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Read about how an Environmental Profit and Loss (E P&L) account puts a value on the environmental costs of doing business and what Novo Nordisk can learn from it.
Confessions of a reporting nerd

Reporting is a nerdy discipline and it can often be difficult to explain to the uninitiated what the magic is and why so many of my colleagues and I invest so much time in one report, year after year. The reason is that Novo Nordisk’s integrated Annual Report is more than just putting the numbers out in a neat document, it is one of the most important peer-reviewed publications we have.

The process is a 365-day affair and the final product is the result of thousands of hours of work and the seamless involvement of people in all parts of the organisation. After ten years of integrating the company’s financial, social and environmental performance, it is clear that it pays off, not just as a valuable and effective communication vehicle, but as much as means of inspiring change. Reporting doesn’t drive performance, and yet, the obligation to report on performance can often facilitate commitments and spur actions.

We started the journey in 2004 when Novo Nordisk shareholders formally adopted the Triple Bottom Line business principle in the company’s Articles of Association. This new framing of the company’s objectives obligated the company to ‘strive to conduct our activities in a financially, environmentally and socially responsible way’. It was then that the company made what it deemed a necessary, yet bold move: the sustainability and financial reports were merged into a single report.

This decision was much more than about the end product, the integrated annual report. It was also about the organisational processes that followed. Putting an integrated report together takes tremendous team-effort. It requires frequent interaction between people working in finance, legal, development, operations, sales and marketing to name just a few, and pushes everyone towards more integrated thinking. I can tell you that it does not make the journey easier; however, it makes the result much more rewarding.

Going behind the numbers

When you step behind the numbers, an annual report is really about people – the people whose actions end up as a percentage change or a target reached. Many of our stakeholders are keen to get a better understanding of the company’s decisions. But really, companies don’t make decisions. People do. And that is why we think
it will be interesting to take you into the engine room, to introduce you to some of these people and to share some of their stories.

Take Anthony Koller, director of Business Information at Novo Nordisk in Switzerland, who is about to experience his first unannounced business ethics audit. His story shows why it matters that more than 97% of relevant employees were trained in business ethics in 2013.

Or Neena Desai, senior manager at Novo Nordisk’s Global Service Centre in India, who helps women overcome career advancement challenges through a female leadership network. It is actions like Neena’s that contribute to Novo Nordisk’s progress on gender and nationality diversity in all senior management teams. In 2013, 7 out of 10 of these teams lived up to our aspiration.

We also introduce you to a number’s person, giving you a small glimpse into the reporting process in a conversation with our Environmental, Social and Governance (ESG) Data Manager, Cora Olsen. Cora sheds light on the math behind Novo Nordisk’s 40by20 long-term target, our ambition to reach 40 million people with diabetes with our products by 2020.

Finally, after 10 years of integrated reporting, there is one thing that we must never do – and that is to consider it a job done. In this issue, you will therefore also find articles that explore new ideas on how to account for performance. One example is a discussion of the concept of Shared Value and how to better measure and report on the link between societal and business value creation. Another is Novo Nordisk’s newly published Environmental Profit and Loss (E P&L) account, a new way of reporting that assesses risks and opportunities relating to environmental impacts in a profit and loss framework. Such ideas help inform our thinking about how we can continue to develop our reporting and communication. Our objective is to enable report users to better valuate the company’s performance. This is what integrated reporting is all about.

So to those out there that call reporting nerdy, I am certain my colleagues who join me year after year would agree with me, that if reporting helps ensure Novo Nordisk’s activities are carried out in a financially, environmentally and socially responsible way, we will most happily be called nerds.

Susanne Stormer
Vice President, Corporate Sustainability
Novo Nordisk

PS. Get a full overview of Novo Nordisk’s reporting on www.novonordisk.com/annualreport
Navigating the complexity of global markets relies on a strong company culture that never compromises on business ethics and compliance. You need to keep people on their toes. But how is this done in practice?

It’s an average November Friday and Danish based lead business ethics auditor, Maria del Carmen Arjona Bello, places a call to the general manager of Novo Nordisk Pharma AG, Jesper Wenzel Larsen in Switzerland, one of Novo Nordisk’s 75 affiliates. The call has been planned months in advance. Though an average day, the call is anything but average for Maria. Although she is an experienced auditor, this is her first unannounced business ethics visit and she is the lead auditor.

The announcement is made on Friday and Maria will be in Switzerland on Monday, giving the affiliate little time to prepare for the audit. But that’s the point. Maria and the Business Ethics Assurance team have prepared for this audit for several months. On the other end of the phone, the weekend looks quite different.

For Anthony Koller, director of Business Information in Novo Nordisk Pharma AG, this Friday is different, too. He is in the office and Jesper calls the management team in for a quick meeting. At the meeting, he informs his team of the impending audit. Everyone must show up Monday prepared to collaborate with the Business Ethics Assurance team throughout their five-day unannounced audit.

**Business ethics by the numbers**

As a pharmaceutical company, Novo Nordisk operates in a highly regulated environment with both local and global requirements. Furthermore, the company recruits around 6,500 new employees across the globe each year and this makes it crucial to train and document that employees behave ethically.

Novo Nordisk has conducted business ethics audits since 2006. These audits are just a few of the activities that support Novo Nordisk’s global Business Ethics Compliance Programme.

All Novo Nordisk employees are trained in business ethics. Since 2010, the company has trained all employees through mandatory reading of business ethics standard operating procedures (SOPs) and since 2012 e-learning tests (try the business ethics test on page 9). SOPs and tests are updated and completed annually by all employees.

Completion of the business ethics training by all employees has been above 97% for the past four years, and the number of employees in scope for the overall business ethics SOPs has increased from 23,600 to 31,700 in the same period. In 2013, 58,000 business ethics SOPs and tests were assigned. In total, 97.2% of these were completed.

Face-to-face training sessions are conducted in relevant parts of the organisation and business ethics is integrated in on-boarding programmes for new employees and in management development programmes.

Lastly, there are the audits, both the announced and the unannounced.

‘Nothing has been scheduled in advance’

For Anthony, this is his first unannounced audit. His immediate reaction is “Oh boy.”

“It’s not because we are worried about the audit or the result,” says Anthony; “however, it is late in the year and a big product launch has just taken place. Employees are tired and the focus is on ending the year according to plan.”
“We recognise and support the importance of business ethics. But the process does impose a certain amount of stress on the organisation; especially when the visit is unannounced,” Anthony says. “You have to do a lot of coordination, quick gathering of data and be present whenever called upon.”

Like most people in Anthony’s position, a visit by the auditors is about striking the right balance between involving the relevant people while at the same time making sure that everyone is available and in the office if you need them.

“Nothing has been scheduled in advance,” says Anthony. “We trust that we have a good system in place, but in such a situation, you simply have to rely on everyone to have lived up to our high level of business ethics expectations.”

When audits are unannounced

The number of business ethics audits varies each year, but on average around 40 to 50 audits are conducted. In 2013, 45 audits, both announced and unannounced, were conducted. The selection is based on a risk assessment exercise, where all areas in Novo Nordisk are assessed on relevant parameters, in order to determine the likelihood of non-compliance and ensuing potential business impact. All announced audits are communicated in September for the following year, whereas the unannounced audits are also identified but not communicated.

It is a common myth that prior to an audit, a company goes into overdrive; fixing holes, painting walls, revising documents, training staff, and managers suddenly run around briefing people on how important it is that it all “looks good on the day”. This is simply not possible to do with an unannounced audit. This method is a way to demonstrate that Novo Nordisk works to the same standards every working day, not just brushing up for a couple of days a year.

The rationale behind unannounced audits is simple and so are the reasons to why all audits are not disclosed and the unit is given short notice only. The unannounced audit addresses a range of questions, such as whether people have done their business ethics training, do they comply with local and global procedures, and how they have interacted with health care professionals and third party representatives.

“In general, it is more challenging to conduct an unannounced visit, as the people the auditor would like to talk to might not be available,” says Tobias Brun Hansen, manager of the Business Ethics Assurance team. “It requires extra flexibility from both sides, and the auditors acknowledge that time is suddenly pulled out of people’s calendars, which may be a stress factor.”

“Audits in the areas that are assessed as ‘high risk’ will usually be announced, as we have to audit all high risk areas every year,” says Tobias. “However, additional unannounced audits may be performed. You might assume that we would detect more findings when the visit is unannounced, but – luckily – this does not seem to be the case, which shows a high level of audit readiness.”

Reality check and inspection readiness

When arriving in Switzerland, Maria and her colleagues start with an opening meeting introducing the audit objective, audit process and the audit team. After this, the audit begins. Maria interviews the selected employees, both process owners and members of the management team, and also reviews the requested documents.

The reaction Maria is met with is no different than when doing an announced business ethics audit. “They acted very professionally,” Maria says. “I didn’t feel that they were nervous. If they were, they were very good at hiding it.”
For Maria, the audit seemed as it normally does, positive and valuable. “It is all about cooperation. The affiliate knows this is how we work in Novo Nordisk, and we all try to get the best out of the situation.”

On the final day, Maria and her team hold a closing meeting to present the overall audit conclusions and findings. To Anthony and everyone else’s relief, there were no big surprises and the affiliate was rated with a ‘high level of compliance’. There were a couple of minor findings, such as issues that local management needs to correct.

Anthony was happy about the high level of detail in the audit. “There were only two auditors present and what they managed to cover in a rather limited amount of time was impressive,” he remarks. “I was positively surprised about how well-prepared the auditors were and how detailed their analysis was. If you were up to no good, you really wouldn’t be able to hide anything.”

Stricter future requirements

For Anthony, the key to success is being confident that you are ready to reveal the true picture, requiring a high level of management support and the right mind-set. From the other side, the Business Ethics Assurance team will continue their work to ensure that business ethics audits become even better in order to safeguard Novo Nordisk’s values and license to operate also in the future.

“In 2014, we will strengthen our audit methodology. It will of course be interesting to see how the organisation reacts,” says Tobias.

“Until today, for the announced audits the organisation has, several weeks in advance of the audit, been provided with a list of which documents the business ethics auditors would like to see when coming onsite. Going forward, the organisation will not be provided with this information up front. “Hereby, the announced audits will resemble the unannounced audits, which will help us get a more reliable picture and test the audit readiness,” Tobias says.
Take the business ethics test

Are YOU ethical? Find out by taking the business ethics quiz!

In 2013, 97.2% of relevant employees were trained in business ethics which among other things includes e-learning with various questions that address the situations employees face on a daily basis. Try some of the questions here and find out how ethical you are.

Please choose the correct answers below. Please note that there may be more than one correct answer to each question!

1. How could it affect Novo Nordisk globally if you, as an employee, violate the Business Ethics Standard Operating Procedure (SOP)?
   a. It could lead to criminal charges and penalties against Novo Nordisk and individuals
   b. It could lead to a bad reputation for Novo Nordisk
   c. It could have financial consequences for Novo Nordisk

2. Which of the situations below could place you in a conflict of interest?
   a. My brother applies for a job in a department where I am the manager
   b. I receive an offer from a vendor company owned by my friend
   c. I am a person with diabetes and use one of Novo Nordisk’s products

3. Which of the below statements are true?
   a. Local laws always set the highest standards of how to act as a Novo Nordisk employee
   b. Novo Nordisk’s procedures may set higher standards than local laws
   c. As a Novo Nordisk employee, I must always follow Novo Nordisk’s procedures as a minimum

4. What must be recorded in your local business unit’s records?
   a. Anything of value given to a business partner
   b. Anything of value given to an organisation
   c. Anything of value given to a public employee

5. As a Novo Nordisk employee, you have an obligation to report possible misconduct…?
   a. only when I am absolutely sure that it really is a case of misconduct
   b. only if my own department is involved in the misconduct
   c. anytime I have a concern of possible misconduct
   d. anytime there is a disagreement in my team

Correct answers: 1a, 1b, 1c, 2a, 2b, 3b, 3c, 4a, 4b, 4c, 5c
For companies, diversity is becoming a precondition for effective globalisation, but challenges still exist for women to advance in the workplace. In India, Neena Desai and her colleagues are helping to close the gender gap.

Today is not just another day at the office for Neena Desai. She finds herself in a large conference room with round tables covered with snow-white cloths and stacks of neatly organised papers. In the front of the room, a podium is lit up and the wall behind it carries the words “WINN – Involve, Influence and Inspire”.

One woman after another enters the room, some are wearing business suits, others traditional Indian saris in blue, green and pink colours. The women smile enthusiastically, chat with each other in small groups and curiously look through the stack of papers on the tables – and as they increase in numbers, so does the level of energy and anticipation in the room.

The women are Neena’s colleagues, and WINN is short for Women In Novo Nordisk. They are gathered to discuss gender diversity and female leadership in Novo Nordisk’s Global Service Center (GSC) in Bangalore. Together with nine other female colleagues, Neena has been the driving force behind the initiative.

Neena is anxious, but looking at the sheer number of people turning up, it already looks like a success. Around 200 colleagues, nearly every female from all the departments in GSC, are present. In a few minutes, Neena will take the stage and kick off the day and the first annual WINN Summit.

Turning an idea into reality

The journey towards the launch of WINN is a journey influenced by Neena’s own life. Although Neena was born in India, she has lived most of her professional life in the United States where she had a long career in consulting and the pharmaceutical industry. In 2011, she and her family decided to relocate back to India, and she started a new job as Senior Manager in IT GSC, Novo Nordisk Bangalore.

Having worked in both a US and Indian context, Neena saw the stark contrast in career advancement challenges that female Indian professionals face. “There have been trail blazers before us, but my generation is the first in India to take up this challenge full-fledged and it is an uphill journey,” says Neena. “When I came back to India, I was eager to use my own experiences to make a difference.”

The idea to start a women’s network in India arose after Neena had the opportunity to attend a leadership development programme for women in Novo Nordisk’s headquarters in Denmark. There, Neena met Annelise Goldstein, Vice President for Diversity & Inclusion. They had a discussion about WINN and agreed that there was a need to launch WINN in India.

Full of determination, Neena went back and shared her thoughts with her management team. “They were extremely supportive of the idea and immediately agreed to provide the management anchoring and resources necessary to take this initiative further,” she recalls. So Neena put together a core team and WINN was launched at the 2013 annual kick-off meeting.
What the statistics say

Research supports that diversity adds value to a business by challenging routine thinking, fostering innovation and improving the quality of decisions. Studies have shown that the presence of a critical mass of women in senior jobs is positively correlated with a company’s performance. In some studies, this critical mass was also linked to higher profits. However, despite women across the globe having made huge progress in higher education and in the workplace, few of them are advancing to senior leadership positions.

Only 4% of companies on the 2013 Fortune 500 list are led by female CEOs. A McKinsey study covering nine European countries shows that women hold just 10% of executive committee roles. At the current rate, women will still account for less than 20% of seats on Europe’s executive committees 10 years from now.

To speed things up, several countries such as Norway, Sweden and France have passed legally binding quotas for the proportion of women sitting on corporate boards. India is following suit with a new piece of legislation – the Companies Act – requiring every listed company to have at least one female director on the board by 2015. But the problem starts much earlier, a long way from the top.

The pipeline problem

When looking at the largest US industrial corporations, women account for roughly 53% of entry-level professionals. But as they move higher up in the organisation, they become increasingly underrepresented and hence fewer women feed into the management pipeline. Women hold approximately 1 out of 5 executive positions in the coveted C-suite.

Some have pointed to a difference in ambition between the two sexes, but research shows that like their male counterparts, most young women have the same desire to move up the career ladder. However, along the way women fall off due to a combination of structural obstacles, lifestyle choices and individual mind-sets. According to Annelise, one reason is that our career is impacted by our life phases. “It is typically in your thirties that companies expect an ambitious employee to take up their first leadership position, but this is when most women have children.”

Less visible barriers also exist, such as the widespread notion that to successfully compete, women must be taught the skills and styles of their male counterparts. For Neena, the purpose of launching WINN in India has never been to turn women into men. “Men and women are different. I believe women can, and should,
contribute with important aspects,” she says. “What is key for me is to give my female colleagues an extra push to live out their full potential. I tell them that there are no limits but the ones they set themselves.”

**Working double shifts**

At the same time, Neena acknowledges that cultural and socioeconomic factors play a role. In India, you cannot talk gender diversity at work without taking into account the role that most women have at home. “You can be the President of a large corporation, but when you come home, you are still a caretaker,” says Neena.

With two kids, ageing parent-in-laws living under the same roof, and a spouse who has an equally demanding career, Neena knows what she is talking about. “The best career advice I can give is, don’t try to be a super woman!”

Neena also points to the importance of inviting the men into the discussions. “Our male colleagues have been quite curious about the new network,” she says. “We emphasise that it is not about men versus women but about making sure that equal opportunities exist.” Something Neena feels is very rooted in Novo Nordisk’s company culture. “I am proud of our company values and have not found any reasons to limit my career aspirations.”

**On the right track**

The WINN network is just one initiative supporting progress on the company’s diversity aspiration made back in 2009. The aspiration calls for all senior management teams to be diverse in both gender and nationality by the end of 2014. In 2013, 70% of the 33 senior management teams met the diversity criteria, compared to 66% in 2012.

“I think we have seen good progress considering that back in 2008 the number was only 43%,” says Annelise. “The diversity aspiration cannot take all credit, but it has definitely put the topic higher up on the agenda. What gets measured gets managed.”

For Novo Nordisk, the business case is clear. To continuously grow, the company needs to attract and retain a large number of new employees. “As a global company, we would like to be attractive to global talent,” Annelise points out. “And we would lose out on a huge talent pool if we do not have women represented at all layers in the organisation.”

Annelise acknowledges that Novo Nordisk still has challenges when it comes to gender diversity. “It is also about changing mind-sets and that takes time, but we will continue our focus and raise our ambition level,” she says. “We set the direction from the top and we need role models like Neena who can spur action from the bottom-up.”
A day to remember

Plenty of action was offered at the WINN event organised by Neena and her colleagues. To start with, Neena shared her own experiences and was backed up by video clips from local and executive management. The programme also included two interactive workshops intended to create greater self-awareness and confidence among the participants.

What was considered the highlight of the day for many of the women was an external keynote delivered by Ms Hema Ravichandar, one of the 25 most powerful women in India. “She provided some very practical advice and was a big inspiration to us all,” Neena remarks.

Wrapping up the summit, Neena encouraged the participants to write down a personal commitment that they would bring with them after leaving the conference room.

Lunch with Sheryl Sandberg on the menu

So what impact has the launch of WINN had so far? Although it cannot all be attributed to WINN, the Bangalore office has seen good progress in female leadership representation. For example, the number of female managers has gone from 12% in 2012 to 21% in 2013.

Still, there is more to diversity than statistics. For Neena, the biggest change has been the way people now talk more openly about the topic. “Women in my team are starting to ask more questions about how to take on more responsibility, possibilities for mentorships and career advice related to maternity leave.”

Going forward, Neena would like to see the WINN initiative maintain momentum. And she believes it will due to the high degree of management support and strong drive from the WINN core team who is already planning follow-up sessions in 2014. The next is expected to take place around International Women’s Day on March 8 and will focus on concrete actions and practical tools that women can apply in their daily work. Another planned activity is to organise brown bag lunches and book talks – with the first one being Sheryl Sandberg’s much discussed book “Lean in.”

All in all, Neena is optimistic about the future and believes that the ripple effect holds great potential. She knows this from both her professional as well as from her personal life: “My mom always said that anything is possible and this is how I also want to bring up my daughters.”

For a decade, Novo Nordisk has been accounting for its social, environmental and financial performance in one integrated report reflecting the company’s Triple Bottom Line approach to doing business. But where agreed-upon global standards exist for financial data, it is a somewhat different ballgame to ensure high-quality data for environmental, social and governance (ESG) performance.

Cora Olsen is the key driver behind the ESG data in Novo Nordisk’s annual report. Here, she talks about the process of developing meaningful metrics, the challenges along the way and one specific ESG data that is particularly close to her heart.
What is your position?
I am Novo Nordisk’s ESG data manager. ESG stands for environmental, social and governance, so I am responsible for the data we report on all these dimensions in the annual report and I have been doing so since 2008.

What is your educational background?
I have a Master’s degree in technological and socio-economic planning from Roskilde University in Denmark which focuses on integrating environmental considerations in planning processes.

Is this a typical degree for someone in your position?
No, it is not a typical path for someone with my education background to take. After graduation I was hired as a consultant in EY [Ernst & Young] where I worked with sustainability and assurance. Simply put, I got hooked on data management and how it can be used in a company’s strategic planning process. So I have always had a lot to do with data – basically I am an accountant!

Is there a quality difference between financial and ESG data?
I would say that there can be huge variation, but that being said, this is very company specific. Unfortunately, sustainability reporting has gotten a bad reputation because it is seen as being made up of poor data quality. There is a lot of uncertainty and it doesn’t come with the same label as financial data. You can say that it is data “with baggage”. But when we at Novo Nordisk combine financial and ESG data, as we do in integrated reporting, we have to assure that all data is of equally high quality.

Why is it difficult to get high quality data?
It is important to emphasise that ESG reporting is most valuable when it is strategically linked to the business. So one reason I hear when speaking to peers is that it can be difficult to get data from the line of business if they do not see the value of reporting. You have to ask very politely and cannot always be sure that you will get it because there is no management mandate. But at Novo Nordisk we have very strong executive management support which makes this much easier. I can use both the carrot and the stick when I need to get my data!

What is the main difference between financial and ESG accounting?
For financial data we have had global standards for decades. However, there is no one global standard for ESG data, only guiding frameworks. The challenge is to define the ESG data that is material for the company. We need to find out a) is this meaningful to report as a metric, b) what should the disclosure look like, and c) can we get data in a way so that we can include it in the reporting cycle. In Corporate Finance you have one system for this, while we for ESG data have numerous systems that live in different places in the organisation that have different data quality criteria. We are of course trying to align this, but it takes time.

When Novo Nordisk started accounting for ESG performance, what were the biggest challenges?
I wasn’t here from the beginning but I would assume that the biggest challenges would have been to narrow down which data was worth including. Then there are the challenging steps of obtaining this data in a timely manner, ensuring data quality, and then transforming it into something that can be communicated to investors.
Do you have a favourite ESG data?
It is the patient number which was included in 2011. On the social performance dimension, we do well on for example employee data and business ethics, but we have been lacking a really good number for patients that would also be meaningful from a company perspective. So finding a way to report on this was a huge breakthrough for us because we all of a sudden could bridge sales and number of patients reached. It was important to find something that would correlate the two and the number gave us the opportunity to reflect.

Could you briefly touch on the methodology behind this number?
The patient number is based on a combination of our sales volume and World Health Organisation numbers that define average daily insulin dose per product category. It is actually a simple calculation where we have the volume by product category and then we divide it by the daily dose and then we know how many people we reach. So it is not just a proxy for sales. It is a very good way for us to measure how many people we actually reach with our insulin. And it is an important proxy for our ability to make progress on our long-term patient target which is to provide medical treatment to 40 million people by 2020 – our 40by20 ambition.

What are the challenges in your job going forward?
It comes back to data availability and timeline. I can come up with a beautiful idea that has a great strategic fit, but transforming it into a disclosure that is suited for annual reporting can take years. If I get a good idea today, I am lucky if I will have it in the 2014 report. But it depends on the type of data. If we decide to report on something that we already track, then it is easier, but when you put it as a disclosure in the annual report you have to do a lot of quality assurance. And one of the great things coming out of this has been that since I started, we have significantly reduced the number of error corrections in the annual reporting pre-launch process. It has saved us a lot of time, improved data quality and our external assurance rarely has anything of significance to remark.

Is there anything we can do differently compared to our peers?
I think we are very much ahead of the game in terms of our peers. I don’t see many social and environmental accounts in other reports that are as detailed as ours. But I do see that some of our peers are starting to include ESG dimensions in the outlook section of their reports just like in the financial outlook. This is also something that the International Integrated Reporting Council (IIRC) is pushing to demonstrate how companies create value on all dimensions. So going forward, I think it would be great if we could start forecasting on some ESG disclosures, for example the patient number or CO₂.

Cora Olsen, ESG data manager, Novo Nordisk
How Novo Nordisk will reach the target

Changing Diabetes®
40by20

In 2013, Novo Nordisk set a long-term target to provide medical treatment to 40 million people by year 2020. This 40by20 target is a tangible indication of Novo Nordisk’s footprint towards improving access to care for people with diabetes. At the same time, it is Novo Nordisk’s contribution to the World Health Organisation’s target of decreasing mortality from non-communicable diseases, such as diabetes, by 25% by 2025.

How the patient number is calculated

Patients reached is estimated by dividing Novo Nordisk’s annual sales volume by the annual usage dose for each product class as defined by the World Health Organisation (WHO).

How Novo Nordisk will reach the target

Different activities ensure that more people with diabetes will be diagnosed, more will receive care, more will have access to treatment and more will achieve an improved health and quality of life. Together, these activities contribute to reaching the 40by20 target.

Progress so far

Patients reached with diabetes care products (estimate).

<table>
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<th>Year</th>
<th>Patients Reached</th>
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<tr>
<td>2011</td>
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</tr>
<tr>
<td>2012</td>
<td>22.8</td>
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<td>2013</td>
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Shared Value
- increasing the size of the pie

Shared Value is a relatively new concept with both supporters and critics. Weighing in on Shared Value, corporate social responsibility (CSR) and measuring value creation, FSG Senior Consultant Sebastien Mazzuri speaks with Novo Nordisk about how companies can use a portfolio of Shared Value and traditional CSR initiatives to address societal challenges.

“Greed, for lack of a better word, is good. Greed is right. Greed works.”
– Gordon Gekko, Wall Street, 1987

If uttered today, this 1980’s mantra on business’ contribution to society would most likely get you thrown out of the room. If you were lucky. The very notion that profit maximisation, at the expense of society and the environment, should be the sole aim of business has, for the most part, been laid to rest. In the space between the financial crisis and now, a new way of looking at capitalism has emerged, a view that the pursuit of profit can serve both business and societal interests.

The concept of Shared Value was first introduced in a 2006 issue of the Harvard Business Review. In the article Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility, Harvard professors Michael E. Porter and Mark Kramer argue that there is a mutual dependency between company competitiveness and the health of communities and markets they serve.

In the 2011 follow-up article, Creating Shared Value, Porter and Kramer highlighted examples of companies that had successfully linked their business strategies to the pursuit of societal interests. A year later, the global not-for-profit advisory firm FSG, founded by Porter and Kramer a decade ago, launched the Shared Value Initiative. Since, the Initiative has been dedicated to building and sharing the knowledge base and best practices on creating Shared Value. But despite their good intentions and the growing wealth of examples, there are many critics who argue that Shared Value does not go far enough to address the blind spots of capitalism that, rather than creating value, threaten to destroy it.

Slicing the value pie

Even before Gordon Gekko, profit for profit's sake was a well-accepted argument in the corporate office. In an article published in a 1970 issue of The New York Times Magazine, Milton Friedman wrote that companies have a single purpose when it comes to social responsibility – to increase profits. He called any other social responsibilities of business a form of ‘hypocritical window dressing’.

If we imagine a company’s value created through normal business operations as a pie, engaging in traditional CSR, such as philanthropic activities, takes a slice of the value pie and transfers it out of the company. As a fixed pie, CSR is a cost to the business.

In the face of societal pressure and regulations, the CSR cost serves to cover legal and moral responsibility but has its limitations. For FSG Senior Consultant Sebastien Mazzuri there is an important role for CSR, but to increase the impact business can have on addressing societal challenges, there has to be the potential to go big. This is where Shared Value comes into the picture.

“...philanthropic dollars are insufficient to address all social and environmental issues, businesses represent a tremendously powerful source of innovation,” says Sebastien. “If you want businesses to deploy their capabilities and resources in the long run, you have
to identify those social challenges that represent an opportunity to create and sustain a competitive advantage for them.”

Sebastien points to an example of what Shared Value looks like in practice and how scaling plays a key role. One of his favourites is the Norwegian fertiliser company Yara, which launched a partnership to develop underutilised land areas in Africa. Through a strategy that connected subsistence farmers to infrastructure that provides access to inputs and outlets to markets, Yara was able to grow economic development in rural farming communities and increase sales.

“Because it takes large-scale investments to tackle this issue, these “growth corridors” involve cooperation between governments, private companies, donors, development institutions and academia,” says Sebastien. “By enabling farmers’ access to markets, Yara was able to sell to these farmers. The Yara case demonstrates the power of Shared Value to bring about large-scale societal outcomes in Africa.”

**When Shared Value is not enough**

Despite the power of Shared Value thinking, there are important social and environmental issues that remain outside of the efficiency frontier for Shared Value creation. These issues can be too complex, isolated or broad for corporations to address profitably, at least for the time being. It is here that CSR activities play a crucial role.

Then there is also the fear that economic rationality will regulate some issues as unprofitable and therefore not worthy of addressing, or even worse, that companies may engage in activities that have unforeseen external consequences. In a 2012 editorial published in Guardian Sustainable Business, John Elkington, a world authority on corporate responsibility and sustainable development, raised the concern that capitalism is not a benign process and that Shared Value can play a role in destroying key resources. Sebastien agrees that Shared Value and footprint mitigation have to complement each other as corporate social engagement activities.

“It goes without saying that doing no harm should continue to be a top priority,” says Sebastien. “At FSG we are continuously working to improve measurement frameworks and guidelines to capture best practices and avoid potential pitfalls.”

As Shared Value grows in both understanding and practice, Sebastien highlights three important ways the concept is impacting companies’ actions and investments in social and environmental responsibility.

“First, successful Shared Value champions have succeeded in elevating the purpose of their company to be about social progress: solving social challenges has become the raison d’être of the company,” says Sebastien. “This has been a fundamental shift of business from “what” to do to “why”. When food companies become health companies, or car manufacturers turn into clean mobility companies, this changes the very scope of their activities, and therefore
their potential for effecting positive social change at a large scale.”

Sebastien also points to the role purpose plays in focusing the business on specific social problems, leading to more in depth studying what it will take to make progress and the optimal pathway to change. These companies invest much more in understanding social conditions, for example through social research or by hiring people from the field.

And lastly, understanding how to drive change encourages companies to measure the link between social and business value creation. Sebastien explains why measuring this link is crucial.

“First, it unlocks the potential for investment in social innovation by demonstrating how investing in addressing a specific social need will yield business benefits for the company,” says Sebastien. “More fundamentally, it unlocks further Shared Value creation, providing the evidence that decision makers need to prioritise the next wave of actions and investment with a view to achieving further social outcomes and business growth.”

FSG’s work to improve measuring Shared Value continues to progress. For more than a decade, a handful of companies have used the annual reporting process as a means to measure a form of Shared Value. These companies have been reporting on how they are choosing to address societal issues, like climate change, and go a step further to show how these actions are related to sustaining a successful business.

Integrated Reporting and a Blueprint for Change

Since 2004, Novo Nordisk has been reporting its performance in a single inclusive Annual Report. The company’s integrated reporting approach aims to provide shareholders and other stakeholders with a concise communication about how strategy, governance, performance and future prospects lead to value creation in the short, medium and long term.

According to the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, the accounting profession and NGOs, integrated reporting enhances traditional financial reporting. Novo Nordisk is a part of the IIRC coalition and sees integrated reporting as a way to provide investors with a more holistic picture of how the company creates value. The holistic picture also shows company stakeholders why and how social and environmental decisions are integrated in company strategy.

Taking a further step in reporting how the company creates value, Novo Nordisk launched its Blueprint for Change programme in 2009. The programme takes a deep dive into historic and ongoing activities to explore how value is created, both to society and the business, through its Triple Bottom Line business principle.

“Novo Nordisk’s Blueprint for Change programme is an amazing example of Shared Value creation in the pharma space,” says Sebastien. “In several low- and middle-income countries with high business potential for insulin sales, such as China, India and Indonesia, Novo Nordisk did two things: a rigorous assessment and prioritisation of the major barriers to access to care, and the initiation of cross-sector partnerships with government organisations, NGOs and civil society to address those.”

Sebastien points to one of his favourite Blueprint cases focused on Novo Nordisk’s entry into the Chinese market.

“The China case is my favourite one because it started way back in the 90s and there is now strong evidence both of societal outcomes – increasing diabetes diagnosis rates and satisfactory control of the condition in the long run, and of business outcomes – a dominant share of the insulin market in China,” says Sebastien.

The learnings so far show that it is indeed possible to expand the pie to the benefit of both business and society - and not least the importance of sharing these experiences to ensure a continuous appetite for making this happen.

Accounting for environmental costs
– why it makes good business sense

Companies depend on natural resources, but the full environmental costs of doing business to society are currently not accounted for in financial disclosures, as this is not required. An Environmental Profit and Loss (E P&L) account offers an attempt to put a real value on these costs. Find out what Novo Nordisk learned from conducting its own E P&L.

Imagine a world where companies have to pay for their full environmental impact. Not just the taxes and fees they normally pay related to water consumption, greenhouse gas (GHG) emissions etc., but the full cost of environmental degradation borne by society, such as the cost of replacing a scarce resource or the associated health costs related to air pollutants. And it goes beyond accounting for the natural resources used in the company’s own operations. It encompasses the environmental costs generated by suppliers and their respective supply chains throughout the world all the way down to the extraction of raw materials or the cultivation of farm crops.

To many people, this type of calculation may seem far-fetched, but to Anne Gadegaard, Programme Director, Corporate Sustainability in Novo Nordisk, this might be a clever way for companies to understand a potential cost to its fullest extent.

“Businesses depend on services provided by nature such as fresh water, clean air, healthy biodiversity and productive land. A large part of the value of these services is currently not accounted for, but it is likely that a time may come when companies will be held accountable for more of these costs,” says Anne.

And with an Environmental Profit and Loss (E P&L) account, Novo Nordisk is now one step closer to estimating a real price on these costs.

Putting a price tag on nature’s services

In essence, an E P&L answers the question, “If a company actually had to pay for its impacts on natural capital, what would it cost, and how would that affect the company’s profitability?”

An E P&L places a monetary value on the environmental impacts of an organisation and its supply chain. It means that you put an estimated price on a service that nature provides, but for which a market price may not exist, or where the market price does not reflect the full cost.

“Of course it is a difficult task to place monetary values on natural resources such as fresh water, clean air, biodiversity and land. However, a monetary value allows for direct comparison between the E P&L account and the regular profit and loss account of a company,” says Anne.
In the E P&L, the “Profit” refers to any company activity that benefits the environment, whereas the “Loss” refers to activities that impact the environment negatively. Almost all companies will have a deficit in the E P&L, but currently only some of these costs are borne by the company, such as fees to local governments for water treatment. Companies are not held accountable for the remaining environmental losses known as ‘external costs’ or ‘externalities’ and it is not expected that they will be in the nearest future.

However, if companies had to pay for this, it would have significant impact on the bottom line. Research conducted by Trucost estimates that the environmental externalities of business cost the global economy around $7.3 trillion a year. This is equivalent to China’s GDP in 2011.

**PUMA the pioneer**

Companies are beginning to understand that the full environmental costs of doing business are not accounted for in existing financial disclosures. And that environmental responsibility is more than preserving polar bears – it is also about long-term risk management. For example, over time, it is expected that more of the external costs will be internalised through taxes and fees.

And where there is risk there is also opportunity. Using the insights obtained from mapping the company’s environmental profit and loss is an opportunity for companies to optimise their operations and supply chains.

“A global perspective on environmental impacts seems to be an increasingly important area for companies to explore in order to address future risks and opportunities. Natural capital accounting including a supply chain perspective and measuring these impacts in economic terms are very important first steps in this direction,” says Nis Christensen, Head of Division, Danish Environmental Protection Agency.

The sportswear company, PUMA, was the first global corporation to publish a pioneering E P&L back in 2011.

The Novo Nordisk E P&L has been built on the work of PUMA and they are now the first to launch an E P&L in a Danish context and the first pharmaceutical company to do so.

The work was initiated when the Danish Ministry of Environment showed an interest in sponsoring an E P&L for a Danish company. Other parties involved were engineering consultancy, NIRAS, life cycle assessment specialist 2.0 LCA Consultants as well as Trucost, who also assisted PUMA with their environmental valuation.

**Connecting the dots**

Performing an E P&L can be a daunting task as it requires many steps and a deep dive into the organisation to obtain the required data. Compared to other organisations, Novo Nordisk has a large pool of well-processed input data, which can be obtained in a relatively short time span. Mostly because some of the data already is reported in either the integrated Annual Report or the CDP report. In this process, colleagues in Corporate Procurement and Global Environmental Health & Safety were instrumental in obtaining the data. Where data was not available, environmental costs have been derived from using life-cycle assessment modelling.

The analysis is based on 2011 numbers and includes Novo Nordisk’s own operations and all tiers in the supply chain, from the finished products and services that the company sources (tier 1), to processed raw materials (tier 2) and all the way down to the extraction of raw materials or the cultivation of farm crops (tier 3).

*Want to know more? Read Novo Nordisk’s Environmental Profit and Loss account.*
The distribution to end users and disposal of products are not included in the analysis. In the process, environmental key performance indicators were identified based on their materiality to Novo Nordisk and these included water use, GHG emissions and other air pollutants. When the final result of the analysis came, it was not without surprises.

**E P&L as an eye opener**

The E P&L revealed that Novo Nordisk is responsible for 29 million EUR worth of services delivered by nature in 2011 for operational activities alone (see figure below). Looking further down the supply chain, the costs increase substantially. Environmental costs across tiers 1, 2 and 3 amount to 194 million EUR or 87% of the total cost. It shows that Novo Nordisk’s own operations constitute only 13% of the total environmental impact and that the main environmental impacts occur in tier 1 and tier 3 of the supply chain. GHG emissions contribute the most to the total cost (77%).

When looking at Novo Nordisk’s different expenditure groups, the analysis also showed that the biggest contributor to the environmental costs was related to sourcing of products and services that do not form part of the final consumer product – the so-called ‘Indirect spend’ which includes items such as production equipment and consultancy services. This group constitutes 70% of the total environmental costs in Novo Nordisk and was bigger than expected.

87% of the total environmental costs lie across tier 1, 2 and 3 and this means that the majority of Novo Nordisk’s impacts lie outside the company’s direct control and therefore can be more difficult to influence. Here, the opportunity to reduce impacts lies in direct engagement with suppliers.

**Reporting on all three bottom lines**

Although Novo Nordisk continuously works to improve the transparency of its environmental performance reporting, Anne notes that she does not see the E P&L account become part of Novo Nordisk’s standard reporting in the near future. Instead, the key strength of the E P&L lies in its ability to map impacts and identify potential risks.

“The E P&L provides knowledge that will enable us to focus our efforts on the areas of our business with the largest environmental impacts, and hold potential for reductions,” she says. “And by taking a proactive approach we will strengthen company resilience in the long run. One step could be to develop an environmental balance sheet to ensure that long-term costs of our environmental impact can be included in investment decisions.”

But is it even possible to reach a state where companies will have an environmental surplus? According to Anne, there are many ways in which negative environmental impacts can be reduced, but eliminating them completely will be difficult. However, an area where she sees a big potential for surplus would be if Novo Nordisk were to measure their social profit and loss account. “Novo Nordisk is already working a lot with social impact studies and health economics, so this makes sense to us – and it would provide a complete profit and loss account across all three bottom lines.”

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<td><strong>EUR Million</strong></td>
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<td>Novo Nordisk operations</td>
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<td>Tier 1</td>
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<td>Finished products and services that the company sources</td>
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<td>Tier 2</td>
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* Greenhouse gas (GHG) emissions
About Novo Nordisk and the Triple Bottom Line

Headquartered in Denmark, Novo Nordisk is a global healthcare company with 90 years of innovation and leadership in diabetes care. The company also has leading positions within haemophilia care, growth hormone therapy and hormone replacement therapy. We believe that a healthy economy, environment and society are fundamental to long-term value creation. This is why we manage our business in accordance with the Triple Bottom Line business principle and consider the financial, environmental and social impact of our business decisions. The strategic commitment to corporate sustainability has brought the company onto centre stage as a leading player in today’s business environment, recognised for its integrated reporting, stakeholder engagement and consistently high sustainability performance.

We want to hear from you!
Novo Nordisk believes that reaching out to stakeholders helps us to reconcile dilemmas and find common ground for more sustainable solutions. If you have any questions, comments, suggestions or if you would like to receive a notification when new issues are out, please send us a mail at sustainability@novonordisk.com or send us a tweet to @novonordisktbl.

For a deeper look at how Novo Nordisk works with sustainability, visit our website at novonordisk.com/sustainability.