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## SustainAbility

# Stakeholder Review of Novo Nordisk's Annual Report 2004 Summary for Stakeholders 18<sup>th</sup> August 2005

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# 1 Overall Impressions – was the integration successful?

## 1.1 Headline Messages

Almost without exception stakeholders were supportive of the direction that Novo Nordisk has taken in attempting to integrate the sustainability report with the annual financial report. As one stakeholder put it:

*'I am a big fan of the idea of integration, so kudos to Novo Nordisk for being one of the few that try to do it.'*

However, almost as many responses – and usually the same ones – also stressed that they felt that the integration had only been partially successful. As the same stakeholder put it:

*'It does still feel like a beta test of a report and there are certainly some serious bugs in the system.'*

The structure of the report for example was felt to be 'confusing' and poorly laid out. The table of contents on the inside front-cover in particular served to be a real irritant for many stakeholders and was felt to be a barrier to effective navigation through the report. Other key headline messages included:

- A strong sense that Novo Nordisk is open about, and engaged with, the key challenges facing the business.
- The effort the company had gone to in focusing on material issues for the business and presenting these in a way that was (or at least perceived to be) engaging and relevant to mainstream audiences.
- A convincing and holistic approach to diabetes including considering both treatment and prevention as part of an holistic business model.
- The approach, while right in principle, suffered in application due to a repetitive structure and unclear overall messaging.
- The 'style' of the publication received mixed reviews with some attracted by the informal magazine style, while others found it distracting.

## 1.2 What stakeholders liked about the new approach

Almost all of the stakeholders we interviewed were predisposed to like the report as a result of previous experiences of the company and its approach to sustainability. In fact, when asked about the credibility of the report most said that it came overwhelming from the company's long track-record on the issues rather than from anything specific about the report. As one stakeholder put it:

*'I trust the report – not because of what is in it so much as because of their reputation which has been built up over the years.'*

In fact a significant minority of stakeholders were highly critical of the assurance statement which they viewed as lacking detail on key criteria most notably with regard to statements about the UN Global Compact and on how materiality was defined –

particularly when a number of key issues facing the company were considered to have been omitted (see below).

There was also strong praise for the management section of the report (pg41-58) and often implicit acknowledgement of the value in having a single report covering these issues.

#### - **Qualified praise**

There was also praise for other parts of the report. However, in most cases, while the report either met or exceeded their expectations in terms of positioning Novo Nordisk as a leader, in almost every case where strengths were identified, stakeholders also identified further gaps that needed addressing. For example:

Section	Why it was considered a 'strength'...	...But what was missing
'An Industry under fire'	Genuine praise for frank and open discussion of challenging issues	Lack of a connection back to decision-making and to forward plans to address the issues
'Measuring contributions to society'	Real example of innovative reporting on economic bottom line	As above, does this analysis actually have a bearing on company decision-making?
'Managing risks'	Widely regarded as an important part of the report, providing good insight into management's approach to key issues	Discussion largely missed a variety of sustainability issues that could – and should – have been integrated into this analysis – a missed opportunity to illustrate real integration.
'The Novo Nordisk way'	Section provides a foundation that enables 'You to have a window into the mind of the company'.	Lack of hard data on how this approach translates into performance and behaviour (e.g. hard data on integrity)
'Can diabetes really be defeated'	Frank discussion of the challenge and the need for holistic solutions that include prevention	No clear sense of how Novo Nordisk was going to adapt its business model to embrace this shift
'Driving force'	A good discussion of the company's strategy – providing more details than competitors.	Need more detail on the specifics – break-down of market segments, by product and geography

In each of these sections, while widely regarded as best-in-class reporting, there was a sense that the report did not quite 'close the loop'. As one stakeholder put it:

*'I wanted more information to confirm my suspicion that they are doing a great job, but was often left hanging.'*

#### - **Integrated, but not integrated enough**

A second area of strength that was often mentioned in the same breath as related challenges was around the very nature of integration. As mentioned above, stakeholders unanimously supported the notion of integrated reporting and warmly applauded Novo Nordisk for taking this step. However, they felt that in many cases the company could have been more audacious in pursuing the integration agenda. For example how is the

company considering human rights in its expansion into China? How does Novo Nordisk apply its commitment to animal rights to its position vis-à-vis regulators? If climate change is so important, why have Novo Nordisk's emissions increased and why have they also chosen to drop a commitment to sourcing renewable energy? Why are the serious issues associated with regulatory breaches dismissed with the token statement 'steps are being taken to improve compliance'?

For many, these issues illustrated a *lack* of integration and consistency in core business decision-making. Others also suspected that these failings might be linked to a wider failure to explicitly articulate the business case for the positions that the company has taken. Indeed, only when it came to supplier engagement (around product quality) did stakeholders feel a credible business case had been made.

### 1.3 What issues stakeholders missed

Inevitably, given the radical change in approach that the new report represents, stakeholders had more criticisms than complements. Several of these were very specific around particular issues that had been omitted, or about the presentation of information. These included:

- Criticisms of the decision to 'short-cut' the GRI index and to place it in the middle of the report (see also comments on structure below).
- A lack of attention to public policy activity and lobbying more specifically – something that was viewed as integral for a company in the pharma/healthcare industry to address.
- No information on business ethics or responsible marketing of products, something that was deemed particularly delicate given the use of Haile Berry's image on the back-cover and Novo Nordisk's planned expansion in the US
- Lack of information on employee issues including board diversity (seen as a particularly sensitive issue in the US) and local community issues and programmes.
- Requests for more information on the developing world and access, in particular issues surrounding supply-chain and operations in key markets (China, India).
- Limited information on intellectual property issues – again something that was viewed as integral to the industry.
- Severe criticism of the links with the website, links were considered too generic, the website was seen as 'un-navigable' and related country websites (e.g. China and India) providing poor if any supportive information

### 1.4 Wider concerns with the approach

While these specific omissions were seen as significant, a balance must always be struck between being comprehensive, and ensuring the report is readable. However, perhaps more significantly, there were other issues that stakeholders raised with the new reporting approach.

- **Lack of stakeholder 'voice'**

In contrast with previous reports, several stakeholders felt that the stakeholder voice was missing from the report, both at the level of information on the kinds and quality of relationships the company has with stakeholders (e.g. governments), but also that the challenge in the report was more often framed by Novo Nordisk itself, rather than by stakeholders directly – a feature which several stakeholders said they found particularly powerful in previous reports.

- **Lack of context in performance reporting**

While some stakeholders felt that reporting on actual performance was good, a significant proportion felt that the performance data lacked context. For example, there was no background information on how targets are set or who is involved? There was also little discussion of why performance varied, or how company performance compares with competitors'. As one stakeholder put it, *'Reading this is a bit like someone saying that he is driving 7% slower today than yesterday, without telling you that he is still speeding!'*

- **Structural weaknesses**

One area where there was a broad consensus was on the structural weaknesses in the way the information is arranged in the report. As noted earlier, this starts on the contents page on the inside front-cover. The confusing structure in the report also meant that several stakeholders felt the report becomes repetitive as issues are raised in one place and then re-addressed elsewhere (e.g. governance issues on pages 8, 17 and 54). Overall this was felt to be a significant weakness, undermining the overall message of the report.

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## 2 Conclusions

Much of this report has focused on criticisms that stakeholders have levelled at Novo Nordisk's attempt to produce its first integrated report. It is worth emphasising again that this was done in the context of being overwhelming supportive of the essential direction that Novo Nordisk has embarked upon. For this reason if no other, it is clear that at least from the perspective of the stakeholders that we spoke to, an integrated approach is the right way for the company to address its challenges and implement its strategy.

What is less clear, however, is whether the attempted integration of reporting styles is as effective. For many of the stakeholder we spoke to, there is an important difference between an integrated approach that considers the multiple dimensions (social, environmental, economic) of business in an holistic way, and the way that a company communicates this approach to its stakeholders. For many the report is an important vehicle for communicating how the company operates and performs. However the annual report should focus on being a formal account of how the company has performed and a solid estimation of how the company expects to perform in future. It should not include 'softer' 'stories', 'case histories' or other communication techniques. While these may be more effective in communicating to other audiences, most of the stakeholders we spoke to did not value this information in this report. In other words, a common view was that integration of the *issues* is very welcome (in fact more integration was encouraged), but that the integration of the audiences was not effective. As one stakeholder put it, *'This really is a report for the fanatic. It is most definitely not for the breezy reader. If this is the only form of communication, then it fails.'*

# Appendix 1

## List of Interviewees

<b>Academic</b>		
York University / Stakeholder Research, Canada	Katherine Partridge	President and Senior Partner
St Andrews University, UK	Professor Rob Gray	
University of Leeds, UK Sustainability Research Institute	Dr Frank Figge	
<b>Analysts &amp; Brokers</b>		
Domini Social Investments, US	Steven Lydenberg	Principal
Generation Investment Management, UK	Miguel Nogales	Pharma Analyst
Oekom, D	Oliver Ruedel	Analyst in charge of the pharmaceuticals & biotech industry.
Henderson Global Investors	My-Linh Ngo	Research Analyst
<b>NGOs</b>		
Interfaith Center on Corporate Responsibility, USA	Margaret Weber	Co-Chair of the Access to Health Care Working Group
Oxfam, UK	Mohga Kamal Smith	Policy Advisor on Health
Partners in Change, India	Viraf Mehta	Chief Executive
Amnesty International, DK	Sanne Borges	
<b>Think Tank / Business Associations</b>		
Borderstep, D	Jens Clausen	
BSR, USA	Kara Hartnett-Hurst	Director, Advisory Services incl. pharma sector
CSR Europe	Catherine Rubbens	Director, Products and Services
Conference Board, Canada	David Greenall	Senior Advisor, Governance and CSR
Oeko-Institut, D	Christian Hochfeld	Director
Tellus Institute, USA	Allen White	Senior Fellow
TERI-Europe/India	Ritu Kumar	Director
Utopies, F	Stanislas Dupre	Research Manager
Copenhagen Business School, DK	Mette Morsing	Director, Center for Corporate Values and Responsibility
Good Business, UK	Steve Hilton	
<b>Others</b>		
Pleon Kohtes Klewes GmbH, D	Dr. Axel Klein	