

Integrated reporting at Novo Nordisk

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Executive Summary

Novo Nordisk is a healthcare company and world leader in diabetes care. With headquarters in Denmark, Novo Nordisk employs more than 29,000 employees in 81 countries and markets its products in 179 countries. Since becoming one of the first companies in the world to produce an environmental report in 1994, Novo Nordisk has gained a reputation as a leader in the area of sustainability reporting. It has spent the last five years developing an 'integrated' reporting approach that seeks to measure social, environmental and financial performance within a single comprehensive document.

The case study examines Novo Nordisk's integrated reporting and how this reporting, explicitly linked to the balanced scorecard and other internal mechanisms, has served to embed sustainability into decisions taken at all levels in the company. Underpinning its approach is the company's aim to achieve what it calls the 'full integration' of sustainability into business strategy, symbolized by the decision in 2004 to publish a single 'integrated' annual report, which merged the previously separate financial and sustainability reports. Taking the concept of integration a step further, the case study examines internal management control systems and feedback mechanisms within Novo Nordisk that are integral to its embedding of accounting for sustainability within the company's broader framework of sustainability management. These guidelines and systems are called the Novo Nordisk Way of Management.

A striking feature of Novo Nordisk's approach is its desire to manage values and principles as well as more tangible commitments and outcomes. Fostering a 'mindset' to embed sustainability in the organization is potentially a very effective mechanism, although its potential is, in the view of the authors, still to be fully realized.

Novo Nordisk has several key lessons to share from the last two decades over which it has developed its approach to embedding and reporting sustainability:

- While integrated reporting serves as an accountability mechanism for the organization as a whole, the embedding of Novo Nordisk's sustainability strategy within the organization is dependent on a wider range of internal systems, values, commitments and principles. The company has developed a 'Way of Management' that encompasses elements of corporate governance, employee culture, specific management tools, and rigorous performance measurement methods. In this way, integrated reporting may be viewed as just one facet of a broader approach that offers the potential to strengthen further and 'embed' a sustainability mindset within the organization.
- Stakeholder engagement is core to the identification of issues that are or could become material and to the development of a sustainability strategy. Novo

Nordisk has adopted a pro-active approach designed to identify and address issues of concern.

- The principles and guidelines underpinning the sustainability strategy need to provide control and common direction but be flexible enough to accommodate national and cultural diversity as well as multiple stakeholder expectations. This is of particular importance in a diverse, international organization.
- Mechanisms such as the balanced scorecard and the linkage of non-financial targets to reward packages enable employees to see a direct connection between the stated social and environmental commitments in the company's overall strategy and their own role within the organization.
- The use of both quantitative (financial and non-financial) and qualitative feedback methodologies provide a rounded perspective on how sustainability is being embedded at all levels within the organization.

Introduction

In 1994, the Danish pharmaceutical company Novo Nordisk became one of the first companies in the world to produce an environmental report. Since then, the company has continued to expand and develop its voluntary disclosures and has gained a reputation as a leader in the area of sustainability reporting. Although Novo Nordisk has not yet adopted the Connected Reporting Framework, it has spent the last five years developing an innovative and in some respects more ambitious approach, which it calls ‘integrated’ reporting, that seeks to measure social, environmental and financial performance within a single comprehensive document. Underpinning this approach is Novo Nordisk’s bold aim to ‘fully integrate’ sustainability into business strategy. The pursuit of what the company calls full integration is not limited to the development of new disclosure practices: instead, Novo Nordisk has developed a ‘way of management’ that encompasses corporate governance, employee culture, specific management tools, and rigorous performance measurement methods. In this way, sustainability reporting may be viewed as just one element of a broader approach that may offer the potential to further strengthen and ‘embed’ a sustainability mindset within the organization. The purpose of this chapter is to examine the background and development of integrated reporting at Novo Nordisk and to explore the extent to which the company’s goal of full integration and its use of reporting and other control systems has succeeded in making sustainability an embedded feature of the organization.

Context & Background

Novo Nordisk is widely regarded as a leader in diabetes care, employing over 27,000 people across 81 countries. A controlling share in Novo Nordisk is owned by the non-profit-making Novo Nordisk Foundation, which means that the company has a degree of operational freedom by comparison with the rest of the pharmaceutical industry, and is protected from the threat of possible takeovers. In 2000, Novo Nordisk was de-merged from its enzymes business Novozymes, and the two companies have remained separately listed since then. Novo Nordisk Foundation effectively owns a controlling interest in both companies, and acts as a stable platform for the two operating companies. A holding company, Novo A/S, creates a link between the Foundation and the two operating companies: importantly, Novo A/S has the voting majority at the Annual General Meeting of Novo Nordisk. This has given the company relative freedom to choose its strategic direction, not least in relation to the integration of sustainability into business strategy. Novo Nordisk was founded in the 1920’s with a specific mandate to help people, and this mandate continues to influence the company’s strategic direction. In 2004, Novo Nordisk amended its Articles of Association to explicitly commit itself to ‘strive to be economically viable, socially responsible and environmentally sound’. This decision was endorsed by the company’s investors, who regard the company’s strategic direction as being particularly compatible with the company’s business model:

“For the majority of our investors, financials are still the most important – R&D spend, sales prospects etc. But we do benefit from investors taking a long term perspective. It’s not just our unusual capital structure – it’s the fact that a lot of what we do, our business model, has a ten year development lead time. So a lot of our institutional investors understand our concern with sustainability. They see the sustainability issues as a fundamental perspective


on Novo Nordisk. In other words, we are less risky.” (Corporate Vice-President, Head of Investor Relations)

The origin of the company’s modern interest in sustainability may be traced to specific incidents over the last three decades, where the company suffered criticism from external stakeholders and associated negative media coverage. The first of these incidents occurred in the early 1970s, when the company faced allegations from the then consumer advocate Ralph Nader who claimed that new detergent enzymes were affecting the health of the American employees involved in the production process. The reputational damage caused by this episode caused sales in the company’s U.S. market to fall by half, and as a consequence, management attention became focused on the vulnerability of the business to public opinion.

In response, the company sought to better recognize the broad set of stakeholders to whom the organization owed a responsibility and to explore the impact of that learning curve on the company’s strategic direction. In 1990, when the company faced the prospect of further negative media attention in relation to its use of genetically modified organisms, Novo Nordisk was this time ready to initiate a more pro-active form of stakeholder engagement, designed to identify and address issues of concern. The company successfully persuaded those involved in making the allegations to revise and correct them, and in so doing, limit the extent of negative media coverage. More importantly, however, the engagement also led to the recruitment of one of the principal authors of the allegations, John Elkington, to undertake a review of the company’s business practices in relation to the environment. A year later, the company launched its first sustainability strategy, focused primarily on the environmental issues of concern at the time.

Since then, stakeholder engagement and trend analysis have become essential tools to enable the company to identify new issues which are (or could become) material. The company uses what it calls a ‘learning curve’ - a tool that aligns the process of defining materiality with integration into business practices (see Figure 1 below). Emerging issues that are identified as relevant and potentially material are included at the beginning of the learning curve. The company then reviews its implications for Novo Nordisk’s long-term business: often, an independent expert will be commissioned to undertake this review. The review is considered by the Executive Management team, comprising the Vice Presidents of seven corporate divisions. Strategies are then developed for those issues that are deemed material. To manage the strategy going forward, data, indicators and targets are identified. Over time, as management of the issue gradually develops, the strategy may be revisited and reappraised.

Figure 1: Novo Nordisk's Current Sustainability Agenda

Level of integration/ organizational learning	Stage of learning curve	Current strategic areas
 <p>High</p> <p>Low</p>	Revisit strategy	Diversity Environmental management Occupational health & safety
	Full business integration globally	Employee wellbeing Access to health Bioethics
	Embedding in the organization	Business ethics Climate action
	Develop indicators, data & targets; stakeholder dialogue	Diabetes in children Responsible sourcing
	Undertake review; formulate strategy & action plan	Transport emissions
	Issue identification & materiality assessment	Maternal health Diabetes outcome data
	Trendspotting & stakeholder engagement	Health technology assessment

One of the most visible early outcomes of the new strategy was the company's publication of environmental reports. Novo Nordisk produced its first environmental report in 1994, a year ahead of Danish legislation requiring that certain companies disclose information about their environmental impacts. In 1997, Novo Nordisk commissioned an independent expert to undertake a review of the company's human rights, and by 1998, the first social report was published. In 1999 both social and environmental reports were merged into one document and in 2001, Novo Nordisk explicitly adopted the Triple Bottom Line (TBL) approach to sustainability reporting, in which social and environmental impacts were measured alongside economic performance. In 2003, for the first time, the Sustainability Report was published at the same time as the Annual Financial Report and distributed to shareholders. Novo Nordisk believed that this move was well received by shareholders and other stakeholders, because the two documents together provided a more comprehensive overview of the company's performance, progress, positions and strategic initiatives. As a result, Novo Nordisk took the decision to fully merge its financial report and its sustainability report into one inclusive, integrated report. According to the company's official documentation,

“the aim is to drive business performance and enhance shareholder value by exploring the interactions between financial and non-financial objectives. This entails alignment of key priorities, target setting and definition of key performance indicators, in consultations that involve internal and external stakeholders.” (Novo Nordisk Annual Report, 2008)

The 2004 Annual Report was the first such integrated report, and was compliant with International Financial Reporting Standards (IFRS); the AA1000 Framework; the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines; and the United Nation's Global Compact. Novo Nordisk does not use the Connected Reporting Framework, but there are numerous similarities between the Framework and the company's published reports. Indeed, it is in many ways more comprehensive than the Framework, in terms of the wider range of non-financial indicators that are included. However, unlike the Connected Reporting Framework, Novo Nordisk's non-financial indicators are not currently financialized.

It is important to emphasize that sustainability reporting at Novo Nordisk is one element of a wider strategic approach that has gradually evolved since the early 1990s, that is intended to integrate sustainability into business practices. Of key importance here are the economic, social and environmental 'commitments' underpinning the integrated reporting approach. Whilst the use of integrated reporting serves as an accountability mechanism for the organization as a whole, attempts to further embed the company's stated commitments within the organization have been driven by a number of other innovative developments. For example, at the corporate governance level, the explicit adoption in 2004 of these commitments in the company's Articles of Association was especially significant. In addition however, and of particular concern within this chapter, are internal control and feedback systems that together comprise a larger formal framework of management guidelines and systems within the organization. The next section introduces some of these elements in more detail.

The Novo Nordisk Way of Management

In 1997, Novo Nordisk introduced a comprehensive formal management framework known as the Novo Nordisk Way of Management (the 'Novo Nordisk Way'). It comprises a set of principles and guidelines designed to help embed and operationalize its vision. The Novo Nordisk Way was originally set up as a framework for managers in the company's foreign subsidiaries to better understand and align to 'the way we do things', yet allow a degree of flexibility at local/divisional management level. It was intended to provide sufficient control over global company operations and ensure common direction (including sustainability), yet at the same time allow enough malleability to absorb challenges arising from diversities in national and cultural aspirations as well as multiple stakeholder expectations.

The Novo Nordisk Way consists of three main components: vision, charter, and policies. The vision establishes broad direction and sketches out a general theme of striking a balance between commercial endeavours and behaving in a responsible manner. Of particular interest here is the second component, which is the charter (see figure 2 below). The charter describes an overall framework of guidelines for all corporate activity, based on three main elements: values, commitments, and fundamentals. Values are intended to further define the general ethos outlined in the vision, while the fundamentals set out in more detail a number of management principles. The commitments mirror the three dimensions of the TBL approach described earlier, and the commitments reflect those defined in the company's Articles of Association. Finally, the third element of the Novo Nordisk Way is a set of 13 policies on specific operational issues, covering bioethics, business ethics,

communications, environment, finance, global health, information technology, legal, people, health & safety, purchasing, quality and risk management. To link the operational policies with the overall TBL approach, a governance structure known as the ‘TBL Leadership Forum’ has been established. This body has a cross-functional remit, spanning the work of a number of high-level committees with specific responsibility for overseeing the operational policies identified previously, and with an aim to secure implementation and development of Novo Nordisk’s TBL strategy.

Figure 2: The Novo Nordisk Charter

Values
<ul style="list-style-type: none"> • Accountable, ambitious, responsible, engaged with stakeholders, open & honest, ready for change
Fundamentals
<ul style="list-style-type: none"> • Business units share and use better practices • Units are clear with regard to their respective accountabilities and decision-making powers • Units have an action plan to ensure improvements in both business performance and the working climate • Teams and individuals have up to date business and competency targets, against which they receive timely feedback on performance • Units have action plans to ensure team and employee development, as required • Managers establish and maintain procedures in their units to align and adhere to relevant laws, regulations and corporate commitments • Units and individuals know how to create customer value • Managers explain to others the actual use and added value of any reports they require • Managers enable employees to easily and speedily turn attention to any customer related issues • Managers and units actively support inter-unit projects and other relevant working relationships • Individuals continuously seek to improve their work
Commitments
<ul style="list-style-type: none"> • Financial responsibility: growth, value creation, compliance with standards • Environmental responsibility: improve performance, integrate into strategy, maintain open dialogue and reporting transparency, support ICC Charter for Sustainable Development & UN Convention on Biological Diversity • Social responsibility: improve performance, integrate into business, dialogue, reporting transparency, support UN Universal Declaration of Human Rights

The charter forms the central mechanism in the Novo Nordisk Way, since it defines both a framework for corporate activity as well as the feedback and control mechanisms needed to measure and manage such activity. Three key dimensions of action: values, fundamentals and commitments, are supported by a number of ‘follow-up methodologies’. Those relevant to the management of sustainability are shown in Figure 3:

**Figure 3: The Novo Nordisk Charter:
Follow-up methodologies relevant to sustainability strategy**

↓ Triple Bottom Line management	<i>Commitments</i> ↓ Balanced scorecard	<i>Values</i> ↓ <i>Fundamentals</i> ↓ Facilitation
Focus on aggregated non-financial reporting	Focus on all aspects of divisional and business unit performance	Focus on embedding values and fundamentals in business units
<i>Headline strategic areas:</i>	<i>Critical success factors include:</i>	<i>Key outcomes:</i>
Environmental: <ul style="list-style-type: none"> • Emissions • Resource intensity • Regulatory compliance Social: <ul style="list-style-type: none"> • Living our values • People • Health & safety • Access to health • Business ethics • Company reputation • Quality 	<ul style="list-style-type: none"> • Ensure corporate responsibility • Ensure an engaging culture • Ensure people development • Ensure customer satisfaction • Ensure company reputation • Ensure effective sourcing 	<ul style="list-style-type: none"> • Typically 5 recommendations per business unit facilitation (3 year cycle, 60 facilitations per year) • Consolidated report based on all recommendations given to executive management • Overall trends used to inform strategy/reporting

TBL management typically operates at an aggregated level across all business units, enabling the company as a whole to measure its performance against the economic, social and environmental commitments enshrined in the corporate charter and Articles of Association. In addition, the headline non-financial indicators relevant to sustainability are used to inform the development of a corporate balanced scorecard, which is designed to assess overall performance of each corporate division and is cascaded down to both business unit level as well as to individual senior managers’ targets. Hence, a mechanism exists to link individual managers and business units to the social and environmental dimensions of the company’s overall strategy. The facilitation methodology, in contrast to TBL reporting and the balanced scorecard, is designed to focus on the underlying principles guiding corporate behaviour: the values and fundamentals in the corporate charter. Rather than performance indicators, the facilitation methodology is based on more qualitative data gathering, especially interviews.

While each feedback methodology focuses on a specific dimension of the company’s management charter, taken together the different elements in the Novo Nordisk Way act to reinforce each other:

“There’s no way that we’d be where we are solely based on our reporting system. It’s got a lot to do with the corporate governance structure” (Director, Global TBL Management).

We will now examine each of these three feedback mechanisms in more detail.

Triple Bottom Line (TBL) Management

TBL reporting was formally adopted by Novo Nordisk in 2001. TBL reporting measures the extent to which company is progressing in relation to its stated economic, social and environmental commitments. Figure 4 below, extracted from the 2008 Annual Report, highlights the main strategic areas, or 'non financial accounting policies' for which it currently sets indicators and targets.

Strategy area	Indicator	Target
Environment		
Emissions to air	CO ₂ emissions	10% reduction by 2014 compared to 2004
EIR Water	EIR _{Water} Diabetes care	10% reduction by 2010 compared to 2005
	EIR _{Water} Biopharmaceuticals	10% reduction by 2010 compared to 2005
EIR Energy	EIR _{Energy} Diabetes care	10% reduction by 2010 compared to 2005
	EIR _{Energy} Biopharmaceuticals	10% reduction by 2010 compared to 2005
Compliance	Breaches of regulatory limit values	50% reduction by 2010 compared to 2005
	Accidental releases	50% reduction by 2010 compared to 2005
Social		
Living our values	Importance of social and environmental issues for the future of the company	Maintain a level of 3.5 or above up to 2014
	Managers' behaviour consistent with Novo Nordisk's values	Maintain a level of 3.5 or above up to 2014
	Fulfilment of action points from facilitations of the NNWoM	Maintain a level of 80% or above up to 2014
People	Engaging culture (employee engagement)	Maintain a level of 4.0 or above up to 2014
	Opportunity to use and develop employee competences/skills	Maintain a level of 3.5 or above up to 2014
	People from diverse backgrounds have equal opportunities	Maintain a level of 3.5 or above up to 2014
Health & safety	Frequency of occupational injuries	Continuous decrease
	Fatalities	0
Access to health	LDCs where Novo Nordisk operates	Best possible pricing scheme in all LDCs
	LDCs where Novo Nordisk sells insulin at or below the policy price	Best possible pricing scheme in all LDCs
Business ethics	Employees in sales and marketing trained in business ethics	90% by 2008
Company reputation	Improve (or maintain) company reputation with external key stakeholders	Improve (or maintain) brand score
Quality	Number of warning letters and re-inspections	0

Figure 4: Headline TBL indicators & targets (Novo Nordisk Annual Report 2008)

The TBL approach has been steadily developed and refined since its introduction. For example, one of the most visible recent examples of this has been the decision to present its headline non-financial results directly alongside its financial results. In addition, in order to manage the gradual inclusion of social as well as environmental strategic objectives, the company has gradually increased the number of non-financial indicators it uses. Having initially focused mainly on the environmental concerns of the 1990s, it has sought to develop more indicators in the area of social responsibility, with a focus on areas such as access to health and business ethics.

Just as in the 1990s, the emergence of these issues as strategic areas of importance may be attributed to the influence of external stakeholders, and the pro-active management of stakeholder concerns using the corporate learning curve approach described earlier. In 2001, Novo Nordisk jointly undertook legal action with 38 other pharmaceutical companies against the South African government for violating intellectual property agreements, particularly in relation to AIDS medications. Although Novo Nordisk does not manufacture such products, it participated in the court case because it believed that the agreement balanced the rights of the pharmaceutical industry against the needs of developing countries. The case caused public concern in Denmark, and as part of its response to the backlash, the company invested a number of new initiatives designed to improve access to healthcare in developing countries. Currently, the company sets specific TBL targets in relation to this issue in terms of (1) the number of developing countries it sells insulin products to at, or below, cost price, as well as (2) the number of healthcare professionals and diabetes sufferers it has trained or treated. A further episode of negative public scrutiny in 2005 centred on the role of company sales representatives in negotiating inflated prices of products destined for Iraq as part of the 'Oil for Food' programme. Like the 2001 episode involving South Africa, the incident also influenced the ongoing development of TBL management, and the company now includes a specific target for the number of sales & marketing representatives it will train in business ethics.

More fundamentally, however, the company's vision of 'full integration' extends well beyond issues of measurement scope and report presentation:

"Eventually we want to talk in terms of 'full integration'. We want there to be one of everything - one performance measurement system, one management control system, and one audit system." (Director, Global TBL Management).

Notwithstanding the apparent simplicity of this general ambition to create 'one of everything', as well as strong and collective support towards the corporate strategy, staff recognized the cultural as well as technical implications of the task:

"I personally think that there are some barriers to full integration, and barriers in our (non-financial data management) department towards the financials. I see challenges ahead in relation to a common understanding and language between the financial and the non-financial people, a whole cultural thing, a way of thinking. This is about two different worlds, but of course we see the purpose of each other. We're just not always on the same

page in terms of what is material.” (member of Non-Financial Data Management).

In its pursuit of full integration, Novo Nordisk embarked in 2008 on a process of structuring the control environment of non-financial reporting. The ambition of this innovative work, to be phased in over a number of accounting cycles, is to gradually achieve full alignment with the control environment of financial reporting. The next section explores the early stages of this work in more detail.

‘Sarb-Oxing’ the Non-financial Control Environment

The US Sarbanes–Oxley Act lays down requirements for documenting and reporting on the effectiveness of internal controls for financial reporting. Listed on the New York Stock Exchange, Novo Nordisk is obliged to meet these requirements and first did so in 2005, one year ahead of the deadline, and one of the first non-U.S. companies to do so. As part of its objective of full integration, Novo Nordisk has begun the task of applying the principles of the Sarbanes-Oxley Act to *all* of its reporting, to ensure that there are no material weaknesses in internal controls that could lead to a material misstatement in its non-financial reporting. For the 2008 annual report, the internal audit committee took the decision to introduce what some staff informally referred to as “Sarb-Oxing”. The aim was to phase in, over a number of accounting cycles, the same rigour, sophistication and credibility of existing financial systems to non-financial metrics. Over time, the process for gathering data for the headline non-financial indicators would eventually mirror the approach taken for putting together headline financial highlights on the opposite page of the annual report. The process of emulating best practice even stretched to adoption of the same methods for filing, archiving, documentation, and using the same reporting templates as used at operational levels.

Beginning such a task for non-financial reporting was a huge undertaking. The TBL data management team drafted in the Sarbanes-Oxley Consulting Team (previously responsible for applying the Act to financial information) to help them begin to apply the same rigorous tests and assurances to non-financial data. Significantly, the general view of those involved in this collaborative work was extremely positive: the difficulty involved in this extremely challenging task was eased considerably by what appeared to be an remarkable willingness to collaborate across different business functions and for the good of the overall business:

“This is a company that embraces change, but I also think this has high focus within Novo Nordisk. People of Novo Nordisk are proud of what they are doing, proud of the triple bottom line, proud of the annual report, and so on. And they are actually interested in making this better. So generally the project for integration has been taken positively. There’s a general concern that the numbers are correct. People will do what they need to do to achieve this. They don’t want to report a wrong number on say animal testing or something like that.” (Member of the Sarbanes-Oxley Consulting Team).

The Sarbanes-Oxley team needed to familiarize themselves quite quickly with the non-financial metrics of the business, and there was a learning process to go through. Overall, however, team members argued that there was much similarity between the financial and non-financial metrics processes:

“It was actually the same risks that we needed to cover, and kind of the same controls that we needed in place. The system, the controls and many of the procedures are actually quite similar. So, I don’t think the two things are so far apart.” (Member of the Sarbanes-Oxley Consulting Team).

Because of its aggregated, long-term basis, the TBL reporting approach is not directly used to assess and monitor the performance of individual business units. This is a task that is instead managed through the balanced scorecard. The headline non-financial indicators derived from the company’s key strategic aims in relation to sustainability issues are themselves used to inform the development of key performance indicators within the balanced scorecard. The next section explores the relationship between the aggregate measures used to drive TBL reporting and the use of the balanced scorecard to embed strategic priorities in individual business units.

The Balanced Scorecard

In contrast to external stimuli that originally helped motivate the company’s interest in sustainability issues, the introduction of balanced scorecards was instead rooted in more immediate operational concerns. Balanced scorecards have been used in Novo Nordisk since 1996, and were originally introduced by the Finance Department as part of instilling better local financial management throughout the business units. The Novo Nordisk scorecard begins at the organizational level, and is reviewed annually to take account of the key strategic aims and associated non-financial performance indicators used to produce the company’s overall TBL reports. The scorecard is then cascaded down, first to the divisional level of Executive Vice-Presidents. This is further cascaded down to the Senior Vice-Presidents at the business unit level. There is no formal requirement to cascade the balanced scorecard below business unit level, although some business units voluntarily choose at least to cascade down particular KPIs in sub-units such as a plant. In general, long-term objectives and goals used in TBL reporting are broken down into short-term targets in the balanced scorecard. However, while employee performance is generally tied to short-term goals, some managers, particularly those at executive level, are measured directly on achievement of long-term goals which the company publicly reports against.

As part of their remuneration package, individuals are rewarded for performance that meets or exceeds the non-financial targets in the balanced scorecard. Overall progress is tracked against the targets for headline non-financial indicators in the annual report. These include socio-economic impacts such as job creation, the ability to manage environmental impacts and optimize resource efficiency, and social impacts related to employees, patients and communities.

The balanced scorecard currently has a total of 24 critical success factors, grouped under the four headings of Customers & Society, Finance, Business Processes, and People & Organization. In broad terms, responsibility for meeting balanced scorecard objectives is cross-functional, meaning that all divisions will to some extent be required to contribute to the overall social and environmental targets set out in the TBL reports. Our investigation included sight of the use of balanced scorecards in ‘Responsible Sourcing’. A key aim of this business unit is to integrate ethical practice into the company’s supply chain. Senior supply chain managers spend a great deal of their time assessing how ethical Novo Nordisk’s suppliers are, which is an enormous

task. A more immediate objective is to undertake a mapping of 'risk areas' amongst its supplier base; which in some instances has led to Novo Nordisk breaking its ties with a particular supplier. Several staff in the responsible sourcing area highlighted again that this was as much about 'doing things the Novo Nordisk way' than anything else:

"Of course there is a reputation protection part. But I see this as my responsibility – and I explain to my people – that we have a responsibility to ensuring a sustainable supply of material" (Head of Procurement – Direct Spend)

Senior managers in the procurement area were working hard to articulate and instil amongst suppliers that it made good business sense, promised value creation, to go about their work in a sustainable way:

"I think this is an evolution in the whole corporate social responsibility agenda, from being a side-function, or an NGO-type function to the company, towards being a more integrated part of value creation" (Director, Responsible Sourcing).

Through their balanced scorecard, the Head of Procurement for 'direct spend' (i.e., the materials which are used to make the company's finished products) is accountable for two KPIs relating to supplier risk management; these KPIs also influence how his bonus is calculated. Moreover, he pushes such targets to the management level below him, and they too have bonuses that are partly calculated on KPIs such as those relating to responsible sourcing. There are ten bonus-linked KPIs in total, of which and half are non-financial.

The ultimate aim is to link the overall non-financial TBL indicators and associated long-term targets to short-term equivalent KPIs within the balanced scorecard:

"We shouldn't just report on a number just because we can. It should be anchored and there should be a goal. If management don't have a focus on the number, then we have a risk. We have a risk that it's not the right number being reported or that it's incorrect. So now, if an indicator is in the Annual Report, its equivalent will be in the Balanced Scorecard, or vice-versa" (Member of Sarbanes-Oxley Consulting Team).

However, there remained a number of obstacles in the way of this aim in respect of aligning non-financial reporting mechanisms to the quarterly system of financial reporting. Firstly, full alignment between the financial and non-financial reporting mechanisms will require capturing the data for non-financial measures on a quarterly basis; for many such measures this has never been the case. Secondly, there were issues relating to the consistency of KPI targets:

"We could be more structured in the way we define our KPIs – not just today but 3 or 5 years ahead. Long term targets – stakeholders can follow them and establish proper expectations. In the past we were less consistent. Those issues concern any of our KPIs – it could be CO₂, it could be how we are dealing with culture." (Senior Vice-President, Facilitation & Group Internal Audit)

There is also an issue in respect of the quality of information being used to feed not only the balanced scorecard but other reporting tools also. For example, referring again to responsible sourcing, for this Novo Nordisk relies almost entirely on data provided by the (external) supplier. And, though it was acknowledged that some key and usually longer-established suppliers were very accommodating with the provision of information relating to their ethical (or not) ways of working, it was proving to be a major challenge to draw the necessary information from some suppliers. In this respect, at least where it is appreciated, Novo Nordisk will usually offer to advise their suppliers as to how to make improvements in its practices and also now has a handbook for its suppliers on responsible sourcing.

While the balanced scorecard includes success factors relating to employee culture and development, these strategic aims are also reflected in the third key feedback methodology used in the Novo Nordisk Way: facilitation. The next section outlines the significance of this methodology for embedding sustainability into business practices.

Facilitation

Originally introduced in 1996, facilitation is a key mechanism by which Novo Nordisk seeks to ensure that the stated values and fundamentals of the company charter - the underlying principles supposed to guide corporate behaviour - are being practiced across the organization.

“We have a set of values, of systems, but I think all companies have those things, that’s not unique. What is unique is that Novo Nordisk is actually following up on it in every department, every unit within the company. And then we report back to the units, we give them a rating and also some actions. You don’t see that in many companies - normally you have to please your shareholders, but we are saying, we have to please our stakeholders.” (Senior Vice-President, Facilitation & Group Internal Audit)

Facilitation is undertaken by a small team of highly experienced staff with broad expertise, usually ‘hand-picked’ from senior managerial positions within Novo Nordisk. Staff work in pairs on a three-year cycle to review all the business units. The facilitators’ tasks include: assessing the extent to which a business unit is performing in compliance with the values and fundamentals of the company charter; where necessary, assisting business units to achieve compliance with such requirements and rules by issuing a number of recommendations to unit managers; and identifying and sharing ‘best practices’ across the whole organization by collating evidence from the 60 or so facilitations undertaken every year and producing a consolidated report which is submitted directly to executive management.

The methodology of the facilitators in all the above tasks is much less quantitative in approach than TBL reporting or balanced scorecards: in particular, evidence is gathered through face to face interviewing of business unit managers and other employees.

“Facilitation is not based on data – it’s based on interviews. You can go into a unit and select maybe 25% of the people there to speak to. You ask

questions, you have a dialogue, to try to find out what is working and what isn't. You might find for example, maybe the unit has a good strategy, the management team know exactly what they would like to do, but they are not communicating this to the rest of the organization, so they're not aware of where you're heading and you end up with a mismatch of expectations. Another example could be that management are not good at staff development, they are too focused on the current task. So based on the interviews we will come up with actions." (Senior Vice-President, Facilitation & Group Internal Audit)

The process is designed to be as constructive as possible to result in an agreed plan for business unit improvements. Each facilitation results in around five 'actions' being given to unit managers. Follow-up phase enables facilitation staff to monitor implementation of recommendations issued. Over the course of a year, 50 to 60 facilitations take place, resulting in 250 to 300 actions being given in total to unit managers. In order to assimilate the implications of this for the company as a whole, the facilitations team also produces a consolidated report that is submitted to executive management and the board of directors of the company. The consolidated report considers the areas in which most actions are being recommended, as well as the overall trends from one year to the next.

The consolidated report provides a link between the performance of individual units and the organization as a whole. In some ways this linkage echoes the relationship between the TBL indicators used in the annual report and the KPI used in the cascading balanced scorecards. Importantly, however, the operation of the qualitative facilitation process is generally seen a largely separate, parallel exercise by comparison with the much more quantitative metrics of integrated reporting and balanced scorecards:

"It has no impact on facilitators whether we have integrated reporting. We don't use non-financial data. Of course we ask the units about their management of environmental and social commitments, but as long as they are aware of their responsibilities, that's all we ask. I don't think our work impacts on the development of non-financial indicators, but we have our consolidated reports that identify trends. For example, let's say we might discover staff engagement levels are going down across the organization. Or, we might find we have no focus on training. And then you might set targets using the non-financials. Also, when we set up balanced scorecard targets for the next year, we may use the consolidated facilitation report. We could use KPIs or balanced scorecard targets, e.g. number of days or actual spend on training. It's possible, but it's not a direct link. Our work is still only a small input to TBL management, because there are other stakeholders that have things that we might like to put into it too." (Senior Vice-President, Facilitation & Group Internal Audit)

The next section concludes the chapter by exploring the extent to which the three main control systems outlined above contribute to the 'embedding' of sustainability in Novo Nordisk.

Full Integration at Novo Nordisk: Towards the Embedding of Sustainability

In this chapter, we have examined the company's pursuit of 'full integration' by outlining the development of Novo Nordisk's sustainability strategy, as well the formal systems and controls that have been developed to measure and manage strategic priorities. At the corporate governance level, Novo Nordisk has explicitly committed itself to being "socially responsible" and "environmentally sound" and has sought to deliver on this commitment by means of an unusual combination of formal control systems that emphasize both scope and rigour in quantitative performance measurement as well as the importance of underlying values and principles of management. By comparison with its peers, Novo Nordisk's achievements in relation to the development of its sustainability strategy are impressive, but the company also recognises that this is an ongoing, incremental task, and the senior managers we spoke to were quite open and honest about the challenges the company faces.

In response to external pressures, the company has gradually developed a systematic mechanism to integrate stakeholder management into strategic development. However, Novo Nordisk's sustainability strategy is also informed by, and dependent upon, a wider internal assemblage of systems, values, commitments and principles that together comprise 'the way we do things'. This formal internal machinery, known as the Novo Nordisk Way of Management, consists of such tools as triple bottom line reporting and the balanced scorecard. In the same way as the emphasis on stakeholder management was triggered by external events, it is interesting to note that the impetus behind the development of some of these systems was rooted in rather conventional concerns such as expansion into overseas markets (in the case of facilitation) or internal financial control (in the case of the balanced scorecard). Nevertheless, the pursuit of full integration is perhaps most evident at this level, particularly in relation to the evolution of the annual report. The current focus on 'Sarban-Oxley' and the attention given to the internal control environment for non-financial indicators is especially innovative and ambitious.

In assessing Novo Nordisk's approach to sustainability, an important distinction between integration and embedding may be drawn, in the sense that we may consider integration as an assemblage of largely administrative processes, which may in turn bring about more substantive institutional change in terms of the embedding of sustainability within the organization. At the day-to-day operational level, there was recognition on the part of senior management that this dimension of organizational change may be more difficult to assess:

"I can argue that what we do here with TBL management is driving employee motivation. Can I prove it? Probably not. But I can hypothesise, I can make the argument, and then it's up to you to disprove it." (Vice-President, Global TBL Management)

However, whilst the importance of employee motivation to the company's overall strategy was clearly recognized, the wider challenge facing managers (and the company as a whole) in adopting a sustainability 'mindset' within a patient-focused commercial environment was also acknowledged:

“Sustainability is never the only thing you’re thinking about. The biggest objective of this company is better medical treatment. And, for example, for those people who have to inject insulin 15 minutes before they can eat in a restaurant, convenience is a huge part of making sure that they can manage their disease properly. And, it’s about how you manage that. How do you balance that convenience with the environmental issues of the tools they need to get their treatment? So, it’s about the priorities of the company. Can environmental issues really be the most important factor for a company that is really about healthcare?” (Director, Global TBL Management).

On a practical level, the difficulties facing Novo Nordisk in embedding sustainability are especially evident in relation to the company’s focus on qualitative and cultural dimensions of management in the form of stated values and fundamentals. The facilitation process represents a highly unusual formal control mechanism to measure the extent to which business units, and the organization as a whole, ‘complies’ with the values and principles set out in the company charter. In defining a benchmark for the underlying managerial ‘mindset’ within the organization, we may regard this dimension of corporate behaviour as potentially very significant in the context of attempts to embed sustainability.

By comparison with the language used in the company’s commitments and values, it is perhaps surprising that the principles defined in the company charter do not explicitly mention or embody sustainability. Indeed, whilst the formal control systems developed at Novo Nordisk provide a broad and potentially useful approach to establish and manage a sustainability strategy, there nevertheless remains a number of equally important, but less visible, informal dimensions relevant to the embedding of a sustainability ‘mindset’ within the organization. For example, the operation of the formal control systems, and the success of the wider objective of full integration, remains dependent on the belief and commitment of the staff involved to work together to solve problems. In the case of ‘Sarx-Oxing’ for example, the application of a strict financial control systems environment to non-financial indicators was not just a technically complex task, but also involved a remarkable level of collaboration and collective action between staff across a number of different departments where one might normally expect to find barriers and obstacles in the way. Likewise, the role of the TBL management forum is crucial in creating a collaborative approach to managing sustainability where different functional areas of the business can share experiences and feed into the development process.

More generally, employees in the company’s Danish headquarters appeared to be genuinely comfortable with an emphasis on both quantitative and qualitative aspects of performance measurement and management control. Rather than feeling resentment at being ‘policed’ by the facilitation process, staff appeared united by such mechanisms and collectively geared towards common organizational aims. It was argued by some Novo Nordisk managers that there was in general a deep-rooted and values-based culture in Danish business units that might not be so obvious or prevalent elsewhere in the global company, as well as a widespread assumption that sustainability is simply ‘the right thing to do’:

“The Scandinavian mindset is very transparent and honest. People come to you with a concern and it’s like “Oh! That’s a valid concern and we should do

something”. And there are lots of companies that just wouldn’t have such a reaction” (Director, Global TBL Management).

Managing this in the context of global growth presents a particular challenge for Novo Nordisk:

“We are a Danish company and we have a global presence. But there is a difference between being a Danish company with a global presence and being a global company” (Director, Global TBL Management).

Over the last two decades, Novo Nordisk has gradually developed a more pro-active form of stakeholder engagement that has shaped its strategic management of sustainability. In addition, it has created a set of control systems to measure the company’s performance against its stated social and environmental commitments, and has sought to move closer to full integration. Formal control systems, and the use of quantitative performance indicators, are clearly useful in this context, and Novo Nordisk’s ongoing efforts to improve the rigour and sophistication of its internal non-financial control environment are undoubtedly world leading. However, beyond the development of integrated systems based on quantitative non-financial indicators, a particularly welcome dimension of Novo Nordisk’s approach is its recognition of the importance of managing values and principles as well as more tangible commitments and outcomes. In fostering the kind of ‘mindset’ that many regard as being essential to embedding sustainability in the organization, this is arguably a very useful mechanism, with broad appeal, whose potential is in our view still largely untapped.