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Johnson & Johnson: A Case Study on Sustainability Reporting

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Imagine a future where reporting on environmental and social performance is as routine as reporting on financial performance.
–(Gilbert 2002, 26)

INTRODUCTION

The phrase "sustainable business" can be associated with a wide range of corporate initiatives related to issues such as a company's impact on the environment, programs to help employees live healthier lives, community development programs, customer safety programs, and fair trade practices. In turn, information about these initiatives is of interest to multiple stakeholders, including investors who are interested in socially responsible investing, consumers who want to buy "green" products, and community groups concerned about the environmental impact of neighboring businesses. Clikeman (2004, 24) provides this working definition of sustainability: "a philosophy that weighs the current economic benefits of activities against the effects of those activities on future generations." In other words, socially responsible companies assess not only the short- and long-term economic implications of their current activities, but also the long-term environmental and societal effects of their current actions, leading to the triple bottom line approach of reporting environmental, social, and economic performance.

With exceptions in some countries (e.g., Japan, Sweden, Norway), companies are not required to provide separate reports on corporate social responsibility. Demand for information from stakeholders and a growing recognition that traditional accounting reports are not well-suited to providing this type of information, however, has led an increasing number of companies to issue separate sustainability reports. How does a company decide which of a myriad of sustainability initiatives to pursue? How is information about a company's socially responsible activities gathered, assessed, and disseminated? To provide some insight into these questions, Johnson & Johnson and its relatively long history of providing sustainability reports serves as the focus of this case study. The company first began setting environmental goals in 1990, with intermittent public reports following in 1993, and annual sustainability reports beginning in 1998.

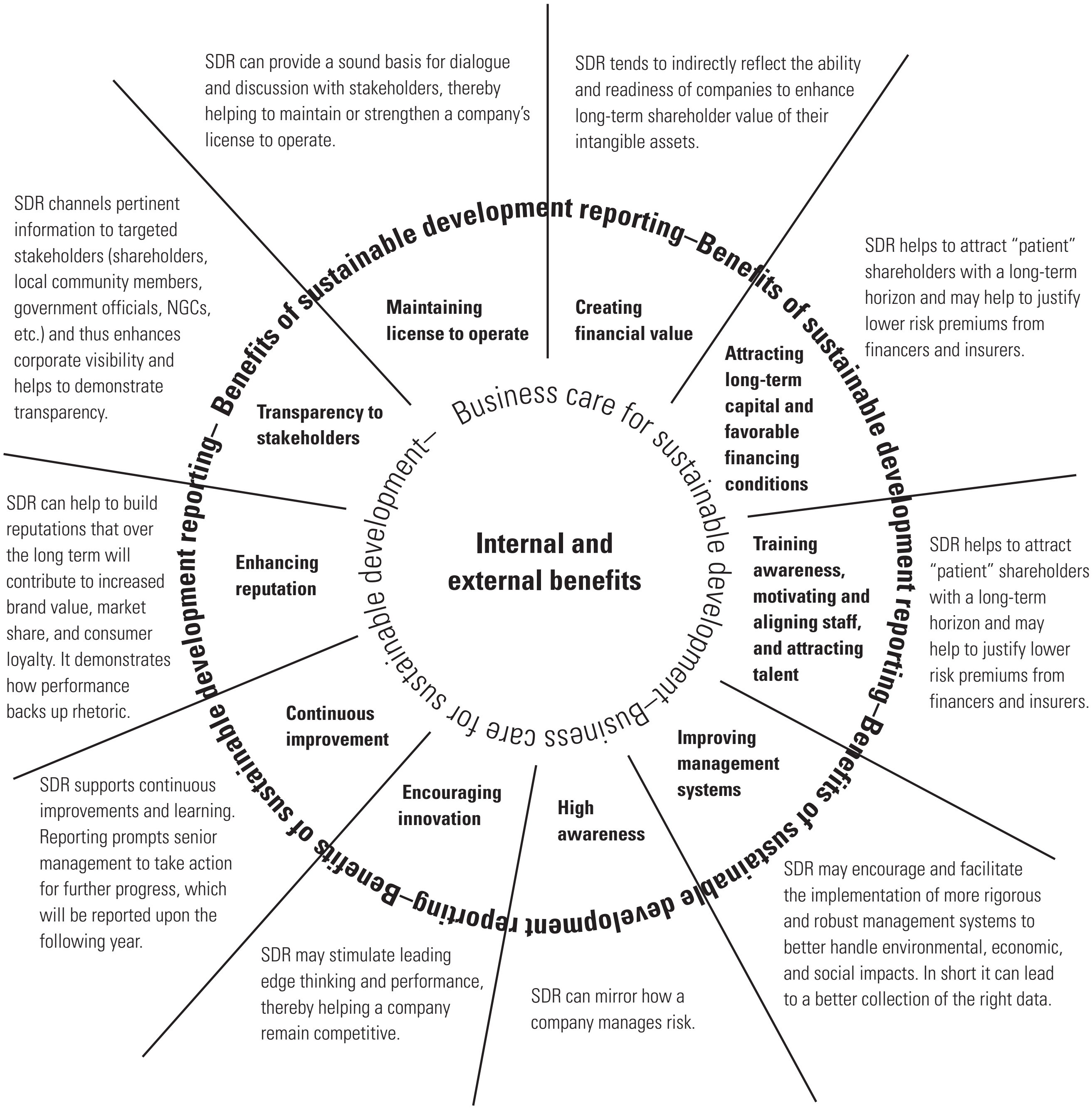
THE EMERGING IMPORTANCE OF SUSTAINABILITY ACCOUNTING

While there is no formal regulation requiring that all publicly-traded companies provide a stand-alone report detailing information on sustainability initiatives, more companies worldwide voluntarily disclose detailed data about their triple bottom lines of environmental, social, and economic performance. Clikeman (2004) argues that when a company practices, documents, and discloses its sustainable development activities to its stakeholders, the company will reap many benefits not usually associated with releasing data in an annual financial report. These benefits are summarized by Clikeman from a more detailed list developed by the World Council for Sustainable Development (see Table 1) and include:

- Provides a sound basis for dialogue and discussion with stakeholders;
- Channels pertinent information to targeted stakeholders and thus enhances corporate visibility and helps demonstrate transparency;

- Helps build reputation, which, over the long term, will contribute to increased brand value, customer loyalty, and market share;
- Encourages and facilitates implementation of rigorous management systems to better monitor environmental and social risks;
- Assists the company in demonstrating its business values and principles about environmental and social issues;
- Helps attract "patient" shareholders who have a long-term horizon and helps justify lower-risk premiums from investors and creditors (Clikeman 2004, 24).

Table 1: Benefits of Sustainable Development Reporting [SDR]



From Heemskerk, Bert, Pasquale Pistoria, and Martin Scicluna. 2002. *Sustainable Development Reporting: Striking the Balance* (page 15). Published by the World Business Council for Sustainable Development.

Along with the absence of consistent regulations requiring corporate sustainability reporting, there is also a lack of reporting standards analogous to generally accepted accounting principles. Since 1997, however, there has been an ongoing effort to establish standards for sustainability reporting. In 1997, the Boston-based nonprofit CERES (Coalition for Environmentally Responsible Economies) started a Global Reporting Initiative (GRI). The United Nations Environment Programme 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.[1] The GRI's mission is to "integrate and unify the many standards in the marketplace into a single, generally accepted sustainability reporting framework, encompassing environmental, social, and economic performance" (Gilbert 2002, p. 21). The GRI released its first sustainability reporting framework and guidelines in 2000, its G2 revision in 2002, and its current G3 iteration in 2006 (GRI 2006).

The G3 guidelines set out the core content for a sustainability report. The purpose of sustainability reporting, as defined in the G3 guidelines, "…is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development." (GRI 2006, 4) The standard disclosures to be included in any sustainability report should address:

- **Strategy and Profile:** Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.
- **Management Approach:** Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.
- **Performance Indicators:** Indicators that elicit comparable information on the economic, environmental, and social performance of the organization. (GRI 2006, 6)

While the first two sets of disclosures are self-explanatory, performance indicators are both quantitative and qualitative, requiring descriptions of corporate policies, processes, and effects. For example, human rights performance indicators could include "Total number of incidents of discrimination and actions taken" (quantitative) and "Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor" (qualitative) (G3 Guidelines, 2006, 33).

[1] http://www.globalreporting.org/AboutGRI/WhatWeDo/OurHistory/

The GRI reports that more than 1,000 companies worldwide voluntarily adopted G3 guidelines for their sustainability reports in 2008, an increase of 46% over 2007 (GRI 2009). These companies represent only 13% of the companies listed on the Standard & Poor's 500 in the U.S., and only 22% of the companies listed on the FTSE 100[2] in the U.K. The GRI results indicate that European companies account for 49% of the 2008 reports, Asian companies 15%, North American companies 14%, Latin American companies 12%, Oceania 6%, and Africa 4%. These results vary significantly from those of KPMG, which periodically publishes a survey on social responsibility reporting by the Global Fortune 250 and the 100 largest companies by revenue in 22 countries.

In 2007, Sweden was the first country to require its state-owned companies, such as Scandinavian Airlines (SAS), to prepare annual GRI-based sustainability reports as of March 2009. For decades, the rates of reporting among the largest multinational companies have been highest among Japanese and U.K. global companies due to country-specific pressures (KPMG 2008, 15). Companies that list on the Japanese stock exchange must comply with environmental performance and reporting regulations, while companies in the U.K. face pressure from various constituencies, including the government, media, consumers, and shareholders, to be transparent on key sustainability issues. Norwegian companies are required to produce environmental reports, while French and German companies must provide both social and environmental reports to the public. U.S. companies have been much slower to report on corporate social responsibility, given the lack of pressure from their stakeholders.

The lack of U.S. companies reporting on their sustainability activities may soon be a thing of the past, if recent actions by the U.S. Securities and Exchange Commission (SEC) are any indication. In July 2009, the SEC formed an Investor Advisory Committee. This group is studying input from groups interested in socially responsible investing (such as the Social Investment Forum) on what constitutes "effective mandatory corporate reporting on environmental, social and governance issues" (Kropp 2009, 1). The SEC could eventually require complete sustainability reports from its filing companies in addition to the already mandatory 10K and other financially-specific reports.

[2] Please see Appendix A for an explanation of external validating organizations and abbreviations used in this case.

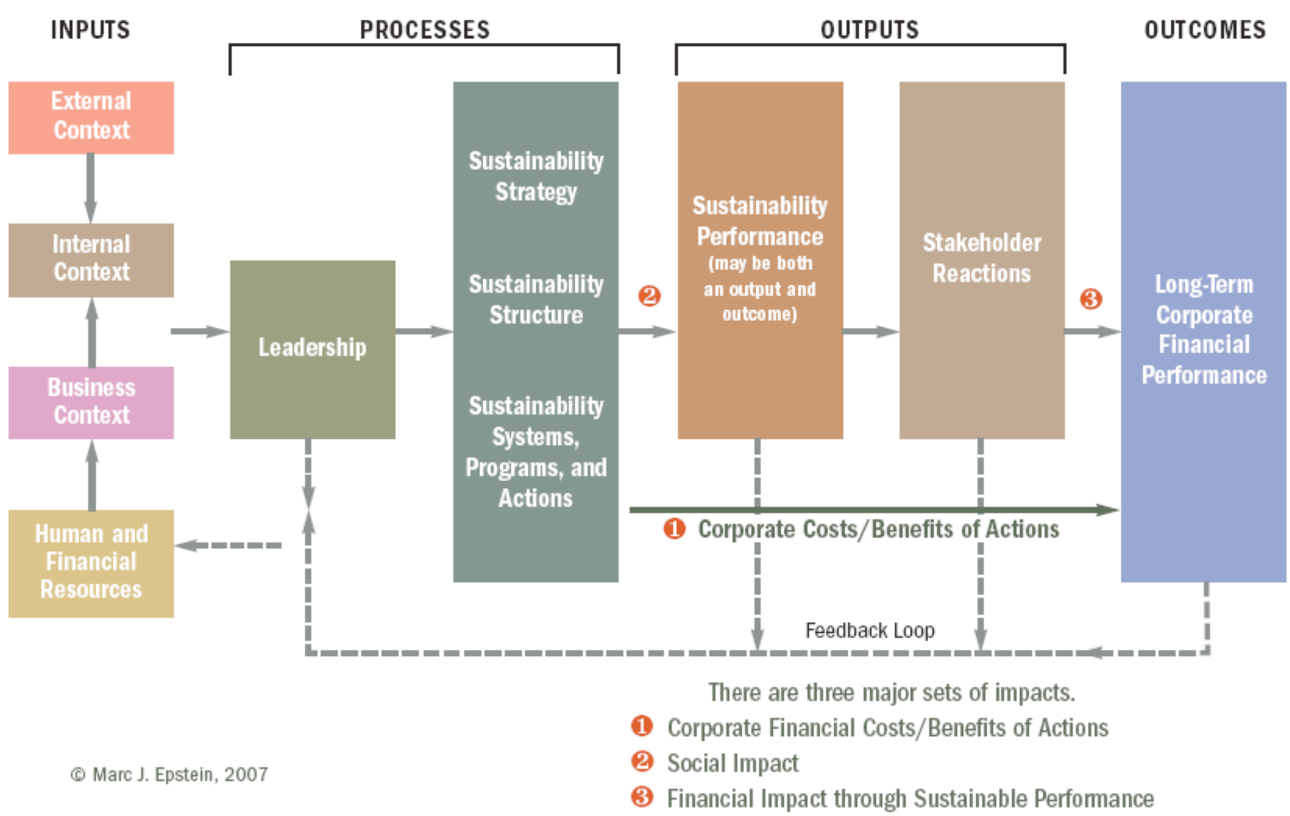
HOW TO IMPLEMENT CORPORATE SUSTAINABILITY REPORTING

Once a company decides to expand from financial reporting to include sustainability reporting, management must decide which economic, social, and environmental activities should be measured, and what metrics to use to obtain those measurements. Epstein (2008) discusses many implementation and measurement issues related to corporate sustainability reporting. The overriding issue centers on the difficulty in "implement(ing) the proper systems to pursue sustainability and to evaluate the impacts of sustainability on financial performance and the tradeoffs that ultimately must be made" (Epstein 2008, 26). These trade-offs include maximizing the corporate bottom line while balancing the costs associated with managing corporate sustainability. Epstein's corporate sustainability model provides an effective blueprint for implementing sustainability reporting (Table 2).

Commitment to sustainability reporting requires management to decide what activities need to be measured, and then to identify the best metric for measurement. As previously mentioned, the GRI provides a complete sustainability reporting framework and the required indicators to assess a company's economic, social, and environmental activities, but does not dictate how a company should measure each indicator. A sample of possible metrics to measure the drivers in Epstein's corporate sustainability model is presented in Table 3.

Epstein's (2008) model looks at an organization's inputs to determine the sustainability processes needed to produce the desired outputs and long-term outcomes. Specifically, inputs include internal, external, and business content, along with the human and financial resources of the corporation. Inputs provide the foundation for determining what processes are needed to improve sustainability. Managerial actions and stakeholder reactions determine long-term

Table 2
Corporate Sustainability Model



Taken from Epstein 2008, page 27

Table 3
Some Sustainability Metrics to Measure Inputs, Processes, Outputs and Outcomes

DRIVER: Inputs
Alignment of corporate strategy to sustainability
Number and diversity of business units
Geographic diversity of production and sales
Sustainability impact of processes, industry, and product
Corporate financial position
Industry competitive position
Sustainability component in managerial performance evaluation
Resources available for sustainability

DRIVER: Processes
Number of plant visits
Commitment of corporate and sustainability leadership
Child labor protection
Access of sustainability management to top management
Excellence in board processes
Resources devoted to sustainability
Adoption of codes and standards for sustainability improvement (including number of facilities certified)
Number and level of staff devoted to sustainability
Hours of ethics training per employee
Number of suppliers certified for sustainability

DRIVER: Outputs
Number of plant closing
Volume of hazardous waste
Packaging volume
Amount of minority business purchases
Money contributed through philanthropy and cause-related marketing
Percent and number of women and minorities in senior positions
Number of injuries
Number of spills, accidents, discharges
Numbers of human rights and labor violations
Results of ethics audit
Rate of defective products
Number of consumer protests
Number of employee grievances
Number of fines
Number of product recalls
By-product revenue
Number of social funds listing company stock
Number of awards received

DRIVER: Outcomes
Revenue from recycled waste materials
Revenue from cause-related marketing
Increased sales from improved reputation
Reduced cost of materials due to reduced waste
Employee turnover reduction
Revenue growth
Reduced cost of environmental cleanup
ROI
Profits

Taken from Epstein 2008, page 30.

corporate financial performance. The model includes feedback loops for evaluating the cost and benefit trade-offs of an organization's sustainability efforts so that adjustments can be made along the way.

Before looking at Johnson & Johnson's sustainability reports, consider the bigger picture of sustainability reporting in the pharmaceutical industry. Newsweek recently issued its first rankings of the greenest companies in America, assessing the environmental impact, green policies, and environmental reputation of the largest 500 companies in the U.S. (McGinn 2009). The most recent assessment of sustainability performance by Sustainable Asset Management Inc. [SAM] and PricewaterhouseCoopers (2010) is based on the responses of 37 of the 69 largest pharmaceutical firms worldwide. Johnson & Johnson consistently ranks as one of the world's industry leaders as shown in the table below:

SUSTAINABILITY LEADERS 2009/2010

SAM Gold Class:	Roche Holding AG *	Switzerland
	AstraZeneca Plc	United Kingdom
	Novartis AG	Switzerland
	Novo Nordisk A/S	Denmark
SAM Silver Class:	Abbott Laboratories	United States
	Johnson & Johnson	United States [Bronze Class in 2007/2008, Silver Class in 2008/2009]
	Sanofi Aventis	France
SAM Bronze Class	GlaxoSmithKline	United Kingdom

* SAM Sector Leader. To qualify for the SAM Gold Class, a company must achieve a minimum total score of 75% across economic, environmental, and social criteria. To qualify for the Silver Class, a company must achieve a total score in the range of 70-75%. To qualify for the Bronze Class, a company must achieve a total score in the range of 65-70%.

Taken from SAM and PwC, 2010 (page 84)
http://www.sam-group.com/htmle/yearbook/?CFID=961207&CFTOKEN=a06ee7afaf158e0c-C0EAEB14-E1BA-B686-402A4B662ED3C9FA

The pharmaceutical industry as a whole appears to embrace sustainability reporting, probably because of the environmental and societal implications associated with researching and manufacturing pharmaceutical products.

JOHNSON & JOHNSON: SUSTAINABILITY REPORTING, THEN AND NOW

Johnson & Johnson first began setting environmental goals in 1990, with intermittent public reports following in 1993, and annual reports beginning in 1998. The early annual reports focused primarily on environmental issues and included "Environmental, Health and Safety" in the title, but by 2003, Johnson & Johnson described the document simply as a sustainability report. Table 4 presents a summary of Johnson & Johnson's 12 sustainability reports published from 1993 to 2007. In Newsweek's first ranking of the greenest big companies in America, Johnson & Johnson ranked third (behind only Hewlett-Packard and Dell) because of its "commitment to climate change… strong environmental management in place…(and the) largest fleet of hybrid vehicles in the world" (McGinn 2009).

The heart of Johnson & Johnson's commitment to sustainability reporting appears to be its Credo. In any conversation with a Johnson & Johnson employee about the company, the Credo (included as Appendix B) will be mentioned within the first few minutes. Every business decision, whether made by the mid-level manager or the vice president of production, is Credo-driven. As explained on the corporate website, it is the Credo values that are at the core of the company:

> The values that guide our decision making are spelled out in Our Credo. Put simply, Our Credo challenges us to put the needs and well-being of the people we serve *first*.
>
> Robert Wood Johnson, former chairman from 1932 to 1963 and a member of the Company's founding family, crafted Our Credo himself in 1943, just before Johnson & Johnson became a publicly traded company. This was long before anyone ever heard the term "corporate social responsibility." 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.
> --From the Johnson & Johnson corporate website, *Our Credo Values*, http://www.jnj.com/connect/about-jnj/jnj-credo/?flash=true

TABLE 4:
JOHNSON & JOHNSON'S SUSTAINABILITY REPORTS 1993 – 2007

	2007	2006	2005	2004	2003	2002
Name of Report	Sustainability Report	Sustainability Report	Sustainability Report	Sustainability Report	Sustainability Report	Environmental, Health & Safety Sustainability Report
Catchphrase	Profiles in commitment	Passion, performance, possibilities	Engaging more people, preserving the planet	Living our credo	Healthy people, healthy planet, healthy futures	Healthy people, healthy planet
Number of pages	45	36	52	44	50	34
Location of Credo	Back cover	p. ii	p. 2	p. 7	Back cover	Back cover

	2001	2000	1999	1998	1996	1993
Name of Report	Environmental, Health and Safety Sustainability Report	Environmental, Health and Safety Sustainability Report	Environmental, Health and Safety Report	Environmental, Health and Safety Report	Sustaining Our Worldwide Environmental Commitment	A Special Responsibility
Catchphrase	Healthy people, healthy planet	Healthy people, healthy planet	Healthy people, healthy planet	n/a	Sustaining Our Worldwide Environmental Commitment	A Special responsibility
Number of pages	34	30	18	39	24	31
Location of Credo	Back cover	Back cover	Back cover	p. 2	Not included	Not included

TABLE 5:
SOME CHARACTERISTICS OF JOHNSON &JOHNSON'S SUSTAINABILITY REPORTS 1993 – 2007

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

	2001	2000	1999	1998	1996	1993
Number of 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 indicators	1	3	4	4	4	2
Employee health indicators	4	0	3	0	0	0
Employee safety indicators	5	5	5	5	0	0
Environmental indicators	16	12	10	11	7	10
Total indicators	**26**	**20**	**22**	**20**	**11**	**12**

Even a casual reading of any of Johnson & Johnson's sustainability reports reveals constant specific references to the Credo and Johnson & Johnson's responsibilities to its four groups of stakeholders in this order: customers (including doctors, nurses, patients, mothers, fathers, consumers, suppliers, and distributors), employees, the community (both local and global), and finally, the shareholders. Johnson & Johnson believes that if it meets the needs of the first three groups of stakeholders, then a fair profit should automatically accrue to its investors. The impact of the Credo becomes evident as one reads the most recent (2008) sustainability report, available at http://www.jnj.com/connect/caring/?flash=true.

An evolution of the content of Johnson & Johnson's 12 sustainability reports is summarized in Table 5, including the economic, employee health, employee safety, and environmental indicators reported from 1993 through 2007. The amount and type of information that is reported changed significantly during this reporting period, reflecting Johnson & Johnson'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 organizations and agencies.

Brian Boyd, Worldwide Vice-President for Environmental, Health and Safety (EHS), provided insights on Johnson & Johnson sustainability reporting in an interview.[3] Boyd started as an environmental engineer at Johnson & Johnson in 1990. He initially focused on one manufacturing plant, but he quickly became involved in corporate policy. In 1999 he came to corporate with responsibility for the sustainability reporting process, which he headed until 2008 when the responsibility was moved to Corporate Communications.

What prompted Johnson & Johnson to consider and then start sustainability reporting?

Boyd: I don't really know. We might have started because of increased interest by external stakeholders.

When J&J first considered issuing sustainability reports, was there any resistance to issuing sustainability reports?

Boyd: There has always been and continues to be reluctance to increase transparency on the part of some managers. My Environmental, Health and Safety group is on the front line of the sustainability report content, so we see the pull from external stakeholders for more and better information. There's a genuine desire for information. Some managers who are not directly involved in sustainability reporting issues do not support or understand the need for increased transparency. Sustainability reporting just becomes one more thing to do.

What is the purpose of sustainability reporting at Johnson & Johnson from your perspective?

Boyd: Two purposes:

> To share with stakeholders what Johnson & Johnson is doing on sustainability, how Johnson & Johnson is dealing with various relevant issues, what Johnson & Johnson's strategies are, etc.
>
> And to serve as a tool of engagement with stakeholders. It's a way to share information.

What are the tangible/intangible benefits you see from sustainability reporting? In other words, why does Johnson & Johnson produce the sustainability report beyond the obvious purpose of corporate public relations?

Boyd: We see a lot of intangible benefits, but tangible financial benefits are difficult to measure. There's no straight line connecting sustainability activities and any financial costs or savings.

As an intangible benefit, the sustainability reports are produced for the full range of Johnson & Johnson's stakeholders, from the neighbor living near a manufacturing plant to the global investment community. In the absence of information, many people assume the negative about a company's environmental, health, and safety activities—that the company is either doing nothing or doing bad things.

By producing one comprehensive sustainability report, Johnson & Johnson is able to satisfy the information needs of many stakeholders, including ratings companies, advocacy groups, etc. For example, the advocacy community wants to know what large companies are doing; the sustainability reports can jump-start the conversation.

The reporting process also helps to mitigate risk. For example, the sustainability report reduces the possibility of dealing with a negative advertising campaign by an NGO[4] on an issue, which could cascade into reduced sales and decreased profits.

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[3] The interview took place May 7, 2009. Interview responses have been edited.

[4] NGO refers to non-governmental organizations such as the Red Cross.

In what ways does Johnson & Johnson engage its stakeholders in its sustainability reporting process?

Boyd: Stakeholders are not engaged in the actual reporting process, but, more importantly, they're valued participants in defining strategies and goal-setting (such as the Healthy Planet 2010 strategy). Meetings are set up with stakeholders to identify goals, but stakeholders aren't used in putting together the report.

The early sustainability reports included postage-paid feedback cards that could be detached and sent back to Environmental, Health and Safety with comments, suggestions, etc. That was an expensive addition to the sustainability report and we didn't get much feedback, so we stopped after several years. We've replaced the card with a statement inviting feedback from stakeholders and providing the e-mail and/or mailing addresses to which any feedback should be directed.

Johnson & Johnson uses consultants to get feedback from smaller directed groups of stakeholders. We also set up focused meetings with smaller groups, such as the World Wildlife Fund, to gather suggestions and feedback about what Johnson & Johnson should be doing in a given area.

Which stakeholder groups receive the annual sustainability report?

Boyd: Every year, the sustainability report is sent electronically to all employees, with hard copies going to the board of directors, the executive committee, and top senior managers worldwide. The sustainability report is also sent to all socially responsible investors and peer companies. Regular investors do not receive the sustainability report unless they specifically request a hard copy. The current and several prior years of the sustainability reports are prominently discussed and are available for download or printing on the Johnson & Johnson website.

How does J&J decide what goes into print (in its annual report versus its sustainability report) and what is not reported in either venue? Who sets the thresholds and weights the issues?

Boyd: The decision on what the most important areas are is not totally ad hoc, but it's also not made as methodically as it might in the future. The materiality issue is especially hard to deal with. A fluid group of function leaders (about 10) form the core group to make materiality decisions, with the help of an external consultant from Washington, D.C.

The actual content and initial editing of that content is left to each function leader, who provides the data and the issues/topics that are relevant to his/her functional area. There has been a move to more reporting on social issues rather than on environmental, health, and safety issues, which should be evident in the upcoming 2008 sustainability report.

There is no SOP on what should be kept confidential. It's a judgment call that follows debate among the function heads. I always argue for greater transparency and some in the group want less. We're careful not to release any data that is sensitive in any competitive, legal, or other business context.

In what division is Johnson &Johnson's sustainability reporting primarily managed? What other offices are considered important participants in the sustainability reporting process?

Boyd: Through the production of the 2007 report, the Worldwide Environmental, Health and Safety group was in charge of the sustainability report. The 2008 sustainability reporting responsibility was moved to Corporate Communications, which was one of the 10 function leaders involved in the production of Johnson & Johnson's previous sustainability reports. I supported the shift because I think the report needs to be more balanced, with more about Johnson & Johnson's social impact and less about the narrower environmental, health, and safety issues. No one group in Johnson & Johnson has the responsibility for social issues, and Corporate Communications seemed a good place to move the sustainability report. Corporate Communication already does the annual report. It now administers the project, including collecting data from the relevant function heads and choosing what stories eventually will be published.

Each function head is still responsible for his or her own piece of the sustainability report, including providing the data and identifying the relevant issues, and submitting these to Corporate Communication. The group of 10 or so will continue to meet and I'll edit environmental, safety, and health issues.

What are the functional groups that participate?

Boyd: The functional groups that participate are Corporate Environmental, Health, and Safety; Corporate Contributions; Corporate Communications; Investor Relations; Human Resources; Procurement; Worldwide Operations; and relevant business unit leaders. For example, if the sustainability report contains a story of Johnson & Johnson's HIV pharmaceutical advances, that business unit leader is brought in for that part of the discussion.

What is the role of accounting/finance?

Boyd: Accounting/finance is not a primary participant in the process. Much of the economic or corporate financial data come directly from the annual report. The accounting/finance people are used to answer questions about what can and cannot be included according to SEC and other reporting regulations and requirements.

What sorts of management accounting and/or data systems provide input and/or feed data into the sustainability reporting process? Does Johnson & Johnson use the Global Reporting Initiative [GRI] indicator list as a guide for content?

Boyd: No specific systems provide data for the sustainability reports. Each functional group uses its own internal systems to collect and report the relevant data to the project leader.

The GRI list didn't help Johnson & Johnson decide what to report. The list did help in coordinating what Johnson & Johnson was reporting, and provided consistency in what was reported from year to year. We try to align our report with the GRI as best as we can.

The data Johnson & Johnson tends to collect is driven by what the company itself wants to measure and manage, and by what its stakeholders need. What Johnson & Johnson wants to manage comes from its strategy, Credo, and stakeholders. Johnson & Johnson is ahead of both the societal/business curve and what stakeholders want in its sustainability reporting because we stay true to the Credo and because we closely monitor global trends in what data are reported worldwide, not just in pharma or in the U.S. Here's an example: We were reporting on carbon emissions before there was much public push for the information.

There are some line items reported now in the sustainability reports that weren't originally reported by Johnson & Johnson. When competitors started reporting some GRI index line items, Johnson & Johnson started to include the same metrics, even though they provide us no use or benefit. The Dow Jones Sustainability Index requires certain metrics when ranking companies that even now we feel are not worth reporting, so Johnson & Johnson receives a lower ranking on the Dow Jones Sustainability Index strictly due to our choice to measure and manage what is important to the company and to our stakeholders, rather than what is important to rating agencies.

What role does Johnson & Johnson's Credo play in the decision to issue sustainability reports? How does the Credo influence the content?

Boyd: The Credo is not discussed explicitly or overtly in any of the function head meetings, but it informs every decision or action taken by an employee on a daily basis. We are who we are because of the Credo. The Credo is a living document that all Johnson & Johnson employees live and work by, so it necessarily underlies the whole sustainability reporting process.

Does Johnson & Johnson currently have any informal third party assurance?

Boyd: I'm not sure I understand your question. Johnson & Johnson has frequent contact with many external stakeholder groups—investors, academics, consultants, NGOs, and community organizations—to understand what we need to do to be a socially and environmentally responsible company. We don't ask these groups to provide any assurance of the final sustainability reports or of the reporting process itself. The interaction with stakeholders is to help us define our strategy and goals to meet the needs of our stakeholders. This is real engagement with stakeholders and provides significant value to Johnson & Johnson, but it is not assurance. We don't call it third party assurance, but we learn a lot from these people. They make Johnson & Johnson a better company.

Does Johnson & Johnson currently have any formal third party assurance of its Sustainability Reports?

Boyd: No and we don't plan to in the near future. The process is very expensive and time-consuming, with no value added. In the past we tried to get formal assurance for a sustainability report. The process was so nonvalue-added that Environmental, Health and Safety stopped the process three-fourths of the way through. There was too much time and effort spent educating the firm about the business. We didn't think the report would result in any increase in the level of confidence stakeholders would have in the report.

Has Johnson & Johnson considered reporting a triple bottom line (people, planet, profit)?[5]

Boyd: Johnson & Johnson is beyond triple bottom line. We already collect and report the costs of being environmentally responsible, but formal triple bottom line doesn't add any value to the stakeholders. Every sustainability project (such as those to reduce the corporate carbon footprint) must pass a hurdle ROI rate and rigorous cost/benefit analysis in order

[5] Triple bottom line is described more fully in the next section of the paper.

to be implemented. So, Johnson & Johnson is able to both reduce its carbon footprint while maintaining consistently high returns to its stakeholders. We don't ignore the financial benefits of sustainability activities, but we don't see any value to a formal triple bottom line type of reporting, given the depth of detail currently in the sustainability reports. Besides, the benefits are both tangible and intangible.

Anything you'd like to add?

Boyd: Johnson & Johnson does not undertake sustainability projects and actions just for its reputation. Having values driven by the Credo, engaging with the community, understanding stakeholder expectations—these all create the ultimate trust from Johnson & Johnson's customers, and from that, Johnson & Johnson's corporate reputation automatically improves.

Elizabeth Lascelle, Senior Director, EHS Strategy & Assurance, provided follow-up information on the following questions.

Johnson & Johnson currently does not report its GRI guidelines application level and does not declare itself "in accordance" with GRI guidelines. Why has J&J made this decision?

Lascelle: There are two main reasons. First, we don't feel our process for determination of materiality is robust enough yet. Second, we need to be able to report more social metrics. This has been problematic due to the decentralization of Johnson & Johnson. Employee and other social metrics are not rolled up at the enterprise level. A new global HR system is being implemented right now that will move us in this direction.

Is Johnson & Johnson planning to eventually declare a level? If yes, will J&J most likely 1) self-declare a level, 2) have its sustainability report third-party-checked, or 3) have its sustainability report GRI-checked? Why?

Lascelle: Yes. We expect to self-declare. Third-party evaluation adds significant cost and time to the process of report generation, but we continue to re-evaluate options for doing so.

ACCOUNTANTS AND TRIPLE BOTTOM LINE REPORTING (AND BEYOND?)

Brief mention was made to triple bottom line in the preceding section of the case. The triple bottom line (TBL) has emerged as one tool for measuring organizational performance in a broader sense than just economic performance. It is similar to the balanced scorecard in that it is based on stakeholder theory and multiple measurements (Hubbard, 2009). The term is sometimes used interchangeably with sustainability reporting because TBL adds measures of social and environmental performance to traditional economic measures (sometimes referred to as "people, planet, profit"). Underlying TBL is the premise that corporate stakeholders are more widely defined than traditional stakeholder groups—investors, employees, customers, suppliers—to include local communities and governments that are affected by a firm's economic, social, and environmental performance (Hubbard, 2009).

A TBL report is organized by the three categories: economic, social, and environmental.[6] GRI performance indicators are easily grouped into the three categories and, ideally, a firm reporting its triple bottom line will set performance indicator goals and report progress toward meeting those goals. Economic data may come from an annual report or 10-K, but the intent of a TBL report is to provide a broader picture of a firm's economic impact and contribution to a sustainable economy and to integrate economic data with social and environmental impact data.

The authors of the UNEP, Standard & Poor's and SustainAbility report (2006), argue that sustainability reports are about competition, materiality, and value. TBL fits in the value category:

> Where companies once focused mainly on their financial bottom line, the triple bottom line era opened out the focus to take in wider economic, social, environmental and governance impacts, and a growing number of reporters are refocusing on multi-dimensional value creation and the links to their current and future business strategies and business models. (31)

According to this survey, U.S.-based companies lag behind their European-based counterparts in TBL reporting. Furthermore, the survey predicts that the future of sustainability reports will include TBL reporting within the context of the GRI G3 guidelines.

TBL reporting should be viewed as a tool to achieve a goal, not a goal in itself. According to Achim Steiner, United Nations Under Secretary General and Executive Director, United Nations Environment Programme:

> There is both a public and a business case for non-financial disclosure and sustainability reporting in particular. Triple bottom line reporting is not a goal in itself. Its value

[6] Xcel Energy Inc. publishes an annual triple bottom line report. http://www.xcelenergy.com

lies in mobilising better informed managers and employees in cleaning up and improving. Its value also lies in supporting better communication between them and external stakeholders about what markets and society expect. (UNEP and KPMG 2006, p. 3)

TBL is not a tool that Johnson & Johnson uses to meet its sustainability goals. Johnson & Johnson does not prepare a TBL and does not use such terminology in its sustainability report, although the 2007 report contains many elements that would be found in a TBL report. As previously noted, when Brian Boyd was asked in the interview why TBL is not a part of the reporting process, he stated "Johnson & Johnson is beyond triple bottom line."

Management accountants do not play a significant role in the sustainability reporting process at Johnson & Johnson. Can management accountants and other financial professionals play a role in the implementation of sustainability reporting in general, and triple bottom line (TBL) accounting specifically? According to Crawford (2005), these professionals will need either to adapt existing skills or develop some new skills in order to change from the single dimension of a financial reporting model to the multidimensional TBL model. Crawford further matches each skill set with the relevant GRI performance indicators "to provide some perspective for those who have limited exposure to managing and reporting sustainability" (Crawford 2005, 2). For example, if a company requires suppliers to meet certain social criteria, GRI performance indicators include quantitative measures such as percentage of contracts paid in accordance with the terms and qualitative descriptions of policies and procedures to deal with all aspects of human rights (Crawford 2005, 3). As CMAs acquire the additional education and training in areas such as labor relations, international trade, and environmental assessment processes, they could become valued participants in Johnson & Johnson's sustainability reporting.

CASE REQUIREMENTS

1. Given that sustainability reporting is not currently required of companies, what do you see as the possible benefits and disadvantages of sustainability reporting? Using the information in the case, the summary data reported in Tables 4 and 5, and Johnson & Johnson's most recent sustainability report (available at http://www.jnj.com/connect/caring/?flash=true), what aspects of sustainability reporting seem to be a priority for the company, and why? Provide examples from the 2008 sustainability report to support your answers.
2. How are various management systems such as human resource management, costs, capital budgeting, and performance measurement incorporated into Johnson & Johnson's sustainability reporting process? Support your answer with specific references from the 2008 report (link provided in question 1). Compare your sources with those in the GRI's reporting framework (http://www.globalreporting.org/ReportingFramework/G3Online/), and the performance measures with Epstein's metrics presented in Table 3.
3. When compiling data for its sustainability reports, Johnson & Johnson does not request direct input from its managerial accounting staff. What should be the role of management accountants in collecting and reporting sustainability data? Could Johnson & Johnson's sustainability reporting be improved with input from managerial accountants? Why or why not? (The Crawford 2005 article at http://www.managementmag.com/index.cfm/ci_id/2149/la_id/1 provides additional background material.)
4. Do you agree with the statement that Johnson & Johnson's approach to sustainability reporting is beyond triple bottom line? Why or why not?
5. Johnson & Johnson cites concerns with determining materiality as one reason it does not declare itself in accordance with GRI guidelines. What is meant by materiality and why is materiality difficult to determine for social responsibility issues?

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APPENDIX A: EXTERNAL VALIDATING ORGANIZATIONS AND ABBREVIATIONS

DOW JONES SUSTAINABLE INDEX NORTH AMERICA

http://www.sustainability-index.com/djsi_pdf/publications/Factsheets/SAM_IndexesMonthly_DJSINA.pdf

The Dow Jones Sustainability North America Index (DJSI North America) captures the leading 20% in terms of sustainability out of the largest 600 North American companies of the Dow Jones Global Index. The components are selected according to a systematic corporate sustainability assessment that identifies the leading sustainability-driven companies in each of the 57 industry sectors. The underlying research methodology accounts for general as well as industry-specific sustainability trends and evaluates corporations based on a variety of criteria, including climate change strategies, energy consumption, human resources development, knowledge management, stakeholder relations, and corporate governance.

FTSE 100 INDEX

http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp

The FTSE U.K. Index Series is designed to represent the performance of U.K. companies, providing investors with a comprehensive and complementary set of indices that measure the performance of all capital and industry segments of the U.K. equity market. The FTSE 100 comprises the 100 most highly capitalized blue chip companies, representing approximately 81% of the U.K. market. It is used extensively as a basis for investment products, such as derivatives and exchange-traded funds

SOCIAL INVESTMENT FORUM

http://www.socialinvest.org/about/

The Social Investment Forum is the U.S. national nonprofit membership association for professionals, firms, and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Critical to responsible investment practice is the consideration of environmental, social, and corporate governance criteria in addition to standard financial analysis. Forum members support SRI through portfolio selection analysis, shareholder advocacy, and community investing. The 400 members of the Social Investment Forum include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, nonprofit associations, and pension funds, foundations, Native American tribes, and other asset owners.

SUSTAINABLE ASSET MANAGEMENT INC. (SAM)

http://www.sam-group.com/htmle/main.cfm

SAM is a leading asset manager in the field of sustainability, providing extended know-how and expertise on sustainability trends, strategies, and interest of investors.

APPENDIX B: THE JOHNSON & JOHNSON CREDO

From http://www.jnj.com/connect/about-jnj/jnj-credo/?flash=true

Our Credo

We believe our first responsibility is to the doctors, nurses and pc
to mothers and fathers and all others who use our products and :
In meeting their needs everything we do must be of high quc
We must constantly strive to reduce our costs
in order to maintain reasonable prices.
Customers' orders must be serviced promptly and accurate
Our suppliers and distributors must have an opportunity
to make a fair profit.

We are responsible to our employees,
the men and women who work with us throughout the worl
Everyone must be considered as an individual.
We must respect their dignity and recognize their merit.
They must have a sense of security in their jobs.
Compensation must be fair and adequate,
and working conditions clean, orderly and safe.
We must be mindful of ways to help our employees fulfill
their family responsibilities.
Employees must feel free to make suggestions and complai
There must be equal opportunity for employment, developm
and advancement for those qualified.
We must provide competent management,
and their actions must be just and ethical.

We are responsible to the communities in which we live and
and to the world community as well.
We must be good citizens — support good works and charit
and bear our fair share of taxes.
We must encourage civic improvements and better health and ec
We must maintain in good order
the property we are privileged to use,
protecting the environment and natural resources.

Our final responsibility is to our stockholders.
Business must make a sound profit.
We must experiment with new ideas.
Research must be carried on, innovative programs develop
and mistakes paid for.
New equipment must be purchased, new facilities provide
and new products launched.
Reserves must be created to provide for adverse times.
When we operate according to these principles,
the stockholders should realize a fair return.

Johnson & Johnson