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**THE IMPORTANCE OF GOOD CORPORATE GOVERNANCE IN
CRISIS MANAGEMENT: A STUDY OF THE TYLENOL CRISIS OF 1982¹****ABSTRACT**

Risks and crisis are a part and parcel of all businesses. They cannot be separated from a business or avoided, but they can be mitigated by the effectiveness of the Board of Directors and their ability to control and manage the crisis that arises. Good management, corporate governance practises, effective risk management teams etc, are some of the elements which can help a corporation revive back from the crisis and come out stronger than before. One of the best examples of effective management of crises and quick thinking along with sticking to values rather than “damage control” in the face of an unprecedented crisis is the Tylenol Crisis faced by Johnson & Johnson in 1982. The measures taken by the company in dealing with the deaths caused by their star drug, Tylenol, is still applauded and is considered to have set an example for crisis management all over the world. What is to be remembered is that J&J put the safety of their customers at top priority even above the protection of their own product. The time of crisis brings into the limelight the competency and effectiveness with which the Board of Directors are able to provide oversight and governance. Good corporate governance practises are extremely necessary to ensure that in times of crisis, there is an effective management team which properly overseen by the Board.

The present research paper on the case study of Tylenol Crisis in the light of Corporate Governance principles will discuss in detail the complete crisis relating to the drug Tylenol, the response by Johnson & Johnson, the strategies used by them to handle the crisis, the crisis management plan, the role of the corporate governance model followed by the company in handling of the situation and the role of corporate governance in managing crisis that businesses face during their operations in general.

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INTRODUCTION

Risks and crisis are a part and parcel of all businesses. They cannot be separated from a business or avoided, but they can be mitigated by the effectiveness of the Board of Directors and their ability to control and manage the crisis that arises. The phrase, 'prevention is better than cure' holds true here. It is always better to have an effective risk management plan/strategy in the face of an unexpected crisis or any risk. It is the responsibility of the Board of Directors to oversee and determine that the management has a practical and effective crisis response program in place.² While majority of corporations always expects the chance of a crisis happening in the future, there are some who do not anticipate any crisis in the future. However, it is always better to be prepared for the same. Moreover, it is always not the case that a crisis breaks a corporation. Good management, corporate governance practises, effective risk management teams etc, are some of the elements which can help a corporation revive back from the crisis and come out stronger than before. In some cases a proper handling of crisis can also help increase revenue growth of the company.³

CORPORATE GOVERNANCE:

The Cadbury Committee (UK) in 1992 defined Corporate Governance as⁴,

“Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor and the management.”

The Institute of Company Secretaries (India) describes the practise of Corporate Governance as⁵

“The application of best management practices, compliance or jaw in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders”

Thus, Corporate Governance is an amalgamation of processes, customs, policies, laws and instructions which govern the workings of a corporation. It is necessary practise in corporates all over the world at present as it ensures a corporate culture of transparency, accountability and

²Steve Klemash, Jamie Smith, Jennifer Lee, The Board's Role in Confronting Crisis, Harvard Law School Forum on Corporate Governance, <https://corpgov.law.harvard.edu/2018/10/07/the-boards-role-in-confronting-crisis/>

³ Sean Fleming, Almost all businesses expect to face a crisis. And how they deal with them really counts, World Economic Forum, <https://www.weforum.org/agenda/2019/08/business-leader-corporate-crisis/> (20th September 2021, 11:00 am)

⁴Corporate Governance, Civildserviceindia, <https://www.civildserviceindia.com/subject/Management/notes/corporate-governance.html> (20th September 2021, 11:15 am)

⁵Id

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disclosures.⁶These are the most important elements of good corporate governance practises. It is necessary to avoid mismanagement, to make the company more accessible and transparent to the public including investors, minimizing unfairness and biasness towards shareholders among others. It also ensures development, encourages new investments, boosts economic growth, and increases employment opportunities.⁷

Johnson & Johnson:

Founded in 1886, by the three brothers, namely, Robert Wood Johnson, James Wood Johnson and Edward Mead Johnson, Johnson & Johnson (hereinafter, J&J) of USA, is one of single largest pharma company in the world. Although it was founded over 135 years back, the company gained its reputation and significant presence approximately 62 years back from the year 1959. It was founded and based in New Brunswick, New Jersey, USA.

The corporation operates in over 57 countries and sells its products in 175 countries, with around 250 subsidiary companies. Band-Aid, Clean & Clear, Acuvue, Benadryl, Listerine, and Neutrogena are some of the company's well-known brands.⁸Although they have been quite successful since their foundation and has a long-standing solid reputation as a well-managed and trustworthy company, they faced a fair share of crisis's which left their market value in shambles. The Tylenol scare is a perfect example of such a crisis faced by the company. However, it is also a classic example of how a company can both revive from such a crisis and handle it effectively. J&J has no doubt set an example how good corporate governance as well as having a ready crisis management plan can effectively handle crisis without resorting to blame games and wasting time in investigation or trying to find culprits and perpetrators.

THE TYLENOL CRISIS- CASE STUDY

Brief facts:

The Tylenol Crisis of J&J is called the “grand-daddy” of good crisis communication.⁹

Extra Strength Tylenol was an over-the-counter analgesic, manufactured by Johnson & Johnson, with a market presence of more than 37% in 1982 and accounting for approximately

⁶Study Material, Governance, Risk Management, Compliances and Ethics, ICSI, https://www.icsi.edu/media/webmodules/GOVERNANCE_RISK_MANAGEMENT_COMPLIANCES_AND_ET_HICS.pdf (20th September 2021 11:19 am)

⁷ Paul Tsoi, The Importance of Corporate Governance, LinkedIn, <https://www.linkedin.com/pulse/importance-corporate-governance-paul-tsoi/> (20th September 2021, 11:21 am)

⁸ Johnson & Johnson: Case Study Analysis, SIMCON Blog, <https://simconblog.wordpress.com/2016/04/21/johnson-johnson-case-study-analysis/>, (20th September 2021, 11:21 am)

⁹ Andrew Caesar-Gordon, The Perfect Crisis Response?, PRWeek, <https://www.prweek.com/article/1357203/perfect-crisis-response>, (20th September 2021, 12:00pm)

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19% of J&J's profits in 1982, 13% of their year-to-year sales growth and 33% of their year-to-year profit growth.¹⁰ Needless to say, it was J&J's star product.¹¹

However, the Company was faced with its worst nightmare when news came in that 7 people had died from consumption of Tylenol. The star drug was soon labelled in print media as "Tylenol: Killer or Cure?", "Poison Madness in the West" etc. The 7 people who had died from the consumption of the drug included, 12-year-old Mary Kellerman, Illinois who had taken the medicine due to a cold. She was dead in the morning.¹² Mary Reiner, 27, who had recently given birth, Paula Prince, 35 a United Airlines Stewardess were some of the others who had died due to the medicine.¹³

The cause? It was found that rather than being an act of negligence by the company, it was an act of terrorism against the company. The drug was laced with cyanide by an individual at the time the drug was at its peak in the market.

The headlines covered this story extensively, which had a direct impact on the trust enjoyed by Tylenol in America. Within the first week of the crisis, more than 90% of American population had come to know of the crisis. As a result, the company suffered huge losses as Tylenol's market share fell to 7% and an approx. of 1 billion USD. It was speculated that under no circumstances, could J&J ever sell another product with the same name again.¹⁴

However, breaking all speculations and predictions, only 2 months later, Tylenol was back in the market and within a period of one year, the market share which had fallen to 7%, came back up to 30%.¹⁵

Johnson & Johnson's Response to the crisis:

Despite predictions that J&J's best-selling product will not survive this nightmare and would eventually go out of the market, Tylenol made its way back into the market and J&J had set an example of the best crisis response at that time and paved the way for future corporations to prepare a crisis management plan from before.

- Strategy used- Rather than attempting to find the culprit behind this scare first and defending itself from the public, J&J acted spontaneously, being completely open about

¹⁰Supra, at 7

¹¹Nagesh Belludi, Tylenol made a hero of Johnson & Johnson: A timeless Crisis Management Case Study <https://www.rightattitudes.com/2021/03/11/crisis-management-case-study-tylenol/>, (20th September 2021, 12:07pm)

¹² Supra, at 8

¹³ Supra, at 9

¹⁴Supra, at 7

¹⁵ Judith Rehak, Tylenol made a hero of Johnson & Johnson: The recall that started them all, The New York Times, <https://www.nytimes.com/2002/03/23/your-money/IHT-tylenol-made-a-hero-of-johnson-johnson-the-recall-that-started.html> (20th September 2021, 12:52 pm)

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the incident and prepared to remove any source of danger. However, being the first time it was faced with an unprecedented situation like this, the company did not have an crisis management plan. Instead, the Chairman of J&J, James Burke referred to the company's founding credo. In later interviews, he shared that the founding credo of J&J was always to be responsible first to its customers and then to its employees, the community and the stockholders.¹⁶ Additionally, the company's corporate governance model is also based on this founding credo. Their customers were their first priority. Thus, protecting them from any danger related to the cyanide laced drugs were their first concern. Following the values of their credo, they put consumers above any losses they would incur from the crisis management plan they came up with, even if that meant they would suffer billions of US dollars.

To handle this crisis keeping in mind their founding credo, James Burke was faced with two questions:

1. How to protect the people?
 2. How to protect the product?
- Crisis management plan- Immediately after the incident, J&J installed toll-free numbers so that their customers can get help from them, stopped all advertisements and manufacturing relating to Tylenol, sent alerts to consumers to stop consumers from consuming the drug and to healthcare providers throughout the nation. After that, they pulled nearly 31 million bottles of Tylenol from the market. Not stopping there, they offered replacement products free of charge to their consumers. While there was no need to go ahead with such massive recall, since the cyanide could have been present in only a few bottles, J&J went ahead with the recall despite suffering losses extending to millions of dollars. They did not shy away from incurring short term damage, for the purpose of ensuring the safety of their consumers. This showed that the safety of their customers was above anything else including their losses and also helped to re-establish the trust with their customers, which had taken a plunge after the deaths.¹⁷

The company also took advantage of the media to communicate all alerts, information relating to its response, safety of customers, and its strategies to deal with the crisis, successfully. The Chairman himself confronted the media to address the issue and communicate all developments in their crisis management strategies. He accepted responsibility of the entire incident and tried

¹⁶ Supra, at 10

¹⁷ Supra, at 8

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to take measures that would prevent the re-occurrence of the same incident.

The company came up with a stronger tamperproof triple seal packaging which included a glued box, a plastic seal over the neck of the bottle and a foil seal over the mouth of the bottle.¹⁸ Besides, they also provided counselling and financial assistance to the victim's families, despite having nothing to do with the deaths. Furthermore, a discount was given to consumers of amount USD 2.50 on the relaunched Tylenol product.

Their handling of the situation was commended all over. Their strategy was commented upon in the following way:

“The Tylenol crisis is without a doubt the most exemplary case ever known in the history of crisis communications. Any business executive, who has ever stumbled into a public relations ambush, ought to appreciate the way Johnson & Johnson responded to the Tylenol poisonings. They have effectively demonstrated how major business has to handle a disaster.”

Thus, the key points that worked for J&J's effective and spontaneous control of the huge crisis are:

1. The quick response had its grounds in the effective communication of their credo among their employees which enabled them to make the right decisions.¹⁹ It also helped in less wastage of time since the credo was simple- to put consumers first. It made clear, the strategy that the company had to follow to ensure consumer safety over any damage or losses to the company.
2. Their transparency with respect to what had happened, their response, their obligation towards the safety of their customers and their entire strategy in handling the crisis as well as their duty to protect their product and measures taken for the revival of the same.
3. J&J also portrayed to the public that they were ready to bear any short term costs, no matter how large, when it came to the safety of their customers and that the trust put in them by these customers could not be lost.
4. Quick thinking by the Chairman, James Burke in going back to their foundation values in the absence of any crisis management plan as it is the management and senior executives who bear the responsibility in such cases.

Johnson & Johnson's Corporate Governance Principles:

J&J are strong believers that independent and well-supported directors are at the roots of good

¹⁸ Supra, at 7

¹⁹ Supra, at 7

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corporate governance in the company. They base their Corporate Governance Principles on their founding credo whereby they prioritize their responsibility towards four groups of stakeholders, namely, their customers, their employees, their communities and their shareholders.²⁰

Ethics and integrity, for the company, cannot be legislated or compelled by directive or policy. The Corporate Governance at Johnson & Johnson is primarily concerned with the ethical character, integrity, and values of their Directors and senior management.

To that extent, J&J lays down the duties and responsibilities of the Board of Directors as well the qualifications of the same. Independency of their directors are stressed upon and their corporate governance principles state that at least 2/3s of their Directors should be independent. As per these principles, to be independent, the Director should not have any direct/indirect relationship with the company. Not only that, they also lay down principles with respect to Director orientation, election of directors, rights of Board of Directors, rights of shareholders, annual performance evaluations etc along with a regular periodic review of these principles by the Nominating & Corporate Governance Committee.

ROLE OF GOOD CORPORATE GOVERNANCE IN EFFECTIVE CRISIS MANAGEMENT

Crisis can arise at anytime in a company. Crisis can be external or internal. When faced with an unprecedented crisis, it is the Board of Directors who play the most significant role. The decisions that they take, their leadership can determine whether the company survives or cracks under the pressure of the crisis. Crisis management is a strategic discipline that allows an organisation to abandon "business as usual" and adopt a new form of governance and operations that is focused on making decisions, implementing them, and communicating them quickly, with clearly defined—but distinct—authorities. Since it is the duty of the Board to protect the interests of the shareholders, they have to oversee good governance and management of risk. Leadership in a crisis is not the same as leadership in a normal situation: expectations increase enormously, making it more difficult for leaders to carry out their responsibilities. This is when the Board must play a supportive internal role and be ready to intervene if the crisis

²⁰Principles of Corporate Governance, Johnson & Johnson, https://www.investor.jnj.com/_document/2018-principles-of-corporate-governance?id=00000161-a078-d89d-ad75-befa96510000

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management team is not acting in the desired interests of the shareholders.²¹

The time of crisis brings into the limelight the competency and effectiveness with which the Board of Directors are able to provide oversight and governance. Good corporate governance practises are extremely necessary to ensure that in times of crisis, there is an effective management team which properly overseen by the Board. Failure of the same can lead to dire consequences. For example, the downfall of the Lehman Brothers due to a huge financial crisis was partly because of a weak corporate governance structure as it was the failings of the executives and auditors that led to the financial crisis. One of the main failures in this case was the misbehaviour of top executives and the inaction of both the board and the auditing firm (Ernst & Young).²²

Good Corporate Governance practises are thus extremely crucial and necessary for efficient handling of crisis and overall operational performances in the following ways²³:

- It establishes transparency in the operations and decision making at the top-level in the organization
- Monitors the management and risks faced by the organization
- By bringing in independent directors with a plethora of experience and a slew of new ideas, it boosts strategic thinking at the top.
- By thoroughly outlining the decision-making process, it limits the duty of senior management and directors.

CONCLUSION

In light of the present case study, the Tylenol crisis, it is important to note that, the manner in which J&J handles and managed the nightmare that they faced set an example in how quick thinking on the part of senior executives and Directors, as well as having good corporate governance practises can effectively lead a company even through the most difficult crises. J&J's foundation credo, which also forms a base for their successful corporate governance practices, was one of the most important contributing factor in their crisis management response. This devotion towards their credo and corporate governance principles, was reflected in its activities, and it proved to be an excellent public relations strategy as well as a crucial role in the Tylenol brand's revival. Effective communication of strategies during crises by the

²¹Stepping in: The Board's role in Crisis Management, <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/risk/deloitte-uk-risk-global-on-the-boards-agenda-crisis-management.pdf>

²²<https://www.slideshare.net/adnanqatinah1/lehman-brothers-case-study2>

²³ Supra, at 3

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executives to the right audiences is extremely important. Thus the Tylenol crisis taught future and other businesses that crisis management is more about the continuity of business, about putting customers first rather than about damage control in the first instance. That it is the trust of the customers that is of paramount importance to the survival of a company. Being honest and assuming responsibility, even in situations where there is no need to and acting on values always fetches good returns. In terms of trust, trustworthiness, and listen ability, values-based brands outperform non-values-based brands.



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