to $2.29 trillion in 2005.

Though SRs lack reporting standards analogous to Generally Accepted Accounting Principles (GAAP), efforts to establish standards for sustainability reporting are ongoing. In 1997, the Boston-based nonprofit CERES (Coalition for Environmentally Responsible Economies) started a Global Reporting Initiative (GRI). The United Nations Environment Programme (UNEP) joined as a partner in 1999, the same year that an exposure draft of *GRI Sustainability Reporting Guidelines* was released. In 2002, CERES set up the GRI as an independent body with a mission to "integrate and unify the many standards in the marketplace into a single, generally accepted sustainability reporting framework, encompassing environmental, social, and economic performance." The GRI released its first reporting framework and guidelines in 2000, its G2 revision in 2002, and its current iteration, G3, in 2006. (For more information, go to www.globalreporting.org.)

The G3 guidelines, which the GRI says more than 1,500 companies worldwide have voluntarily adopted, set out core content for sustainability reports. Part 1 covers reporting principles, including materiality, stakeholder inclusiveness, sustainability context, and completeness. Part 2 covers standard disclosures in three areas that should be included in a sustainability report: strategy and profile, management approach, and performance indicators.

There's no regulation requiring U.S. companies to provide stand-alone sustainability reports, but the trend to provide these disclosures is definitely growing. Though

Table 1: Johnson & Johnson's Sustainability Reports, 1993–2008

	2008	2007	2006	2005
Title of report	Sustainability Report	Sustainability Report	Sustainability Report	Sustainability Report
Catchphrase	Caring for the world… one person at a time	Profiles in commitment	Passion, performance, possibilities	Engaging more people, preserving the planet
Number of pages	38	45	36	52
Location of credo	Back cover	Back cover	p. ii	p. 2

	2004	2003	2002	2001
Title of report	Sustainability Report	Sustainability Report	Environmental, Health and Safety Sustainability Report	Environmental, Health and Safety Sustainability Report
Catchphrase	Living our credo	Healthy people, healthy planet, healthy futures	Healthy people, healthy planet	Healthy people, healthy planet
Number of pages	44	50	34	34
Location of credo	p. 7	Back cover	Back cover	Back cover

	2000	1999	1998	1996
Title of report	Environmental, Health and Safety Sustainability Report	Environmental, Health and Safety Report	Environmental, Health and Safety Report	Sustaining Our Worldwide Environmental Commitment
Catchphrase	Healthy people, healthy planet	Healthy people, healthy planet	n/a	Sustaining our worldwide environmental commitment
Number of pages	30	18	39	24
Location of credo	Back cover	Back cover	p. 2	Not included

	1993
Title of report	A Special Responsibility
Catchphrase	A Special Responsibility
Number of pages	31
Location of credo	Not included

only 32% of the top 100 U.S. companies in terms of revenue that were surveyed in 2005 issued stand-alone sustainability reports, the reporting rate increased to 73% by 2008, according to KPMG. IMA recognizes Johnson & Johnson as a "leading organization" in this growing trend for social accountability.

For this article, we conducted interviews with two executives who hold key roles in the preparation of J&J's sustainability reports: Brian Boyd, worldwide vice-president for Environmental, Health and Safety, and Elizabeth (Tish) Lascelle, then senior director, Environmental, Health and Safety Strategy and Assurance. We also analyzed the company's SRs from inception using robust content-analysis techniques. Overall, our findings show how sustainability reporting has evolved at Johnson & Johnson to become fully integrated with its culture and mission.

Sustainability Reporting at J&J

Johnson & Johnson has a relatively long history of sustainability reporting compared to most U.S. companies. It first began setting environmental goals in 1990. Public reports followed in 1993 and 1996, with annual SRs beginning in 1998. The early reports focused primarily on environmental issues and employed "Environmental, Health and Safety" in the title. By 2003, however, Johnson & Johnson's sustainability reporting efforts had clearly broadened and evolved into what was then renamed the "Sustainability Report." Our word count analysis shows a roughly fourfold increase in the length of these reports, suggesting that the content and topics covered expanded dramatically over the years. Table 1 presents a summary of J&J's 13 sustainability reports from 1993 through 2008.

According to Brian Boyd, who was responsible for the sustainability reporting process from 1999 until 2008, when it moved to Corporate Communications, the overriding reason Johnson & Johnson publishes SRs is to engage with external shareholders. The purpose is twofold:

1. To detail what Johnson & Johnson is doing with regard to sustainability issues and what the firm's strategies are, and
2. To engage stakeholders in the process by sharing information.

Boyd speculates that one of the primary drivers of the early reporting initiatives included increased demand from external stakeholders for information about the company's environmental policies. This supports prior research suggesting that voluntary SRs reduce information asymmetry between firms and the public. Overall, Johnson & Johnson produces SRs for the full range of its stakeholders, from the neighbor living near a manufacturing plant to the global investment community.

Why Report?

Sustainability reporting remains voluntary, but research suggests two distinct theories on why firms do it: ethical vs. economic. Ethical views purport that firms hold societal and moral obligations to engage in socially responsible activities and thus report on these activities because it's the "right thing to do." Economic theories, on the other hand, assert that sustainability reports create better corporate reputations that, in turn, create shareholder wealth via increased profits.

Our interviews at Johnson & Johnson lend credence to both views. For instance, the firm's corporate culture is strongly rooted in its credo, which challenges internal decision makers "to put the needs and well-being of the people we serve *first*" (http://www.jnj.com/connect/about-jnj/jnj-credo). Robert Wood Johnson, former chairman of the company and one of its founders, crafted the credo in 1943, prior to J&J going public and long before anyone used the term "corporate social responsibility." The company's website explains: "Our Credo is more than just a moral compass. We believe it's a recipe for business success. The fact that Johnson & Johnson is one of only a handful of companies that have flourished through more than a century of change is proof of that."

Our review of Johnson & Johnson's SRs reveals continuing specific references to the credo and the company's responsibilities to its four groups of stakeholders, in this order: customers (including doctors, nurses, patients, parents, consumers, suppliers, and distributors), employees, the community (both local and global), and, finally,

Table 2: Changes in Stakeholder Coverage, Content, and Tone

TOTAL PARAGRAPHS = 2,783	EARLY REPORTS (1993 – 1999) 510 PARAGRAPHS	MIDDLE REPORTS (2000-2003) 974 PARAGRAPHS	NEWEST REPORTS (2004-2008) 1,299 PARAGRAPHS	CHANGE FROM EARLY TO NEWEST REPORTS
STAKEHOLDER COVERAGE*				
Customers	2.2%	2.0%	13.2%	+ 501.9%
Employees	30.6%	37.8%	21.0%	– 31.3%
Community	28.2%	21.2%	20.7%	– 26.6%
Investors	0.0%	0.3%	2.5%	n/a
Two or more groups	16.7%	19.4%	34.1%	+ 104.2%
No specific focus	22.3%	19.3%	7.9%	– 64.4%
PARAGRAPH CONTENT*				
Community issues	8.4%	13.5%	15.7%	+ 87.0%
HR/Diversity issues	2.5%	5.4%	5.9%	+ 137.1%
Environmental issues	57.7%	31.3%	30.6%	– 47.0%
General content	8.0%	18.6%	20.3%	+ 153.1%
Health & safety issues	22.4%	29.0%	11.7%	– 47.8%
Supply chain issues	1.0%	2.2%	15.9%	+ 1,485.8%
PARAGRAPH TONE*				
Positive	93.1%	84.1%	85.0%	– 8.7%
Negative	2.2%	4.2%	2.8%	+ 26.0%
Neutral	4.7%	11.7%	12.2%	+ 160.4%

*Chi-square significant at $\alpha = .0001$.

shareholders. J&J management believes that if the needs of the first three groups of stakeholders are met, then a fair profit should accrue to investors, hence supporting the economic theory for producing SRs. Table 2 shows how the emphasis on each group of stakeholders has shifted over the years.

Brian Boyd acknowledged a number of benefits of the company's sustainability reporting, although he admits that they aren't necessarily financial. In other words, while there's no straight line connecting SR activities to cost savings, intangible benefits often follow. For instance, in the absence of information, many people will assume the worst about a company's environmental, health, and safety activities. By producing one comprehensive SR annually, Johnson & Johnson satisfies the information needs of many stakeholders, in addition to its credo stakeholders. The advocacy community, for instance, wants to know what large companies are doing, and SRs can encourage discussion. They also provide information to agencies that rate companies based on their sustainability activities. Those ratings, in turn, influence financial analysts' recommendations and investors' decisions. Examples of ratings and agencies include the Dow Jones Sustainability Index (DJSI), the FTSE4Good Index, and Innovest Strategic Value Advisors.

The reporting process also mitigates risk. A 1997 study by Tom Brown and Peter Dacin, "The Company and the Product: Corporate Associations and Consumer Product Responses," found that negative perceptions regarding corporate social responsibility produce negative effects on consumer behavior, and vice versa. Boyd points out that SRs reduce the possibility that a nongovernmental organization (NGO) will launch a negative ad campaign on an issue. A negative campaign could cascade into reduced sales and decreased profits, thereby lending support to economic reasons for reporting.

Interestingly, there are no specific systems in place at Johnson & Johnson to provide data for the SR. Each function leader uses his or her own internal systems to collect and report relevant data to the project leader...

Who's Responsible for Sustainability Reporting?

Numerous functional groups participate in J&J's sustainability reporting process, including Worldwide Environmental, Health and Safety, Corporate Contributions, Corporate Communications, Investor Relations, Procurement, Worldwide Operations, Human Resources, and other relevant business unit leaders. For example, if the sustainability report contains a story on the company's HIV pharmaceutical advances, that business unit leader has participated in that part of the discussion and reporting process.

Management accountants and finance professionals also participate in Johnson & Johnson's reporting process since they're in a position to manage and measure key components of the report. Although much of the financial data in the SRs comes directly from the current year's annual report, accounting and finance staff also contribute information that isn't readily available from it. They address questions about how financial information should be reported to reflect Securities & Exchange Commission (SEC) regulations and other reporting guidelines and requirements.

Interestingly, there are no specific systems in place at Johnson & Johnson to provide data for the SR. Each function leader uses his or her own internal systems to collect and report relevant data to the project leader, with Human Resources being the exception. HR is included to validate the SR process but not necessarily to provide data for the report. J&J also lacks a formal policy regarding confidentiality, instead relying on the judgment of function heads to avoid the release of any data that's sensitive in a competitive, legal, or business context. While Boyd has argued for greater transparency in the SR process, some function leaders are uncomfortable with that view.

As mentioned earlier, J&J's Corporate Communications department now produces the sustainability reports along with the annual reports, collecting data from the respective function heads, who identify the relevant issues in their departments. The group of 10 or so function leaders, including Boyd, continues to meet during the process.

What Goes into the Report?

In general, Johnson & Johnson produces its reports in accordance with GRI guidelines, with the more recent SRs providing a key at the end of the report that references the GRI codes. Our content analysis suggests that the amount and type of information reported has changed significantly over the years, reflecting J&J's own internal struggle to determine what should be reported—and in what quantity and depth—to satisfy its responsibilities as defined by its credo and by external validating

Table 3: Characteristics of Johnson & Johnson's Sustainability Reports, 1993–2008

	2008	2007	2006	2005	2004	2003	2002
Number of awards/recognitions	25	18	14	16	19	22	21
Number of organizational partners	18	n/a	6	13	20	20	20
Organizational chart included	No	No	No	No	Yes	Yes	Yes
Indicators presented in tables and/or graphs							
Economic	11	9	9	4	5	5	1
Employee health	4	4	4	4	4	4	4
Employee safety	2	4	5	5	5	5	5
Environmental	11	10	9	12	13	12	17
Total indicators	28	27	27	25	27	26	27

	2001	2000	1999	1998	1996	1993
Number of awards/recognitions	18	14	7	27	4	0
Number of organizational partners	18	17	0	14	10	13
Organizational chart included	Yes	Yes	No	Yes	Yes	No
Indicators presented in tables and/or graphs						
Economic	1	3	4	4	4	2
Employee health	4	0	3	0	0	0
Employee safety	5	5	5	5	0	0
Environmental	16	12	10	11	7	10
Total indicators	26	20	22	20	11	12

organizations and outside agencies. For example, we found that both employee health indicators (tobacco use, high cholesterol, inactivity, and such) and economic factors (sales revenue, net earnings, share price, and the like) appeared more frequently in recent reports, while the number of employee safety factors (fleet car accidents, lost workdays, and such) remained largely consistent throughout the time frame. Table 3 summarizes the evolution of the content of Johnson & Johnson's 13 SRs, including the economic, employee health, employee safety, and environmental indicators reported from 1993 through 2008. (Details about each set of indicators are available from any of the authors; see the end of the article for their contact information.)

External forces also influence content. Boyd explained that when competitors started reporting certain index line items, J&J chose to include the same metrics, even though they're of no use or benefit to the company. Yet the DJSI requires certain metrics when ranking companies that even now Johnson & Johnson feels aren't important to report. As a result, Boyd says, the company receives a lower ranking on the DJSI because it chooses to measure and manage what's vital to itself and to its stakeholders rather than what's important to rating agencies.

While the GRI indicator list doesn't drive the content of Johnson & Johnson's SRs, it helps the company coordinate what's reported and provides consistency from year to year. What J&J wants to manage comes from its strategy, credo, and stakeholders, suggesting that a clear mission statement aids corporate sustainability reporting. Boyd feels that Johnson & Johnson is ahead of the sustainability reporting curve because it stays true to its credo and because it closely monitors global trends in what data is reported worldwide, not just in the pharmaceutical industry or in the U.S. For example, the company began reporting on carbon emissions before there was much public push for the information.

Use of External Assurance

Because of fears of internal bias, some advocates for transparency argue for independent third-party assurance, citing research that finds sustainability reports tend to focus on positive outcomes and that descriptive information rarely accompanies benchmark data. Our content analysis supports this finding. We coded each paragraph of Johnson & Johnson's SRs as positive, negative, or neutral and found that positive information dramatically outweighed negative or neutral information (see Table 2). Over the past 15 years, however—perhaps in response to external pressures—changes in tone have been significant: Positive coverage has decreased about 9%, while negative and neutral coverage has increased 26% and 160%, respectively.

The Global Reporting Initiative recommends the use of external assurance, although it isn't required for companies declaring a reporting level (more about that later). There are several sources of external assurance, including professional assurance providers (such as public accounting firms), stakeholder panels, or other groups. KPMG reports that most *Fortune* Global 250 (G250) companies that use third-party assurance rely on a major accountancy organization, yet a majority of firms it surveyed for its 2008 report didn't use any form of external assurance. Moreover, assurance rates are lowest in the United States and Canada.

The number of G250/N100 companies that reported formal assurance in their reports has increased in recent years but was still just 40% in 2008. As of June 2009, 338 of the reports filed with the GRI had "+" with their application level, indicating third-party assurance. Although that's only a third of the 1,002 reports filed since January 1, 2008, it represents 48% of the 701 reports filed with an application level and 72% of the 285 reports at the A application level. (Application levels provide an indication of the extent to which sustainability reports employ GRI guidelines. Levels include A, B, or C, with the aforementioned "+" for external assurance. Higher application levels require additional disclosures and more performance indicators.)

Johnson & Johnson currently does *not* declare a reporting level. Instead, its most recent SR includes an index with reference to the G3 indicators cited within the report. According to J&J's Elizabeth Lascelle, the company plans to eventually self-declare an application level without third-party assurance. While external assurance potentially increases the credibility and validity of SRs, firms will only seek it when the net benefits exceed the net costs. Johnson & Johnson avoids external assurance because it finds the process very expensive and time-consuming with no value added, at least from Brian Boyd's perspective. J&J sought formal assurance for an earlier SR, but the process was so tedious that Boyd's office made the decision to stop the process three-fourths of the way through.

Another option includes pursuing some form of external assurance from stakeholder groups. Johnson & Johnson maintains frequent contact with many of these groups (including investors, academics, consultants, NGOs, and community organizations) in order to better understand what the company needs to do to remain socially and environmentally responsible. Currently, however, the company doesn't ask these groups to provide any assurance of the final SRs or of the reporting process itself. This interaction simply helps J&J define its strategy and goals to meet the needs of its stakeholders.

Role of Stakeholders and Distribution of SRS

At Johnson & Johnson, stakeholders remain valued participants in defining strategies, such as Healthy Planet 2010, which outlines the company's major environmental goals and improvement projects. Meanwhile, each year J&J sends final, approved SRs electronically to all employees, with hard copies going to the board of directors, the executive committee, and top senior managers world-

For Further Reading

Here are a few resources about sustainability. You can find many more on the Internet and on the IMA website at www.imanet.org.

Laurie Brannen, "The Sustainability Reporting Evolution," *Business Finance*, February 2007, p. 4.

Tom J. Brown and Peter A. Dacin, "The Company and the Product: Corporate Associations and Consumer Product Responses," *Journal of Marketing*, November 1, 1997, pp. 68-84.

Marc J. Epstein, *Making Sustainability Work: Best Practices in Managing and Measuring Corporate Social, Environmental and Economic Impacts*, Berrett-Koehler Publishers, San Francisco, Calif., 2008.

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Graham Hubbard, "Measuring Organizational Performance: Beyond the Triple Bottom Line," *Business Strategy and the Environment*, December 2006, pp. 177-191.

KPMG International Survey of Corporate Responsibility Reporting 2008. Available at: http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Pages/Corporate-responsibility-survey-200810-o.aspx. Accessed August 6, 2010.

Karen Paul, "Corporate Sustainability, Citizenship and Social Responsibility Reporting: A Website Study of 100 Model Companies," *The Journal of Corporate Citizenship*, December 2008, pp. 63-78.

Roger Simnett, Ann Vanstraelen, and Wai Fong Chua, "Assurance on Sustainability Reports: An International Comparison," *The Accounting Review*, May 2009, pp. 937-967.

Statement on Management Accounting, *The Evolution of Accountability—Sustainability Reporting for Accountants*, IMA®, Montvale, N.J., 2008.

wide. All self-identified "socially responsible" investors, relevant governmental agencies, and competitors also receive copies, as do other interested parties on request. In addition, new and older reports are always available on the Johnson & Johnson website.

Stakeholder feedback continues to shape J&J's sustainability reports. The introduction to the 2007 SR notes the impact of feedback from employees and external parties, including NGOs, and from three external evaluations on the format of the report. Based on data gathered from these sources, Johnson & Johnson concluded that report users typically want in-depth discussion about issues important to them rather than having to read the reports cover to cover. In response, the company modified its 2007 SR to provide more comprehensive coverage of key issues.

It's clear from the Johnson & Johnson experience with sustainability reporting that there must be management buy-in for the process to be successful. As we mentioned earlier, sustainability reporting is entirely voluntary in the United States and imposes additional costs on a firm, yet the benefits may be intangible. Also, in the absence of information, stakeholders will assume the worst.

Johnson & Johnson has found that for sustainability reporting to be truly beneficial to the company, the data needs to be driven by what the company wants to measure and manage, as well as by what external stakeholders demand. A focused analysis of your stakeholders' needs should prove beneficial to enhancing your own firm's sustainability reporting. J&J's reporting process provides a shining example of the right way to proceed. **SF**

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