

Medtronic: A “Best” Business Practice in the U.S.

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Methodological Note

Case studies use to be divided into two groups: (1) Decision-forcing cases which present the necessary elements of the case and lead the reader to the situation where he or she is “forced” to make a decision to solve the problem. (2) Evaluation-oriented cases which present the whole case including the decisions made by the actors in the case. The reader has to evaluate the whole case from the ethical perspective. The following case on Medtronic belongs to the evaluation-oriented cases.

Historical Introduction

Medtronic, a medical technology company, was founded in 1949 by Earl E. Bakken and the late Palmer J. Hermundslie (see www.medtronic.com). Since the development of the first wearable external cardiac pacemaker in 1957, Medtronic has been a leading producer in pacing technology. In recent years, the company has expanded its product line extensively through both internal growth and acquisitions. Medtronic’s core products, implantable heart devices, currently accounts for over 40 percent of sales. At present, three new areas, information technology, biotechnology and implantable device technology, are being emphasized.

The number of employees now number over 28,000 across the world. Medtronic currently has operations in 120 countries.

Medtronic’s financial growth has been impressive. From 1985 to 2003, Medtronic’s shareholder value grew at a compound rate of 32 percent per year. In *Fortune* magazine’s 2003 survey of 10,000 executives for the “Most Admired” US companies, Medtronic ranked first of the 660 companies for “long-term investment value.”

The firm has only had four CEOs in its over fifty year history. Earl Bakken held the position from the firm’s inception until 1985. He was succeeded by Win Wallen, who held the post until 1989. Bill George assumed the CEO position from 1989 to 2001. He originally promised to stay for only ten years. The current CEO is Art Collins.

Corporate Philosophy and Values

Medtronic’s mission was set down early in the firm’s history by Earl Bakken. It contains six

points that are as follows:

- To contribute to human welfare by application of biomedical engineering in the research, design, manufacture and sale of instruments or appliances that alleviate pain, restore health, and extend life.
- To direct our growth in the areas of biomedical engineering where we display maximum strength and ability; to gather people and facilities that tend to augment these areas; to continuously build on these areas through education and knowledge assimilation; to avoid participation in areas where we cannot make unique and worthy contributions.
- To strive without reserve for the greatest possible reliability and quality in our products; to be the unsurpassed standard of comparison and to be recognized as a company of dedication, honesty, integrity and service.
- To make a fair profit on current operations to meet our obligations, sustain our growth, and reach our goals.
- To recognize the personal worth of employees by providing an employment framework that allows personal satisfaction in work accomplished, security, advancement opportunity and means to share in the company's success.
- To maintain good citizenship as a company.

Each of these serves as a driver for the company. As reflected in the first two points in the mission, Bill George stated: "Medtronic is *not* in the business to maximize shareholder value. We *are* in business to maximize value to the patients we serve (emphasis in original)." This has been a consistent theme throughout the organization's history.

The values of the firm are played out in its dealings with its stakeholders. George was quoted as saying "shareholders come third" (George 2003, 153). By this comment, he meant that they are third in level of importance to the firm. He indicates in his recent book *Authentic Leadership* (153): "The first purpose of any corporation is to serve its customers." Employees come second in the ranking followed by shareholders. George defends this ranking with the following observation:

"Could Medtronic have achieved these increases by focusing primarily on maximizing shareholder value? Absolutely not. It was only because we served patients and our physician customers so well with a wide range of innovations that we saw revenues, profits, and shareholder value increase. We were able to sustain that commitment to customers because of the dedication and passion of employees to the Medtronic mission." (George 2003, 158)

Visible Signs of Corporate Mission, Values and Philosophy

Observers of business ethics often remark that companies that have a strong commitment to ethical behavior make their position known by visible signs and rituals. Medtronic is no exception to this rule. This practice starts when an individual employee joins the firm. The company holds “medallion” ceremony where each new hire receives a medallion that signifies their joining the firm. When Medtronic was in an acquisition mode in the 1990s, Bill George presented eight thousand employees with a medallion in these expansion years.

Another tangible sign of the importance of mission and ethics is the conspicuous display of the mission in the corporate headquarters. As George remarked, it is “everywhere” – in every building, hanging on the walls, and on cards in the wallets, purses and desks of employees. Also displayed on employee’s desks and elsewhere are photos of patients who have had Medtronic’s products implanted in them and are living normal lives. Furthermore, the mission is constantly discussed, not only by upper management, but by the rank and file employees.

The company instituted in 1994 a seventy-two question biennial survey of its employees. The instrument is titled “Global Voices.” The return rate is usually over 80 percent. When the 2000 results were tabulated, the four highest rated questions all related to the mission: My work supports the Medtronic mission (92% favorable); I really understand Medtronic’s mission (90%); Medtronic’s mission is consistent with my values (84%); and I am proud to work for Medtronic (84%).

Still another, and very powerful, symbol is Medtronic’s Holiday Party. It is an annual event where people who have Medtronic’s products implanted in them come to relate their stories and reinforce the importance of the work of employees. Bill George indicates that his “defining moment” as a Medtronic employee came at his first holiday party. He tells a poignant story of a young man who had cerebral palsy.

The Role of Management Leadership in Building an Ethical Corporate Culture

As is the case in many companies, the founder tends to set the ethical tone for the organization in the future. Earl Bakken helped develop the mission for Medtronic and has expressed great passion for it over the years. In his book, George describes Bakken’s actions:

“Every time Earl talks to employees or customers, he describes the mission and enlists them to his cause. He carries a supply of cards with the mission written on it in his pocket, and gives these cards out to everyone he meets. He frequently shares stories of patients whose lives have been restored by Medtronic products. It is hard not to get caught up by his passion.” (George 2003, 37)

Under Bill George’s leadership, Medtronic became a “world class organization.” One important aspect of the firm’s evolution was management’s, and in particular the CEO’s, continuing commitment to the company mission. George was recruited several times by Medtronic before he agreed to join the firm. He mentions that his religious faith and evolution of his personal values

helped him decide to move from Honeywell, a much larger company at the time, to Medtronic (Julian 2001, 4-12).

His recent book focuses on what he believes to be the most essential type of leadership; one that is authentic. Without going into detail, George's approach to leadership, which he honed at Medtronic, has five essential dimensions: purpose, values, heart, relationships and self-discipline. In order for this leadership to become authentic, he adds a developmental quality. In his estimation, a leader must have a "passion" for his/her purpose, be "true" to values, develop compassion to show heart, stressing "connectedness" in relationships and "practicing" self-discipline. While these are somewhat general, the examples he uses to illustrate them come from his experiences at Medtronic.

Innovative Drive of the Company

In its over 50-year history Medtronic has developed a wide range of medical devices; in recent years such as implantable stimulators against heart failure, deep brain implants to treat Parkinson's disease, and a simple suction system enabling cardiac surgeons to operate on beating heart. In January 2002 the US Food and Drug Administration approved Medtronic's Care-Link monitor and software designed to let patients download data from their pacemaker and send it via the internet to their doctor; a genetically derived bone graft process for spinal surgery; and an implantable device with wires to the brain that sends electrical pulses to relieve extreme cases of Parkinson's disease (Bowe 2002). Inspired to serve the customers, its innovative spirit has revolutionized not only its products and services but also its production processes, organization, culture, and identity, while yielding continuous financial success. Innovation means to make something new and better, in technological, organizational, financial, and cultural terms. It has a spiritual as well as a material dimension.

Some Critical Aspects of Medtronic

Given the fierce competition in the medical device industry, Medtronic was the target of several major lawsuits over the years brought against it by competitors. In the Wallin years, Medtronic was found to have violated a patent of Lilly and had to shut down its research and marketing efforts in this area. But the Supreme Court reversed the Philadelphia judge's decision in favor of Medtronic. In 2001, a Delaware court ruled that Medtronic had infringed on a patent held by Johnson & Johnson. Medtronic plans to ask the court for a rehearing (Black and Groeneveld 2003).

George describes that he had to transform the culture of Medtronic to be more competitive and hard headed. This more competitive Medtronic is manifested in the current competition with Guidant regarding a new high technology product for heart patients. According to one source, Medtronic has been successful in raising physician awareness about the potential for inappropriate shocks in the Guidant device. A Medtronic spokesperson contends that its salespersons are not using fear to sell to the patients but are having personal discussions with the cardiologists that implant the devices. The doctors sometimes bring the Guidant problem up themselves (Black 2002).

While Medtronic's mission and value statements are widely recognized being exemplary, its code of conduct (included in its webpage) represents a rather standard document. It focuses on compliance with the law and other rules that Medtronic employees must follow, but Medtronic's responsibilities to its far-flung employees are articulated less clearly.

Conclusion

Medtronic is a firm which has been very successful financially without sacrificing its ethical principles. Its strong mission has guided the organization since its inception. The "authentic" leadership is evident as well as the high level of satisfaction among customers and employees. The future is obviously difficult to predict, but Medtronic seems well positioned to continue on its high road to success.

Questions

The case is presented as a "best" business practice case, that means in both business and ethical terms. What are the implied business and ethical standards?

How do you evaluate this American case from your own cultural and country perspective? What aspects seem to you not meeting the "best" standards? What standards would you apply?

In order to make this case a "best" business practice case in your culture and country, how, as a result, would this case have to be altered?

References

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