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Corporate Sustainability Track

Runner-up

Embedding Sustainability At Novo Nordisk: The Compassion Vs Competitiveness Dilemma

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“How to strike the right balance between business and global health? Again, we were challenged by stakeholders... We set out to show that it is possible to be a profitable and a responsible business. We strengthened our approach to sustainability, now revolving around the right to health and the need for improved diabetes care, actions to combat climate change, ethical business behavior, human rights, and how we can connect the dots.”¹

– Lise Kingo, Executive vice president and chief of staffs, Novo Nordisk, in 2011

The Danish pharmaceutical company, Novo Nordisk, was named as the ‘most sustainable company in the world’ by the business magazine Corporate Knights^a for the year 2012. Another Novo group company, Novozymes A/S was also ranked fourth in the list of global 100 most sustainable corporations in the world (See Exhibit 1 for the top twenty companies in the list). Novo Nordisk received the recognition for a number of sustainability related initiatives that it had taken over the years since it had first faced a controversy regarding its business practices in the late 1960s. It started two important initiatives, viz. the Novo Nordisk Way of Management and the Triple Bottom Line philosophy to evolve as an organization with a key focus on sustainability.

Over the years, Novo Nordisk’s business grew substantially and it emerged as a leader in the global insulin market. In the new millennium, Novo Nordisk’s new sustainability strategy placed global health at the center of its sustainability initiatives. According to Novo Nordisk’s vision statement, the company strove to find the right balance between compassion and competitiveness. From then on, Novo Nordisk started selling its products at a subsidized price in some of the poorest countries around the world. Despite all the efforts that it took to protect the interests of all its stakeholders, in 2010, Novo Nordisk was severely criticized by patients and NGOs when it stopped selling its drugs in Greece when the crisis ridden government there ordered a 25 percent cut in the prices of all medicines sold in the country. Novo Nordisk was accused of putting profits above corporate social responsibility. Though the issue was settled later with the resumption of the sale of all its products in Greece, the episode badly dented the image of Novo Nordisk as a company with a focus on sustainability.

Faced with increased regulatory scrutiny and stakeholder activism, the challenge before the senior management of Novo Nordisk was how to tackle the issue and embed sustainability further in the company. According to them, as a global healthcare company focused on diabetes treatment, they had to often face the compassion vs competitiveness dilemma and the conflicting demands of multiple stakeholders. In their words: “Even though our core business philosophy requires us to make a difference where we can, there are significant dilemmas involved for us as a company. What role should we assume in developing countries? How can we develop new sustainable business models? How will our investors respond to such business models? How do we avoid creating unhealthy dependencies between us and our project partners?”²

^a Corporate Knights is a magazine focused on capitalism. The magazine focuses on how markets and companies can promote social and ecological sustainability. It is published four times a year in both the US and Canada.

Background note

Novo Nordisk, a global leader in insulin, was formed in 1989 through the merger of two Danish companies, Novo Industri A/S and Nordisk Gentofte A/S. Novo Nordisk's roots can be traced to Nordisk Insulinlaboratorium, which was founded in 1923 to produce insulin. Novo Nordisk pioneered many breakthroughs in diabetes treatment.

After the merger, Novo Nordisk A/S rolled out a lot of innovations like prefilled insulin syringes, oral treatment syringes, rapid acting insulin, etc. By the late 1990s, it started focusing more on international markets. In 2000, Novo Nordisk A/S was demerged into three separate companies — Novo Nordisk A/S (Novo Nordisk), Novozymes A/S, and Novo A/S. After the demerger of Novo Nordisk A/S, Novo A/S was made the holding company of the Novo Group and was wholly-owned by the Novo Nordisk Foundation. Majority shares in both Novo Nordisk and Novozymes A/S were transferred to Novo A/S. While Novo Nordisk continued to focus on pharmaceutical products and services, the enzymes business of Novo Nordisk A/S was transferred to Novozymes A/S. In the decade that followed the demerger, Novo Nordisk expanded its business across the globe and emerged as a leading pharmaceutical company in the area of diabetes care. By 2011, Novo Nordisk employed 32,000 people in 75 countries and marketed its products in 190 countries. For the financial year 2011, Novo Nordisk's revenue was Danish Kroner^b (DKK) 66.35 billion (See Exhibit 2 for the income statement of Novo Nordisk from 2007 to 2011).³ It was placed 18th on the list of top pharmaceutical companies of the world by revenue.

History of sustainability at Novo Nordisk

In the late 1960s, Novo Nordisk faced severe stakeholder criticism for the first time in its history. During the 1960s, Novo Nordisk's predecessor, Novo, had started producing enzymes through new production processes of fermentation of microorganisms. These new processes used genetically engineered microorganisms and led to the evolution of a successful new product line of enzymes. These enzymes became important ingredients in many products like detergents. Environmental organizations and activists alleged that the use of enzymes developed by Novo could cause skin allergies in people who came into contact with them. They also alleged that the dust generated during the production process of the enzymes could have serious effects on the health of Novo Nordisk's workers. An activist called Ralph Nader started a movement against the laundry industry in the US which created a stir both in the US and around the world. The sales of Novo fell dramatically between 1970 and 1971 due to the concerns raised by activists. Nearly 700 employees of Novo lost their jobs due to the crisis. Novo responded swiftly and developed dust-free enzymes which did not pose any risk to its consumers or employees. The sales of Novo's enzyme products rose soon and enzyme production became an important part of Novo's business in many countries like Denmark, the US, and Japan. This episode made Novo realize the importance of keeping the interests of all stakeholders in mind. Since then, Novo,

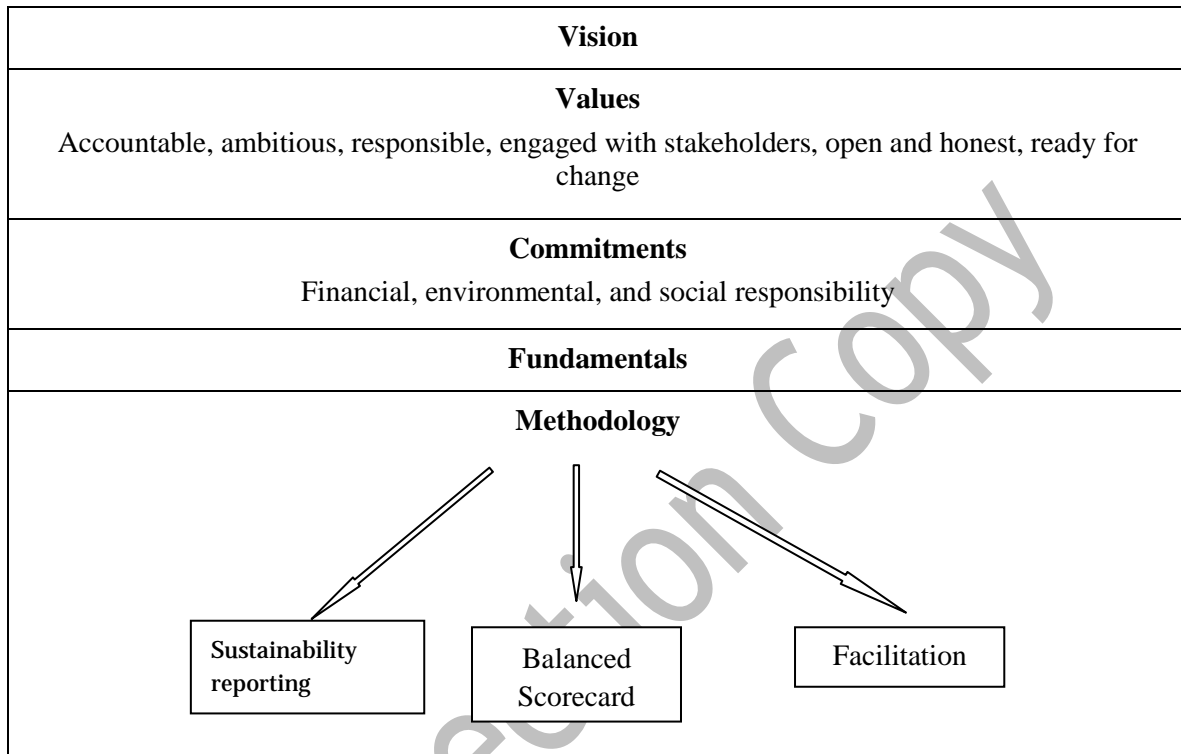
^b The Danish Kroner is the official currency of Denmark, Greenland, and the Faroe Islands. As of September 2012, one Danish Kroner was approximately equal to 0.1696 US\$.

and subsequently, Novo Nordisk, focused on producing products which did not affect the health of consumers and which were environmental friendly.

Novo Nordisk took its first significant step toward sustainable development in 1989 when it conducted its first environmental management review. It took this significant step as an element of its proactive stakeholder strategy in the days when environmental reporting was not compulsory for companies like Novo Nordisk. From 1991, it started organizing visits of its laboratories and production facilities for representatives of NGOs as part of its stakeholder engagement strategy.⁴ In 1992, some people from Novo Nordisk attended the United Nations Conference on Environment and Development (UNCED) Earth Summit organized in Rio de Janeiro. The summit made Novo Nordisk realize the importance of environmental protection and led to its reinforcing its commitment to sustainable development. Commenting on the impact that the 1992 Earth Summit had on Novo Nordisk's commitment to sustainable development, Novo Nordisk's executive vice president and chief of staffs, Lise Kingo (Kingo), said, "We came back from Rio with a better understanding of how huge an agenda environmental protection was, how many stakeholders were involved, and that many other companies were taking an interest. It was a real eye-opener."⁵ In 1994, Novo Nordisk published its first environmental report. It became the first company in Denmark and one of the first in the world to publish an environmental report.⁶ The report contained details regarding resource consumption, emissions in its production processes, and the use of animals in its experiments. The environmental report was followed by Novo Nordisk's first social report in 1998. And since 1999, Novo Nordisk started publishing annual reports on sustainability which integrated its environmental, social, and economic concerns.

Novo Nordisk way of management

In 1996, Novo Nordisk introduced the 'Novo Nordisk Way of Management' (NNWM) to serve as an overall guidance system to reach its strategic goals. NNWM served as the value-based governance framework for the company. It described how people at Novo Nordisk put values into action and defined the principles to be followed by the company while doing business.⁷ NNWM offered a broad framework of guidelines to the employees and covered Novo Nordisk's activities beyond the products and manufacturing operations. The central part of the goal was to integrate and implement the various sustainable business practices of Novo Nordisk. NNWM consisted of three parts, viz. the vision, the charter, and global company policies (See Figure I for Novo Nordisk Way of Management and Exhibit 3 for its building blocks of sustainability).

Figure I**Novo Nordisk Way of Management**

Source: "Novo Nordisk A/S: Sustainability Report 2003," <http://www.novonordisk.com>.

The vision of NNWM set the direction for Novo Nordisk. It expressed what goals Novo Nordisk was striving to achieve, how the company wanted to achieve its goals, and how the company was guided by its values to strike the right balance between its commercial interests and acting as a responsible business. The Charter explained the company's values, commitments, fundamentals, and follow-up methods. The values highlighted the company's commitment to the Triple Bottom Line and sustainable development. Fundamentals were a set of 11 management principles to ensure it stayed focused on its business objectives, customers, compliance, collaboration, and sharing of better practices, and quality mindset.⁸ Follow-up methods provided a systematic documentation of the performance of all material areas of Novo Nordisk. The global company policies set global standards for its managers and gave operational guidelines on 13 specific areas related to its business.

In addition to coming out with an innovative way of managing its activities through NNWM, Novo Nordisk took steps to ensure that the entire organization understood and followed it. It had developed a methodology consisting of three elements: facilitators, sustainability reporting, and balanced scorecard. The facilitators were a group of 16 senior professionals at Novo Nordisk's holding company Novo A/S. These facilitators traveled in pairs and visited all the business units and levels of the whole organization once every three years. They performed a well-planned and structured assessment of the implementation of NNWM within a project or unit. The main objective of the facilitation process was to develop agreed upon actions for improvement. The facilitation process consisted of three stages. The first

was the pre-facilitation stage in which the scope of the facilitation process was identified. The second stage was the facilitation itself. In this stage, the facilitators met the unit and project members and arrived at an agreement regarding improvements to be made wherever non-compliance had been identified. In the third stage, the post-facilitation process was conducted in which the facilitator followed up on the progress and reports to the management team about the achievements and shortfalls, if any, from the facilitation process.

Sustainability reporting was used to ensure that sustainability became a part of Novo Nordisk's corporate culture. Novo Nordisk had come a long way in sustainability reporting since it first published its first environmental report in 1994. From 1999, it started publishing annual reports on sustainability which integrated its environmental, social, and economic concerns. The reports documented Novo Nordisk's ambitions, initiatives, goals, and results related to environmental and social responsibility. From the year 2004, information on sustainability was integrated with its financial results and published as part of its annual report.

In 1996, Novo Nordisk started using the balanced scorecard^c. It was initially used as a finance initiative. Later, it began to be used to integrate the company's sustainability approach with all its business processes. One balanced scorecard was prepared for the organization as a whole and separate balanced scorecards were prepared at the executive VP, senior VP, and in some cases even at the sub-unit levels (e.g. a single factory). Novo Nordisk's balanced scorecard had a total of 24 objectives under four headings: customers and society, finance, business processes, and people and organization (See Exhibit 4 for a sample Balanced Scorecard of Novo Nordisk).

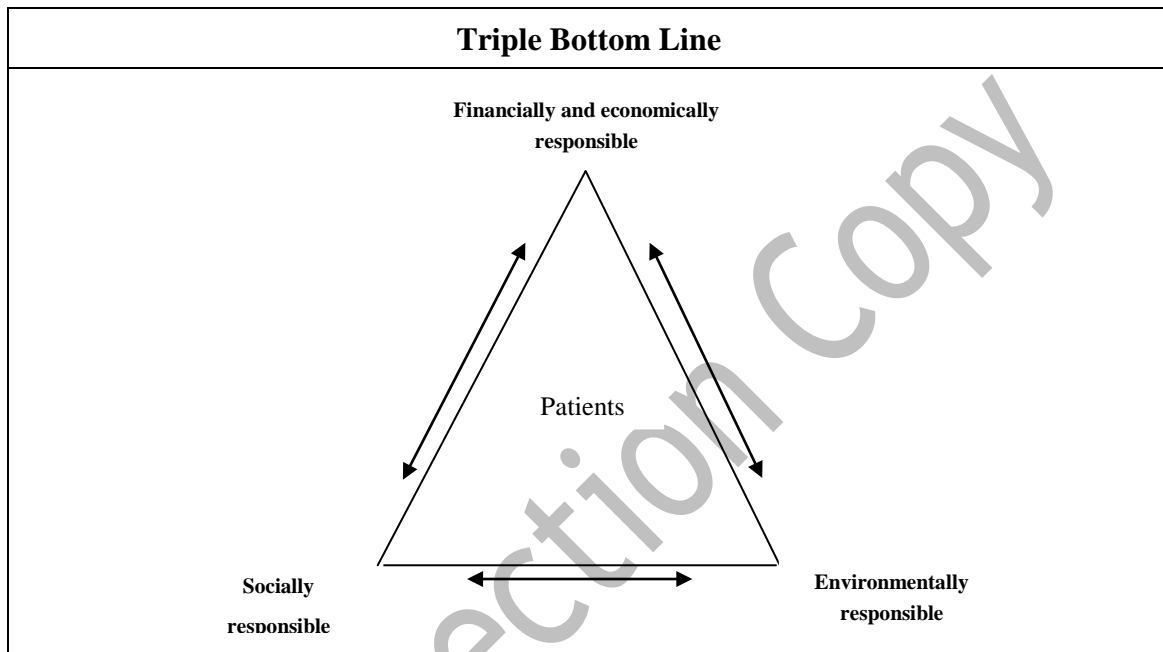
Triple bottom line

In 1997, just one year after it introduced NNWM, Novo Nordisk started another important initiative to help it evolve as an organization practicing sustainable business practices. It introduced the Triple Bottom Line (TBL) philosophy to maximize value to all its stakeholders. The TBL philosophy focused on operating in a way that was financially, environmentally, and socially responsible (See Figure II for Triple Bottom Line). The main objective behind the introduction of the TBL philosophy was to balance its short-term profitability with the long-term interests of the society. In this way, Novo Nordisk aimed at optimizing its business performance in all the societies in which it had its operations. It made the TBL philosophy its top strategic priority as it believed from the beginning that being socially responsible, environmentally sound, and economically viable made good business sense. Simply put, the TBL philosophy was the way Novo Nordisk chose to interpret its commitment toward sustainable development. Commenting on the importance of the TBL philosophy, Novo Nordisk's President and CEO, Lars Rebién Sørensen (Sørensen), said, "The main foundation for Novo Nordisk is the triple bottom line because that is what's

^c Balanced scorecard is a strategic planning and management system used by both business and non-business organizations around the world. It was propounded by Robert Kaplan and David Norton. It adds non-financial measures to the traditional financial metrics to give managers a more balanced view of organizational performance.

protecting our license to operate. That begs and obliges everybody in the company not only to see that we become a good business – that's the financial bottom line – but that we do so in a way that is socially and environmentally responsible.⁹ Over time, Novo Nordisk embedded the TBL philosophy into the corporate governance structures, management tools, performance appraisal and reward schemes of its employees.¹⁰

Figure II



Source: "Our Approach to Sustainability," <http://www.novonordisk.com>.

Novo Nordisk formulated its first environmental policy in the early 1980s and made a lot of progress in its environmental performance from then on.¹¹ On the environmental front, Novo Nordisk committed itself to continuously improving its environmental performance. It aimed to achieve this by setting itself stiff targets and by merging environmental and bioethical considerations into its regular business activities. Novo Nordisk started to have an open dialogue with all its stakeholders regarding its commitment toward the conservation of the environment. It also initiated annual reporting of its progress in environmental performance. It supported the United Nations Convention on Biological Diversity^d to emphasize its focus on sustainability. On the social front too, Novo Nordisk started to set high objectives and to integrate social, human rights, and health and safety considerations into its daily business activities. Like environment reporting, Novo Nordisk annually reported on its social performance. It offered a patient assistance program for those who did not have private health insurance and who did not get any medical assistance from their governments.¹² Under the program, patients were required to apply to Novo Nordisk for

^d United Nations Convention on Biological Diversity is an international legal treaty with the three main goals of conserving biological diversity, sustainable use of its components, and equal sharing of benefits arising from genetic resources. The treaty was opened for signature at the Earth Summit in Rio de Janeiro in June 1992 and came into force in December 1993.

medical assistance and medicines were supplied free of cost to applicants who qualified. Under the TBL philosophy, Novo Nordisk also committed itself to focusing on continuously improving its financial performance by reaching new milestones in growth and to creating value for its shareholders. It complied with international reporting standards of its financial statements.

In 2004, Novo Nordisk updated its Articles of Association and bylaws and included in the objectives the words 'the company seeks to conduct its business in a way that is financially, environmentally, and socially responsible'.¹³

Progress on sustainability

After the demerger of Novo Nordisk A/S, a new sustainability strategy focusing on the healthcare business of Novo Nordisk was developed. This new strategy marked the shift to Novo Nordisk's next stage of sustainability endeavors. According to the new strategy, Novo Nordisk would have global health at the heart of its sustainability initiatives.¹⁴ Despite its focus on sustainability for such a long period of time, Novo Nordisk faced new criticism from activists and NGOs regarding its business practices after the demerger. In 2001, a consortium of 38 pharmaceutical companies along with Novo Nordisk filed a lawsuit against the South African government for violating their intellectual property rights, mostly in relation to the medicines used in the treatment of AIDS. The South African government sought to deliver generic versions of some AIDS medicines in South Africa by using a 1997 law called the Medicines and Related Substances Control Amendment Act (MRSCA).¹⁵ MRSCA allowed the South African government to procure the cheapest possible medicines for all purposes from both international and local suppliers. The law also gave the South African health ministry the right to override pharmaceutical patents whenever the government thought that public health was at stake. While the Agreement on Trade Related Aspects of Intellectual Property Rights^e (TRIPS) allowed countries to produce copies of patented medicines in cases of national emergencies like the AIDS epidemic, the consortium members felt that MRSCA gave the South African government the right to infringe the patent rights of any pharmaceutical product even if there were no national emergencies. Novo Nordisk and members of the consortium faced heavy criticism from activists and NGOs regarding the case. The consortium members were accused of giving more importance to profits than to the health of poor people living in the developing countries. The case also caused public concern in Denmark regarding the business practices of Novo Nordisk.

Novo Nordisk was quick to react to the criticism and it started a dialogue with the NGOs. It came out with a new policy to increase its presence in developing countries and to develop new medicines for combating diseases there. It adopted a new pricing policy under which it started supplying insulin to the 50 poorest countries designated by the United Nations at 20 percent of the average price in North America, Europe, and Japan. Through this new pricing policy called sustainable pricing, Novo Nordisk ensured that it did not earn any profits on its sales in poor countries. It also ensured that the research and development costs for Novo

^e The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement related to intellectual property administered by the World Trade Organization (WTO).

Nordisk's drugs sold in poor countries were borne by its consumers in the developed world. In effect, Novo Nordisk started cross subsidizing its products sold in developing countries. Commenting on the new pricing policy, Sorensen said, "We advocate sustainable pricing. That means we will not levy a profit on these products sold to the developing world, but rather the costs of our research and development will be borne by the developed world. Of course, this hinges on a psychological contract – namely that developed countries are willing to subsidize developing countries."¹⁶ The case with the South African government was settled out of court with the consortium withdrawing the case and the South African government agreeing to honor its obligations under TRIPS. In 2001, Novo Nordisk established the World Diabetes Foundation with the objective of improving diabetes care in poor countries through education, capacity building, distribution, procurement of essential drugs, and monitoring of the care given.

The case filed against the South African government and the subsequent developments made Novo Nordisk think more about its role in increasing access to healthcare and essential medicines. It also highlighted the need to engage in continuous dialogue with its stakeholders and monitor their concerns. In 2001, Novo Nordisk started the Triple Bottom Line reporting (TBL). TBL reporting focused on the progress made by the company in its commitments toward the economy, society, and environment according to its TBL philosophy (See Exhibit 5 for the Novo Nordisk learning curve and Exhibit 6 for its stakeholder maps over the years). Novo Nordisk became a signatory to the United Nations Global Compact,^f a global platform for promoting good corporate principles and learning, in the year 2001. Over the years, Novo Nordisk changed the focus of its sustainability policy from the environment to health, safety, bioethics, and integrating issues related to social responsibility. In 2005, Novo Nordisk launched its 'Changing Diabetes' brand platform. The Changing Diabetes initiative aimed at bringing about a change in the lives of people suffering from diabetes through several other ways apart from treatment like science, humanitarian outreach, education, and public policy.¹⁷ The ultimate goal of the Changing Diabetes program initiative was to defeat the diabetes pandemic.¹⁸ Novo Nordisk took up ambitious challenges to tackle diabetes globally which was not an easy task considering that a huge percentage of the people afflicted were from developing countries and were less able to afford the treatment (See Exhibit 7 for economic pyramid and access to diabetes care, and Exhibit 8 for Novo Nordisk's ambitions in improving access to diabetes care up to 2015).

Climate change

Manufacturing insulin was an energy intensive process. Therefore, another important area which Novo Nordisk focused on as part of its sustainable development initiatives was climate change. Novo Nordisk set long-term environmental targets in three areas, viz. CO₂ emissions from energy consumption, energy consumption, and water consumption. During 2003-2004, Novo Nordisk's environmental management practices at all its production facilities

^f The United Nations Global Compact is a United Nations initiative to encourage businesses around the world to adopt policies which are sustainable and socially responsible and report on their implementation.

were certified according to the ISO 14001 standard^g. After lot of preparation and assessment, Novo Nordisk signed an agreement with the World Wildlife Fund for Nature (WWF)^h in 2006 which made it the 10th member of the Climate Savers Program. The Climate Savers Program required the participating organizations to commit themselves to cutting CO₂ emissions in their operations. Novo Nordisk followed the way of setting targets and implementing improvement measures to reduce its environmental footprint. It set a target of reducing its CO₂ emissions by 10 percent in absolute terms by 2014 when compared with the 2004 emission levels.

Along with the target to reduce CO₂ emissions, Novo Nordisk established a new climate strategy which required it to achieve the reduction in CO₂ emissions through improvements in productivity, savings in energy consumption, and shift to renewable sources. Manufacturing insulin was an energy intensive process and reducing CO₂ emissions required innovation. Novo Nordisk invested US\$ 20 million to start a new global energy-efficiency campaign. The campaign required energy screenings to be conducted every three years at all its production sites and the appointment of energy stewards. The agreement with WWF required that Novo Nordisk could not rely on carbon offsets or buy power from existing renewable sources. Kingo said, "It was a very ambitious target. We knew it would require innovation."¹⁹ To achieve its target of CO₂ emissions, it pioneered a partnership model where Novo Nordisk entered into a partnership with Denmark's largest energy company, DONG Energyⁱ. As per the partnership, the consultants of DONG Energy along with the employees of Novo Nordisk identified energy-reducing measures at its Danish production sites. After the energy-saving measures were identified and monetary savings achieved, Novo Nordisk pledged to utilize the resulting monetary savings to purchase green energy (electricity) produced through wind turbines from DONG Energy. Novo Nordisk helped DONG Energy to set up a wind farm from where it procured its required power. The green energy purchased from DONG Energy was used at its Danish production sites where 90 percent of its CO₂ emissions occurred. DONG Energy built a new offshore wind farm to supply green energy to Novo Nordisk's production facilities. By following this innovative approach, Novo Nordisk achieved its targeted reduction in CO₂ emissions by 2010, three years ahead of schedule (See Exhibit 9 for Novo Nordisk's CO₂ emissions from 2007 to 2011). By 2011, its CO₂ emissions were down by 56 percent when compared with that in 2004.²⁰ It also set a target of reducing its total energy consumption by 11 percent by 2011 — to 2,425,000 GJ^j when compared to the 2007 levels. Novo Nordisk reached its energy consumption target by 2009 itself and limited its total energy consumption to just 2,187,000 GJ by 2011²¹ (See Exhibit 10 for Novo Nordisk's Energy Consumption from 2007 to 2011).

Commenting on the success of the partnership model, Per Valstorp, Senior vice president of Novo Nordisk Product Supply division, said, "This really was a very ambitious target. Had we not launched emission reduction programs, Novo Nordisk's emissions were projected to

^g ISO14001 standard acts as a framework to assist organizations in developing their own environmental system. It belongs to the ISO 14000 family of standards which are related to environmental management.

^h World Wildlife Fund for Nature, headquartered in Gland, Switzerland, is an international NGO working in areas related to conservation, research, and restoration of the environment.

ⁱ DONG Energy, headquartered in Fredericia, Denmark, is the leading energy company in Denmark.

^j GJ refers to Gigajoule which is equal to one billion joules. Joule is a derived unit of energy, work or heat in the International System of Units.

increase by approximately 67% during the period 2004–2014.”²² Inspired by Novo Nordisk’s success, many corporations around the world entered into similar partnerships to reduce their carbon emissions. Jon Hoff, senior Vice President at Novo Nordisk, who was involved in developing the partnership model said, “We have demonstrated that there is a sensible, cost-neutral way to achieve reductions in CO₂ emissions. The fact that others have been inspired means we have been able to have impact beyond what we could have done ourselves.”²³

In the year 2008, Novo Nordisk started a water management program to reduce the consumption of water in its operations. It put special emphasis on its production sites where there was a water shortage like Tianjin in China and Monte Claros in Brazil.²⁴ Its water conservation efforts paid off and Novo Nordisk reduced its water consumption from 3,231,000 m³^k in 2007 to 2,136,000 m³ in 2011 (See Exhibit 11 for Novo Nordisk’s Water Consumption from 2007 to 2011).

Greek price cut controversy

By the year 2005, Novo Nordisk had significantly grown its business around the world. In 2005, it emerged as the leader in the US insulin market for the first time since it had entered the market. By 2011, it got 40.1 percent of its sales from North America and 28.9 percent of its sales from Europe (See Exhibit 12 for the sales of Novo Nordisk by geographic region for the year 2011). Novo Nordisk also emerged as the leading producer of insulin in the world with a market share of 50 percent.²⁵ Despite its growth and sustainable development, it again faced allegations regarding its business practices.

In the year 2010, Novo Nordisk stopped selling some of its insulin products in Greece. The decision to do so came after the government there decreed a 25 percent cut in the prices of all the medicines sold due to the debt crisis¹ that the country was facing. Novo Nordisk said that the price cut would result in a loss to its business. Commenting on the decision to stop selling its products in Greece, Mike Rulisthe, spokesperson of Novo Nordisk, said, “A 25 percent price cut does not allow us to run a sustainable business in Greece, and this is what we have told the government.”²⁶ Novo Nordisk further said that a price cut in Greece would lead to similar moves in other countries where the prices in Greece were taken as reference prices which would result in serious financial consequences for the company. At the time of their withdrawal from the market, nearly 50,000 people suffering from type 1 diabetes in Greece used Novo Nordisk’s insulin products for their survival. Novo Nordisk was severely criticized by patients and NGOs for the withdrawal. Activists alleged that this decision ran contrary to the social responsibility that Novo Nordisk claimed in its annual reports. The Greek diabetes association called the withdrawal of Novo Nordisk’s insulin products from Greece a “brutal blackmail and a violation of corporate social responsibility.”²⁷

^k M3 refers to SI derived unit of volume, cubic meter. 1 cubic meter is equal to 1,000 liters.

¹ The Greek government-debt crisis was a financial crisis that the Greek government was facing since 2009 due to many factors like high government debt and rising fiscal deficit. The Greek government had implemented several austerity measures to deal with the crisis.

Novo Nordisk responded to the criticism saying that the Greece government owed it US\$ 36 million in the form of unpaid bills and blamed the improper handling of the Greece economy by its government for the situation. The chairman of Novo Nordisk, Lars Sorensen, said that it was “the irresponsible management of finances by the Greek government which puts both you and our company in this difficult position.”²⁸ Novo Nordisk also said that it had stopped selling only its modern products like pen devices and patented insulin products in Greece. It said it continued to sell its other insulin product, Novolinbiosynthetic human insulin.²⁹ It also continued to provide another of its cheaper insulin products, glucagen insulin, free of charge in Greece.³⁰ Novo Nordisk claimed that these products were sufficient for the survival of any person suffering from diabetes. Activists alleged that Novo Nordisk was trying to shift the responsibility on to the Greece government while focusing only on profits. The company had been steadily raising the price of its insulin products for six consecutive quarters across the world which resulted in a higher profit margin for its insulin products, they said. Pavlos Panayotacos a Greek economist whose 10-year-old daughter suffered from diabetes, said in a letter to Novo Nordisk, “As an economist I realize the importance of making a profit, but healthcare is more than just the bottom line. As you well may know, Greece is presently in dire economic and social straits, and you could not have acted in a more insensitive manner at a more inopportune time.”³¹

Novo Nordisk resumed selling all its insulin products in Greece after the government agreed to raise the prices of its drugs there in July 2010.³² But, the prices were still 10 percent less than what they had been before the controversy erupted.

Looking ahead

Novo Nordisk got several recognitions for its progress in sustainable development. It was named as the most sustainable company in the world by the business magazine Corporate Knights for the year 2012. Commenting on the recognition, Kingo said, “This is a wonderful recognition of our Triple Bottom Line approach and a clear indication that Novo Nordisk is poised for long-term business success. But most importantly, it is an encouragement to continue to find new ways of growing our business in a way that is profitable, responsible, and valuable for patients, employees, and society.”³³ Novo Nordisk was listed in the 2010/2011 Dow Jones Sustainability Indices^m (DJSI).³⁴ It was also awarded a gold class ratingⁿ by Sustainability Asset Management^o (SAM) in its Sustainability Yearbook 2011 in recognition of its integrated reporting, stakeholder engagement, and its consistent high sustainability performance.³⁵

Novo Nordisk continued its initiatives in sustainability. To inculcate a sense of responsibility among its employees toward all the stakeholders, it started training its employees in Business Ethics. By 2011, nearly 99 percent of the relevant employees had been trained in

^m Dow Jones Sustainability indexers are a group of indexes which evaluate the world's leading companies in their sustainability practices.

ⁿ To qualify for the Gold Class distinction, a company's Dow Jones Sustainability Indexes score needs to be within the 5% of the respective sector leader's score.

^o Sustainable Asset Management, headquartered in Zurich, Switzerland is an international investment company with exclusive focus on sustainability investments.

business ethics. Novo Nordisk also started to have diverse senior management teams to understand the needs of various sections of the society properly. By 2011, 62 percent of its senior management teams had members from diverse backgrounds. It set a target of having 100 percent of senior management teams from diverse backgrounds by the year 2014.

By the year 2011, Novo Nordisk was selling its insulin products at a subsidized price in 75 percent of the least developed countries (See Exhibit 13 for the percentage of poorest countries where Novo Nordisk sold its subsidized insulin). And, it had a long-term target of making its cheaper insulin products available in 100 percent of the least developed countries. However, despite the resumption of the sales of its products in Greece, the controversy regarding the Greek price cut was seen by many analysts as a big public relations disaster for Novo Nordisk. They said that the episode had dented its image as a champion of sustainable development. They contended that the problems faced by Novo Nordisk highlighted the increased regulatory scrutiny and stakeholder activism that companies around the world were facing in their operations. It also led some analysts to question the readiness of the company to face the new challenging environment. The question was, as a global healthcare company, how could Novo Nordisk strike the right balance between business and global health?

Exhibit 1: Top Twenty Companies on the 2012 Corporate Knights Global 100 Most Sustainable Corporations in the World List

Company	Country	Industry
Novo Nordisk A/S	Denmark	Health Care
NaturaCosmeticos S.A.	Brazil	Consumer Staples
Statoil ASA	Norway	Energy
Novozymes A/S	Denmark	Materials
ASML Holding NV	Netherlands	Information Technology
BG Group Plc	United Kingdom	Energy
Vivendi S.A.	France	Telecommunication Services
Umicore S.A./N.V.	Belgium	Materials
Norsk Hydro ASA	Norway	Materials
Atlas Copco AB	Sweden	Industrials
Sims Metal Management Ltd	Australia	Materials
Koninklijke Philips Electronics NV	Netherlands	Industrials
Teliasonera AB	Sweden	Telecommunication Services
Westpac Banking Corp.	Australia	Financials
Life Technologies Corp.	US	Health Care
Credit Agricole SA	France	Financials
Henkel AG & Co. KGaA	Germany	Consumer Staples
Intel Corp.	US	Information Technology
Neste Oil Oyj	Finland	Energy
Swisscom AG	Switzerland	Telecommunication Services

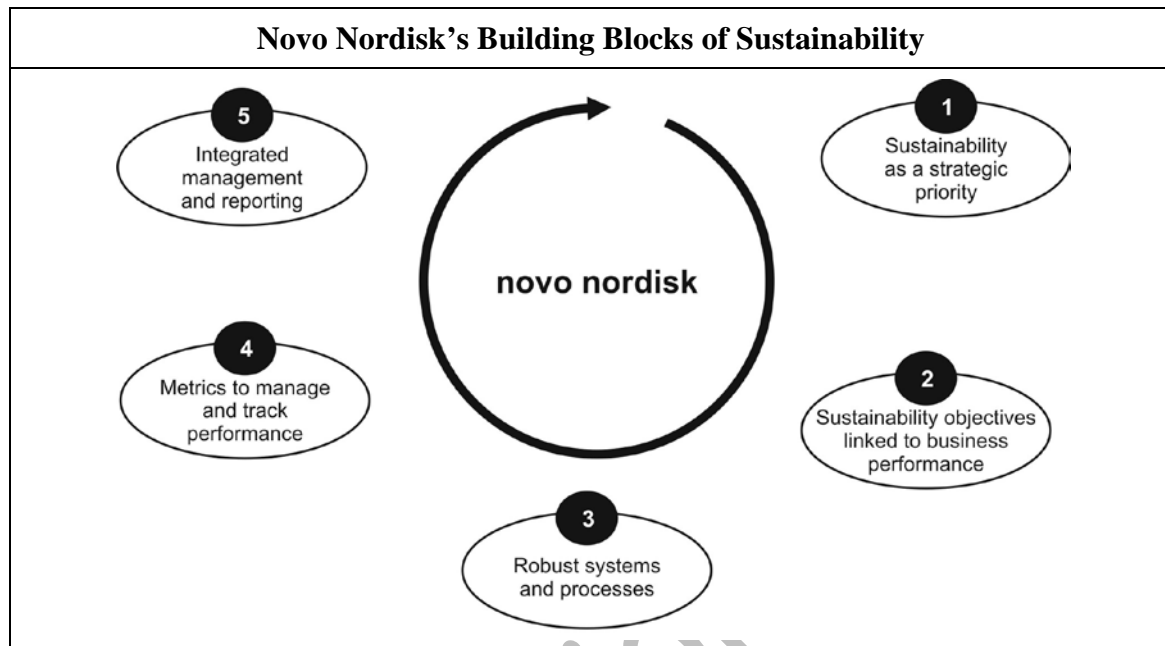
Source: Tilde Herrera, "Novo Nordisk Tops List of World's 100 Most Sustainable Firms," www.greenbiz.com, January 25, 2012.

Exhibit 2: Income Statement of Novo Nordisk from 2007 to 2011 (Figures in DKK million)

	2011	2010	2009	2008	2007
Sales	66,346	60,776	51,078	45,553	41,831
Cost of goods sold	12,589	11,680	10,438	10,109	9,793
Gross profit	53,757	49,096	40,640	35,444	32,038
Sales and distribution costs	19,004	18,195	15,420	12,866	12,371
Research and development costs	9,628	9,602	7,864	7,856	8,538
-hereof costs related to discontinuation of all pulmonary diabetes projects	-	-	-	(325)	(1,325)
Administrative expenses	3,245	3,065	2,764	2,635	2,508
Licence fees and other operating income, net	494	657	341	286	321
Operating profit	22,374	18,891	14,933	12,373	8,942
Share of profit/(loss) of associated companies, net of tax	(4)	1,070	(55)	(124)	1,233
Financial income	514	382	375	1,127	1,303
Financial expenses	959	2,057	1,265	681	507
Profit before income taxes	21,925	18,286	13,988	12,695	10,971
Income taxes	4,828	3,883	3,220	3,050	2,449
Net profit for the year	17,097	14,403	10,768	9,645	8,522

Source: Novo Nordisk Annual Report, 2011; Novo Nordisk Annual Report, 2009.

Exhibit 3



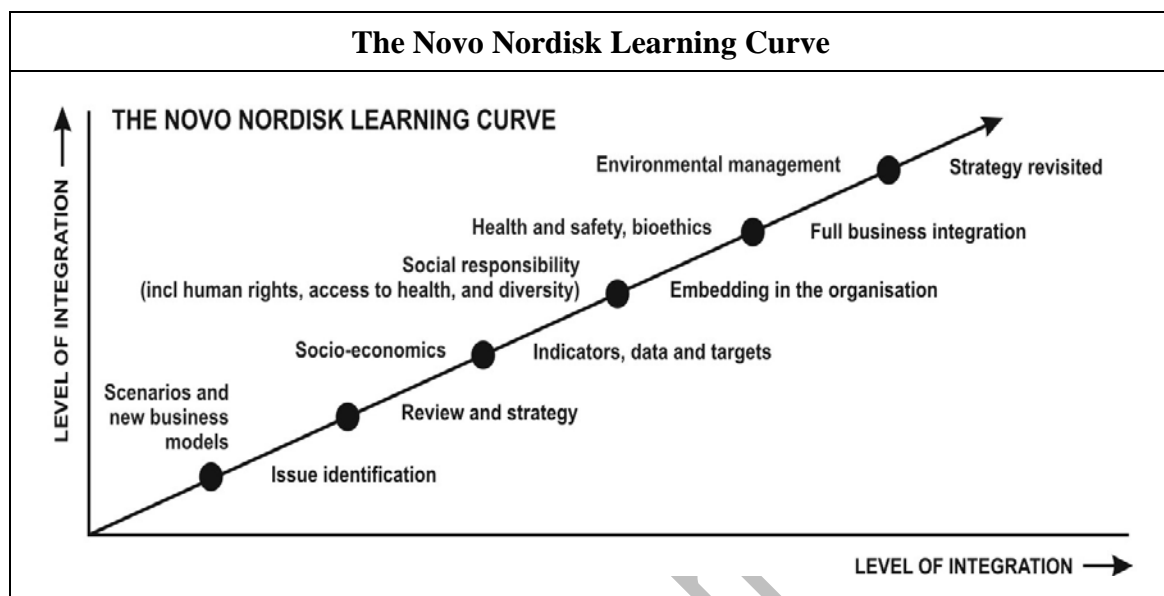
Source: "20 Years in the Business of Sustainability," <http://www.novonordisk.com>, 2012.

Exhibit 4: A Sample Balance Scorecard of Novo Nordisk

Customers & Society	Finance
<ul style="list-style-type: none"> • Realize the full potential of strategic products • Improve market share globally • Ensure successful implementation of US and Japanese Business plan • Achieve superior customer satisfaction • Improve social, environmental and bioethical performance 	<ul style="list-style-type: none"> • Growth in operating profit • ROIC • Operating margin • Cash to Earnings Ratio
Business Processes	People & Organization
<ul style="list-style-type: none"> • Discovery Speed quality and productivity • Competitive development portfolio • Ensure launch capabilities with GP segment • Improve quality management focus in all business processes • Timely and efficient execution of investment portfolio • Ensure effective use of IT supporting the business strategies 	<ul style="list-style-type: none"> • Customer relations • Winning culture • Attract and retain the best • Development of people • Social responsibility

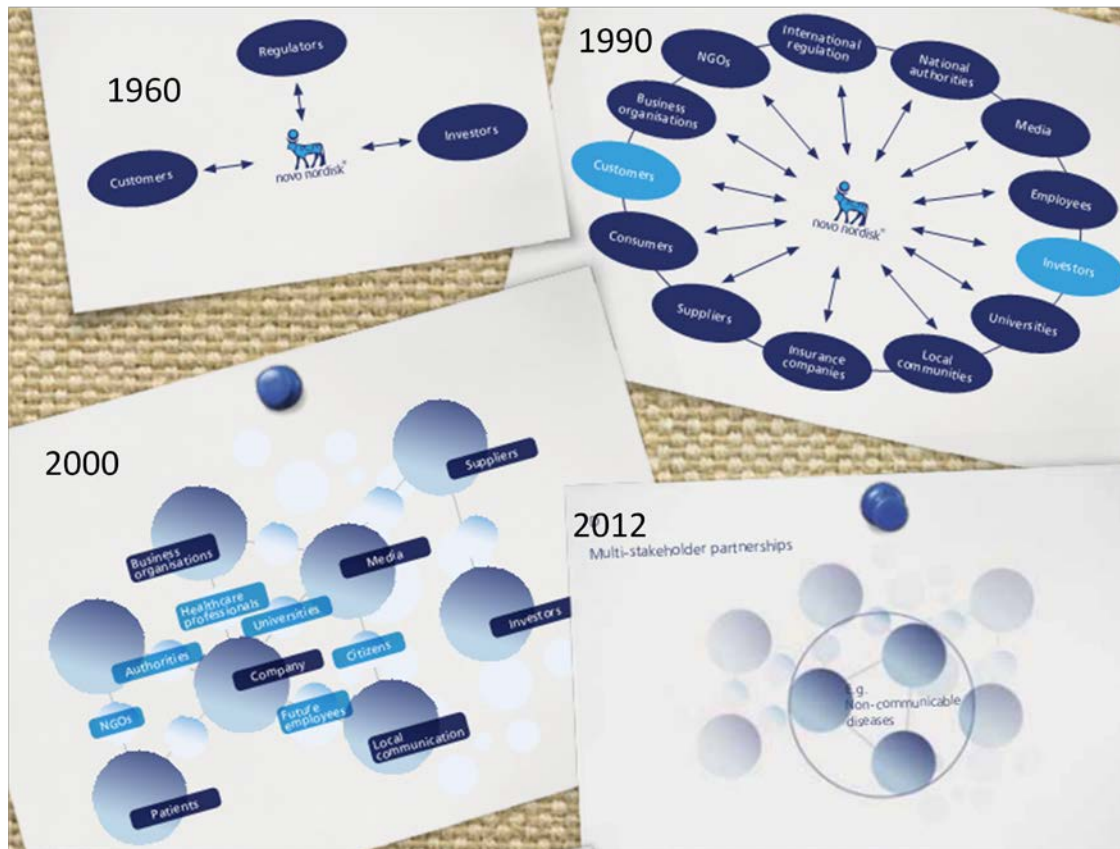
Source: F. Zingales and K. Hockerts, "Balanced Scorecard and Sustainability: Examples from Literature and Practice," CMER Working Paper Series.

Exhibit V



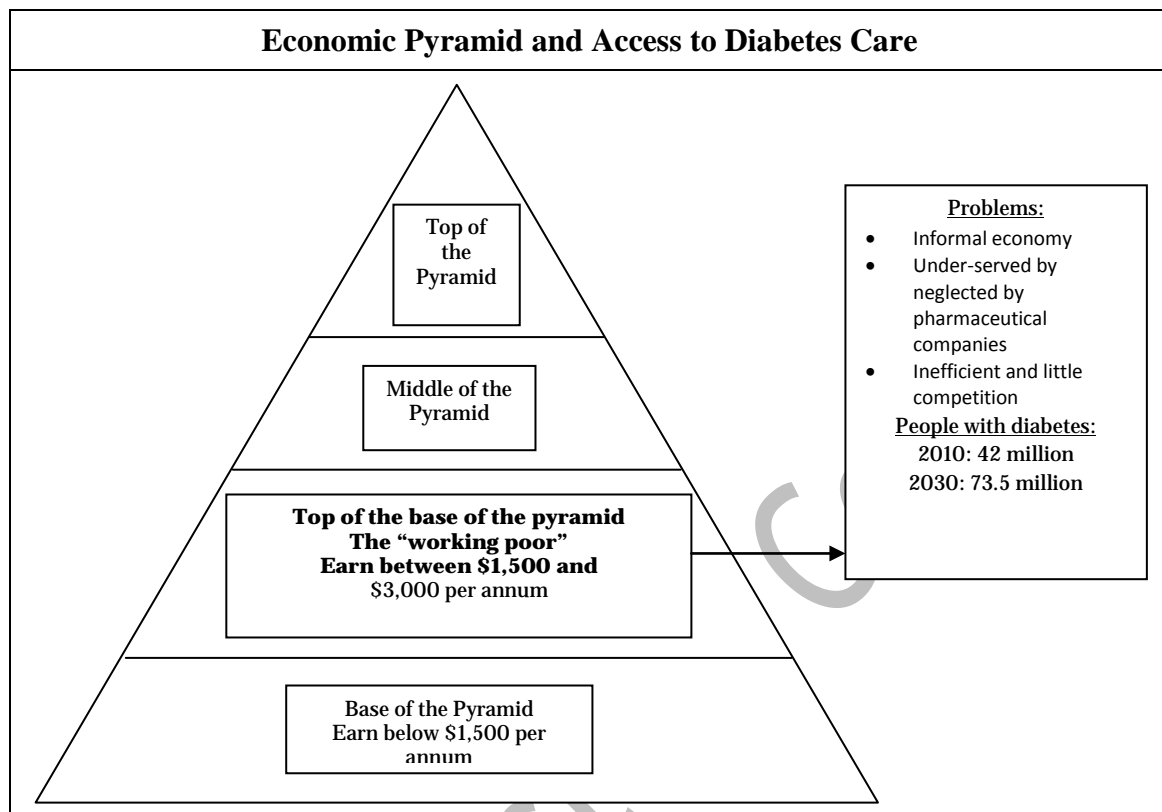
Source: "20 Years in the Business of Sustainability," <http://www.novonordisk.com>, 2012.

Exhibit 6: Novo Nordisk Stakeholder Maps over the Years



Source: "20 Years in the Business of Sustainability," <http://www.novonordisk.com>, 2012.

Exhibit 7



Source: “Access to Health: Our Approach,” <http://www.novonordisk.com>.

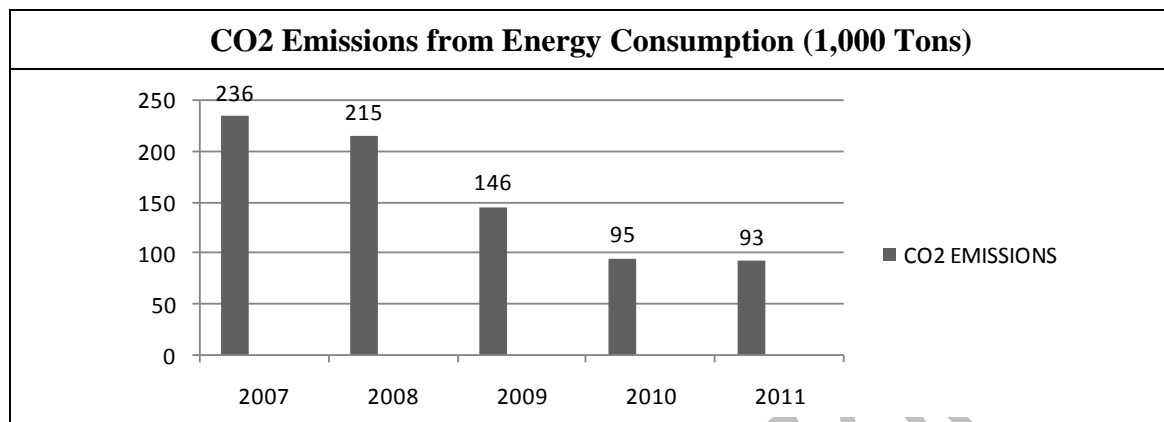
Exhibit 8: Novo Nordisk's Ambitions in Improving Access to Diabetes Care Up to 2015

Ambition	Focus area	Approach
<u>Availability of treatment:</u> Develop quality-assured diabetes treatment for all	Make insulin available to people with diabetes globally	<ul style="list-style-type: none"> • Ensure continued supply of human insulin to low- and middle-income countries for at least another 10 years • Support research to document consequences and implications of diabetes • Share discoveries and knowledge that could have application in infectious-disease areas
	Address distribution challenges at the base of pyramid (BOP)	Explore business models for people living with diabetes in the BOP segment
	Facilitate technology transfer	Work with public and private institutions in low- and middle-income countries to enhance healthcare provision to the benefit of all patients
<u>Accessibility of healthcare:</u> Work with partners to make diabetes care more accessible for those in need	Support strengthening of health-care systems	Contribute to the training of healthcare professionals
	Improve accessibility to insulin in remote areas	Reach out to people with diabetes in remote areas
	Improve access to diabetes care for women and children	<ul style="list-style-type: none"> • Establish partnerships for the improved delivery of care to children with diabetes in low- and middle-income countries • Establish partnership-based interventions as part of a long-term commitment to the improvement of health of women and the next generation
<u>Affordability of treatment:</u> Work to improve affordability of treatment for patients, particularly in resource-poor settings	Improve funding for diabetes healthcare	Continue our annual endowment to the World Diabetes Foundation
	Improve affordability of insulin	<ul style="list-style-type: none"> • Continue our differential pricing policy and provide insulin to the governments in least developed countries at maximum 20 US cents per patient per day • Work in partnership with governments and other organizations to increase the number of patients we reach in low- and middle-income countries
<u>Quality for patients:</u> Quality assurance in diabetes treatment for	Conduct responsible and ethical clinical trials	<ul style="list-style-type: none"> • Support and ensure full transparency of clinical-trial activities and results • Ensure that all persons enrolled in Novo Nordisk-sponsored research are protected by the same rights, high ethical

Ambition	Focus area	Approach
patients		standards and regulations, regardless of geography
	Work for safe medicines	<ul style="list-style-type: none"> • Maintain one global quality standard • Work against counterfeiting • Work with ministries of health and distributors to establish effective supply chains for delivery of insulin
	Empower people with diabetes to achieve better health and quality of life	<ul style="list-style-type: none"> • Continue research into the understanding of patient needs, including the psychosocial barriers against adhering to treatment regimens • Continue engaging with stakeholders, with a view to identifying areas for improvement in the management of diabetes • Support healthcare professionals to deliver better quality healthcare, building on principles of patient involvement and ongoing support

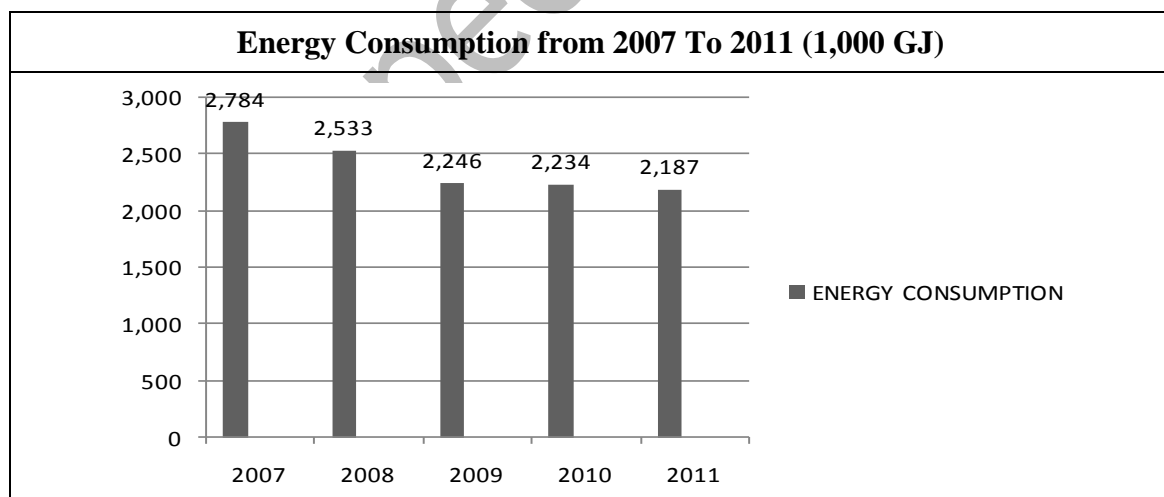
Source: "Access to Health: Our Approach," <http://www.novonordisk.com>.

Exhibit 9



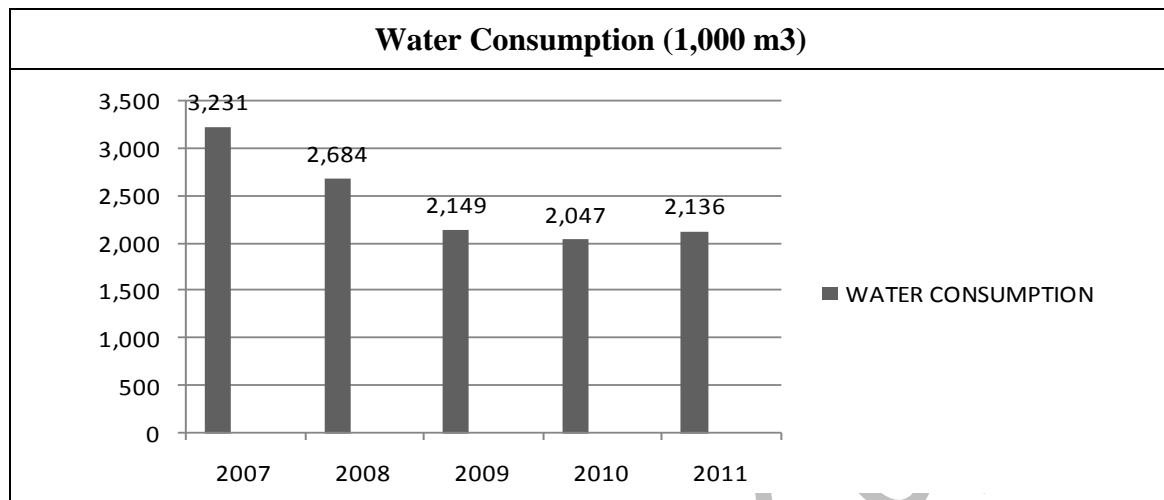
Source: Novo Nordisk Annual Report, 2011.

Exhibit 10



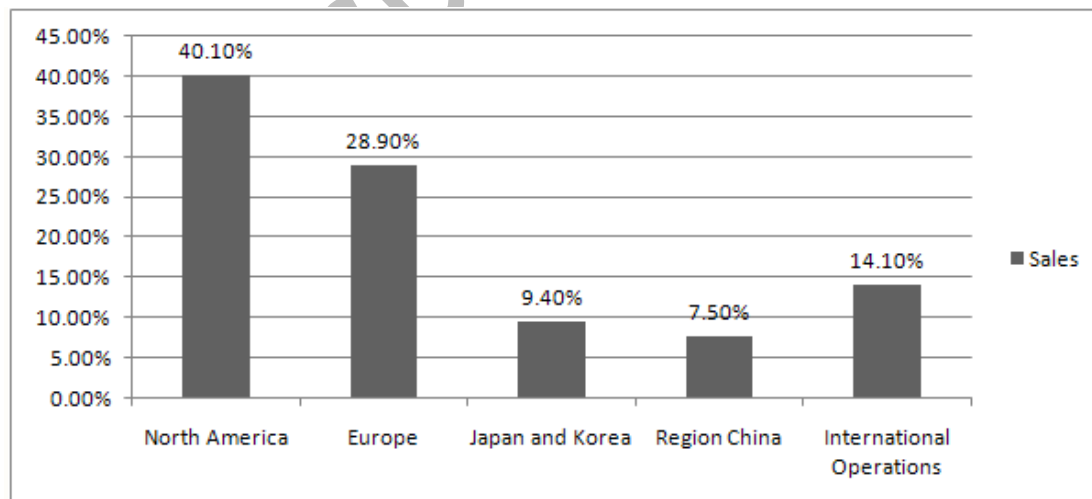
Source: Novo Nordisk Annual Report, 2011.

Exhibit 11



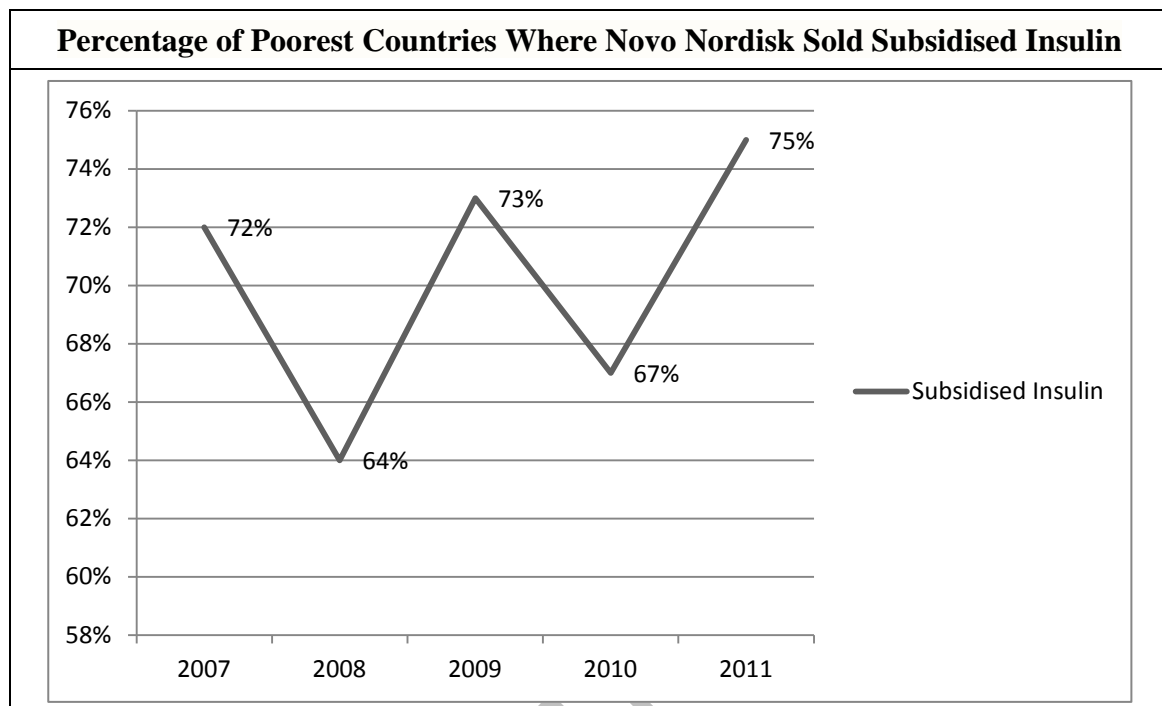
Source: Novo Nordisk Annual Report, 2011.

Exhibit 12: Sales of Novo Nordisk by Geographic Region for the Year 2011 (In Percentage)



Source: Novo Nordisk Annual Report, 2011.

Exhibit 13



Source: Novo Nordisk Annual Report, 2011.

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 - 32 Ed Silverman, "Novo Nordisk to Supply Greece with Diabetes Drug," www.pharmalot.com, June 15, 2010.
 - 33 "Novo Nordisk Tops Global List of 100 Most Sustainable Companies," www.novonordisk.com/sustainability/news.
 - 34 "Novo Nordisk in the Lead of the Dow Jones Sustainability Index," www.novonordisk.com.
 - 35 Jessi Copeland, "ReportAlert.Info- Novo Nordisk (CPH:NOVO.B) Publishes 2010 Annual Report," www.businessfightspoverty.org, February 21, 2012.

This case was written by Adapa Srinivasa Rao, under the directions of Debapratim Purkayastha, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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