

**HOW NOVO NORDISK USED PORTER'S CONCEPT OF SHARED VALUE ACHIEVING
PROFITABLE BUSINESS AND HEALTHY SOCIETY.**

"PROFESSIONAL APPROACH"

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ABSTRACT

This paper aims to provide shared value as a new approach for pharmaceutical company to create social and economic value, in addition to that we aims to provide a theoretical background of the concept, then a practical contributions that ground understanding the concept of creating shared value.

The authors analyse a single case study of Novo Nordisk. The objective is to show for professionals the importance of this new approach in creating social and economic value.

We found that Novo Nordisk used this new approach of creating shared value by following set of social and economic programs; we also provide new approach of doing business for pharmaceutical companies.

This single case study provides new approach to create social and economic value for pharmaceutical companies; however, more research is needed to find other approaches or testing the same approach in other industries.

The paper has practical implications that relate to the design of shared value approach. We provide practical approach and ideas that could be applied by other companies to reach shared value creation professionals could use these ideas to create social and economic value.

A professional unique approach to create social and economic value for pharmaceutical companies.

Keywords: Novo Nordisk, New Approach, Creating Shared Value, Social Value, Business Value.

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INTRODUCTION

The world today is full of problems, serious problems, big problems, pressing problems like poor nutrition, not enough health care, pollution, access to water, climate change and deforestation. Despite the awareness about these problems we still have so much trouble to deal with these social and environmental problems, we wondering if there is any role for business to solve these problems.

However business is not seen as a solution, it's seen as a problem now, that's why we used to see the solution for these social problems in terms of non government organizations, philanthropy and corporate social responsibility.

Despite the effort of these social organizations there is not enough fast progress, because there is not enough resources out there in the society to deal with this social problems by using the current model, so where are the resources in society to deal with this problems?

The resources are in business, because all wealth created by business, business generates resources when it makes a profit.

Business are not profit from causing a social problems, business profit from solving a social problems, and this is a fundamental opportunity for business today to impact and address this social problems. Business can create social value and economic value simultaneously, this new business model called "Creating shared value".

The fundamental problem of this study is related to the way that Novo Nordisk creates used shared value concept as a new business model to create value for society and make profit simultaneously, so the question is:

How Novo Nordisk create social and economic value simultaneously!

What shared value means? How can we create shared value? How changing societal conditions outside the company unleashes new growth and productivity gains? How targeting unmet needs drives incremental revenue and profits?

This study aims to provide the concept of shared value as a new business model where we can create social value and in the same time business value. We also provide the Novo Nordisk model for addressing social problems.

I- Design/methodology

- Study designs:

The idea of creating shared value is an emerging field in strategic management and pharmaceutical business, a little is known about creating shared value in pharmaceutical sector achieving social value and making more profit. And all the concepts and the process of shared value creation provided by Porter and Kramer are derived from Novo Nordisk initiatives so, for more understanding of the concept in term of value creation for business and society; we choose a single case study of Novo Nordisk company which can provide insight into the events and situations prevalent.

We used the qualitative descriptive approach; the focus of this study is on extensively exploring and understanding rather than confirming and quantifying. It provides an overview form more understanding of the case process and interactional dynamics within a unit of study but cannot claim to make any generalizations to a population beyond cases similar to the one studied. We do not select a random sample but a case that can provide with much information as possible to understand the case in its totality.

- Data collection:

For the purposes of this research, and due to the geographical distance we had no choice to collect data only by contacting Nestlé responsables Through Skype and telephone interviews. In addition to that we collect data from nestle website and annual reports published.

- Data analysis

We used Content analysis to analyze the data due to the fact that this kind of analysis gives as the ability to structure the qualitative data collected in a way that satisfies the accomplishment of research objectives.

- Research Limitations

We cannot claim to make any generalizations to a population beyond cases similar to the one studied. A bigger sample would probably enhance the reliability of the research.

II. Theoretical part

1. Shared value definitions

According to Porter .M.E & Kramer.M ;Shared value can be defined as policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates (Porter, 2011).

Shared value focuses on meeting the unmet needs and reaching unserved or underserved customers by designing and determining new products/services. It also helps companies to identify new markets, opportunities, and reposition in the current markets (Awale, 2015).

Creating shared value is a corporate strategy engaged in by organizations to create a win win situation of performing their societal obligation whilst simultaneously performing their economic obligation (Bolanle, 2016).

Shared Value focuses companies on the right kind of profits, profits that create societal benefits rather than diminish them. Shared Value is aimed at changing how the core business operates strategy, structure, people, processes and rewards—in order to deliver triple bottom line returns (Bolanle, 2016).

Shared value is not shared values; we are not talking about the company culture and values, we consider creating shared value as a new approach to invest in environmental and social needs to create more profit and make win – win situation.

2. Three steps to create shared value

Shared value can be created by reconceiving products and services to meet societal demands, by redefining productivity in the value chain and by Enabling local cluster development (Bronn, 2016):

2.1. Reconceiving products and services

Products and services should be conceived and produced for meeting social needs and thus they should create social benefits. For instance, the food industry, rather than stimulating more consumption, should focus its interests and strengths on driving better nutrition and health issues. The potentialities of this approach to develop new services and products can be even more significant in poor and disadvantaged countries, where the needs are greater than those of developed countries. For companies this means that societal needs should be constantly monitored and incorporated in the managerial processes concerning R&D and production.

2.2. Redefining productivity

The value chain is affected by externalities, such as water use, working conditions and fair treatment, which can enhance the costs of production. Taking into account

societal issues permits companies to redefine their concept of productivity from a shared value perspective. For instance rethinking logistics systems in the shared value perspective means improving energy utilization through technology investments, such as reducing shipping distances, recycling. All these practices help companies transform the value chain, cutting costs and reinforcing the mutual relationships with partners and stakeholders.

2.3. Enabling local cluster development

Finally, shared value can be created by enabling local cluster development. Clusters are geographical concentrations of actors (suppliers, logistical infrastructures, institutions, universities, service providers, trade associations and so on), which support a company and its processes. Firms can create shared value and improve their productivity, by building local clusters and addressing their gaps in specific areas such as logistics, training or market organization. Managerial practices driven by transparency and openness principles create favourable conditions for building clusters, which enhance the benefits for companies and their competitiveness.

We see that reconceiving products and markets allows to develop products regard to society's needs and this what rise the demand on these products, in the same time redefining productivity in the value chain allows to save energy, water, cost and create value for both society and business, then, enabling local cluster development which help to provide infrastructure around creating shared value

3. Levels of Shared Value:

Every step of shared value creation contribute in business and social value creation.in order to analyze that we provide the three levels of shared value creation (Porter, 2013):

Level 1: How targeting unmet needs drives incremental revenue and profits

Business results: Increased revenue, increased market share, increased market growth, improved profitability.

Social results: improved patient care, reduced carbon footprint, improved nutrition, and improved education.

Level 2: How better management of internal operations increases productivity and reduces risks.

Business results: Improved productivity reduced logistical and operating costs, secured supply, and improved quality, improved profitability.

Social results: Reduced energy use, reduced water use, reduced raw materials, improved job skills, improved employee incomes.

Level 3: How changing societal conditions outside the company unleashes new growth and productivity gains.

Business results: reduced costs, secured supply, improved distribution infrastructure, Improved workforce access, improved profitability

Social results: improved education, increased job creation, improved health, improved incomes.

We see that each level of shared value contribute in the creation of business and social value targeting unmet needs drives incremental revenue and creat social value, a better management of internal operations increases productivity and reduces risks and save water and energy that the society need. In addition to that changing societal conditions outside the company unleashes new growth and productivity gains.

III. Practical part: Novo Nordisk model

1. Who is Novo Nordisk?

Novo Nordisk is a global healthcare company with 90 years of innovation and leadership in diabetes care, Headquartered in Denmark. The company also has leading positions within hemophilia care, growth hormone therapy and hormone replacement therapy.

Novo Nordisk employs approximately 41,500 employees in 75 countries, and markets its products in more than 180 countries (NOVO, 2014).

2. Novo Nordisk approaches to create social value and economic value

Novo Nordisk designed multi-pronged approaches to provide holistic solutions to social and business problems, Novo Nordisk is a leader in diabetes care; Novo Nordisk applied all three approaches to creating shared value in targeting the American insulin market:

2.1. Reconceiving products and markets

The company adapted insulin products for American patients by establishing a American research and development center and leveraging the knowledge of local scientists(Hills, 2012).

2.2. Redefining productivity in the value chain

Novo Nordisk opened a local production facility in Tianjin, allowing the company to gain production efficiencies and respond more quickly to market demands(Hills, 2012).

Novo Nordisk also established an R&D center in USA, allowing it to tap into the knowledge of American scientists to develop locally-appropriate insulin products (Porter, 2014).

2.3. Enabling local cluster development

Novo Nordisk strengthened its competitive context by funding the creation of the World Diabetes Foundation to increase diabetes awareness and worked with the American government to develop national standard treatment guidelines. The company found that diabetes often went undiagnosed, and only 1 in 10 diagnosed patients successfully managed the condition. In response, Novo Nordisk provided training on diabetes to physicians and patients (Hills, 2012, p19).

Novo Nordisk and the World Diabetes Foundation worked with the American Ministry of Health to improve case management guidelines for diabetes.

3. Novo Nordisk Programs to create social and economic value

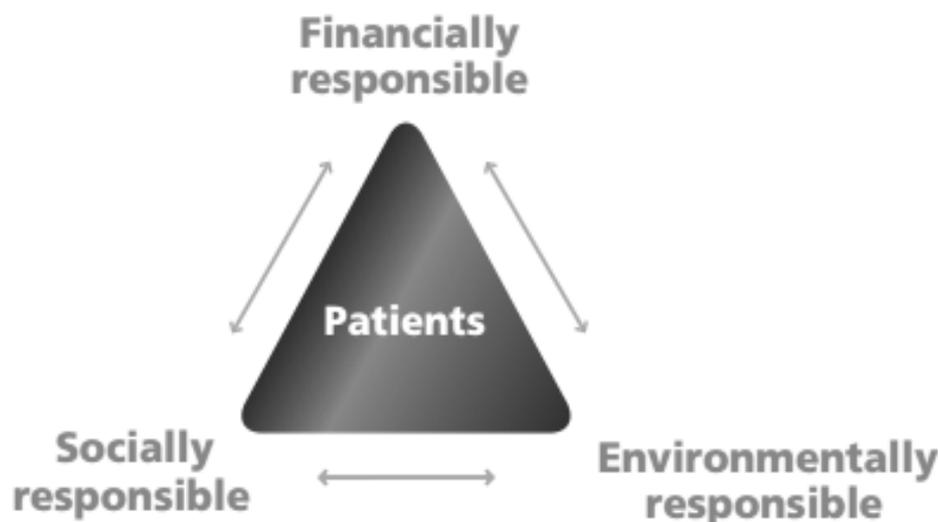
In order to create social and economic value Novo Nordisk has developed what called the blueprint for change programs ,this programs aims to enhance our understanding of how Novo Nordisk as a business create value. Through case studies analyzing the

Triple Bottom Line principle applied in practice, Novo Nordisk illustrates sustainable business approaches and examines ways to optimize our approach. Novo Nordisk do this by identifying the drivers of shared value and their significance to involve stakeholders (Skype, 2018).

3.1. The blueprint for change program in USA

Novo Nordisk work with the Triple Bottom Line principle, it manage and account for three dimensions of performance: financial, social and environmental (Shape1).

Shape1: The Triple Bottom Line principle



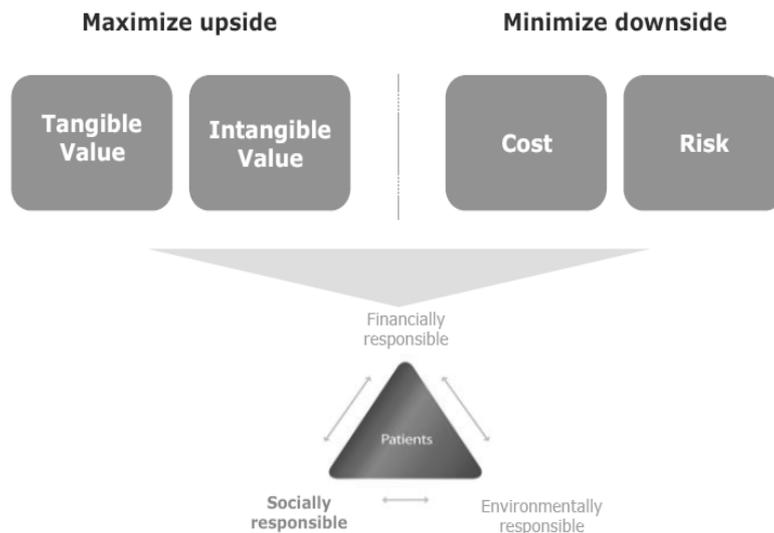
Source: The blue print for change program (2013), p8.

Novo Nordisk strives to make decisions that consider the interests of our stakeholders. Our ultimate goal is long-term business success that also contributes to improved public health, economic prosperity and societal development consistent with sustainable environmental practices (The blue print, 2013).

To show the way Triple Bottom Line works, Novo Nordisk developed The Blueprint for Change Program, this program aims to enhance our understanding of how Novo Nordisk as a business create value for society. Through case study analyzing the Triple Bottom Line principle applied in practice, Novo Nordisk illustrate sustainable business approaches, Novo Nordisk done this by identifying the drivers of shared value and their significance to involve stakeholders, The blueprint is a guide or a plan that gives instructions on how to take an idea and transform it into something concrete (Shape 2) (Skype, 2018).

The Novo Nordisk Way describes who we are, where we want to go, and how we work. Novo Nordisk believes that a healthy economy, environment and society are fundamental to long-term business success. This is why Novo Nordisk manage business in accordance with the Triple Bottom Line principle and pursue business solutions that generate value to business patients, and society.

Shape 2: Shared value creation



Source: The blue print for change program (2013), p24.

When Novo Nordisk consider the interests of patients and other stakeholders providers, payers, and suppliers and other business partners who support our efforts to improve outcomes for people with diabetes, it maximize value for both society and our company (Shape3).

Shape 3: Shared value start with patient



Source: Reisner (2012), p3

3.2. Value to society

3.2. 1. *Quality of care:* Novo Nordisk creates social value by achieving quality of care through these following programs (The blue print, 2012):

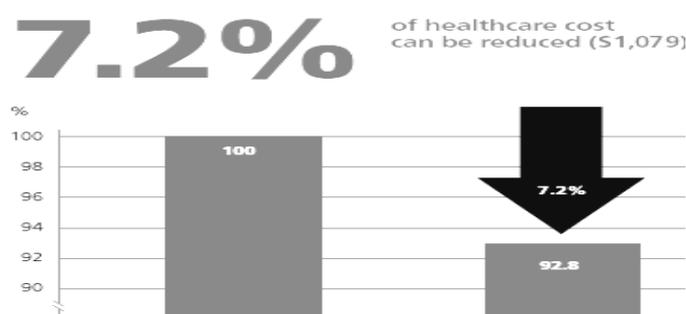
- Novo Nordisk provided \$28 million in educational grants in 2010 and 2011, and since 2005 has supported more than 2,000 educational programs. Almost all

educational activities supported by Novo Nordisk are accredited for continuing medical education (CME) or continuing education (CE).

- Novo Nordisk-supported CME programs bridge knowledge gaps among primary care practitioners (PCPs) and endocrinologists. For PCPs, CME.
- These programs also provide tools for the successful initiation of insulin therapy in people with type 2 diabetes.
- Novo Nordisk support the American College of Endocrinology's Endocrine University, held annually at the Mayo Clinic. The curriculum enhances and expands educational experiences for endocrine fellows-in-training. Since 2003, Novo Nordisk has been a supporter and has provided nearly \$4 million in grants for this effort. In the past decade, more than 2,000 endocrine fellows have participated in the program.
- Novo Nordisk offered CME and CE programs to more than 700,000 HCPs in 2010 alone

Novo Nordisk launched DM Educate as a web-based education program for pharmacy students, and 1 in 10 US pharmacy students (11,000) have taken DM Educate® electives. Since then, DM Educate has developed into a professional training program. It has helped more than 2,100 HCPs (primarily pharmacists) become better acquainted with best practices that increase the effectiveness of diabetes treatment (Shape 4).

Shape 4: Total health care cost reduction per patient per year through pharmacist education



Source: The blue print for change program (2012), p8.

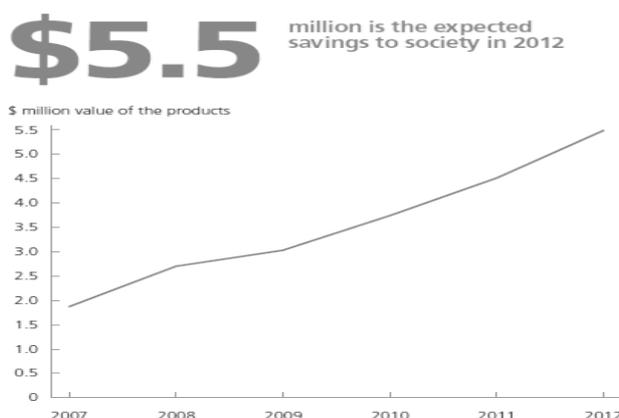
Novo Nordisk creates social value by achieving quality of care through:

- By April 2011, NCQA had recognized 9,700 clinicians¹⁷ for their provision of high-quality care to people with diabetes. Among DRP applicants, the average percentage of patients whose HbA1c was below 7% increased from 33.8% in 1999 to 55.1% in 2005.¹⁸ Applicants' per-patient healthcare costs dropped 10%-15% per year (\$421 to \$1,059 depending on measures achieved) (National Committee. 2009).
- 45,000 Americans die every year because they cannot afford the medical care they need and this is not only reduces their own quality of life, it increases the overall societal costs of diabetes. The Novo Nordisk Patient Assistance Program (PAP)

provides medications at no charge to those who qualify. People who are uninsured and whose household income is at or below 200% of the Federal Poverty Level are eligible to receive free medications. All Novo Nordisk diabetes products are available through this program (Sipkoff, 2004):

- In 2010, PAP made treatment accessible to more than 65,000 people without the means to afford them – more than double the number of people served in 2007 (Shape 6). The volume of medication tripled and the value of the medications distributed through this program rose from \$1.9 million to almost \$4 million in 2010. By 2012, PAP's direct cost savings to society is expected to rise to \$5.5 million, with diabetes medications accounting for 85% of the total 1 (The blue print, 2012) (Shape 5).

Shape 5: cost reduction expectations



Source: The blue print for change program (2012), p10.

3.2. 2. Early diagnosis: Novo Nordisk creates social value by achieving early diagnosis through these following programs:

- Novo Nordisk believes that Early detection may improve quality of life and may reduce costs. Since 2006, Novo Nordisk has actively promoted screening activities (Centers of medicare, 2015).
- In 2005, only 10% of medicare beneficiaries took advantage of Medicare's offer of free diabetes screening, since then Novo Nordisk, together with a range of stakeholders, developed the Ask.Screen.Know. Program to promote screening among Medicare beneficiaries and others at risk that is eligible for the benefit (Centers of medicare, 2015).
- Novo Nordisk's grassroots involvement in Columbus and elsewhere could offer inspiration to policymakers and to communities to take action to remote early detection of diabetes (The blue print, 2012).

3.2. 3. Prevention: Novo Nordisk creates social value by achieving medical prevention through these following programs:

- Since 2006, Novo Nordisk has engaged in activities intended to make diabetes a public policy priority and it been working to put diabetes on the national health policy agenda for several years, first through the National Changing Diabetes Program (2005) and, later, the Diabetes Advocacy Alliance TM (DAA) (2010).

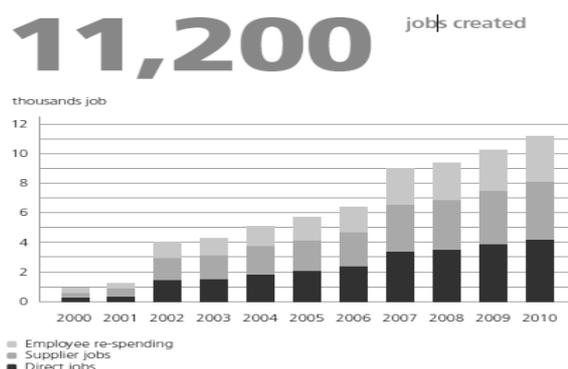
Collectively, these initiatives have focused on driving federal policy change through stakeholder engagement (Ibid.2014).

- Impact of diabetes prevention, by the numbers(United Health, 2011):
 - ✓ 1 case of diabetes prevented per 7 persons treated for 3 years with life-style intervention²⁶
 - ✓ 8% reduction in the share of people who move from prediabetes to diabetes by 2020, using lifestyle-intervention methods employed in the Diabetes Prevention Program
 - ✓ 11 years that lifestyle-change interventions can delay the onset of type 2 diabetes³¹ 330,000 diabetes cases prevented per year if 1 in 2 people with prediabetes makes lifestyle changes⁶ 300 billion dollars saved by 2025 if 1 in 2 people with prediabetes makes lifestyle changes.

3.2. 4. *Helping to build sustainable communities:* Novo Nordisk creates social value by helping to build sustainable communities through these following programs:

- In the United States, the number of people who work for Novo Nordisk has increased 200%¹ since 2002 even as the overall number of jobs within the pharmaceutical industry decreased by 6% (US Bureau of labor statistics, 2010)
- in 2010 alone, roughly two-thirds of the 11,200 jobs created in the United States were within Novo Nordisk supply chain, and another third resulted from employee spending (Shape 6) (Skype, 2018).
- Novo Nordisk provides grants that help local organizations build sustainable communities and to provide access to basic health and humanitarian services. The nature of these investments ranges from grants to local healthcare organizations to a joint project with Aetna in which Novo Nordisk provided diabetes education materials in Spanish and English to HCPs serving Latino populations (Skype, 2018).

Shape 6: Jobs created



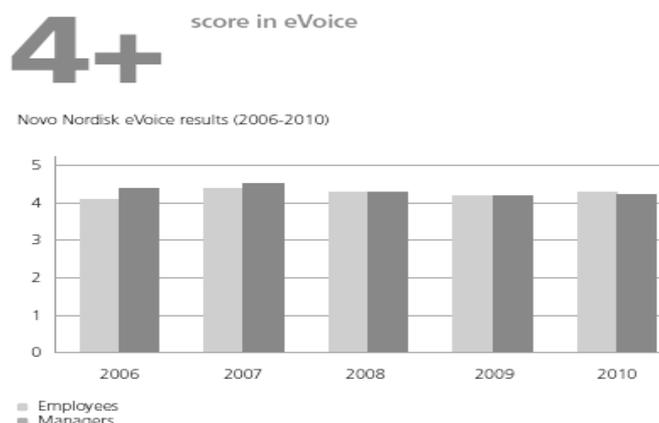
Source: The blue print for change program (2012), p16.

3.3. Value to Novo Nordisk (economic value)

3.3.1. *Culture and employee engagement:* Previous programs allowed Novo Nordisk to reduce cost and create business value (Culture and employee engagement) (Skype, 2018).

- In general, our employees believe that the culture within Novo Nordisk is strongly aligned with the spirit of our Triple Bottom Line principle and that the company creates an attractive place to work. Employee satisfaction and engagement scores, which are measured through annual eVoice surveys, have been high since 2006 (Shape 7).

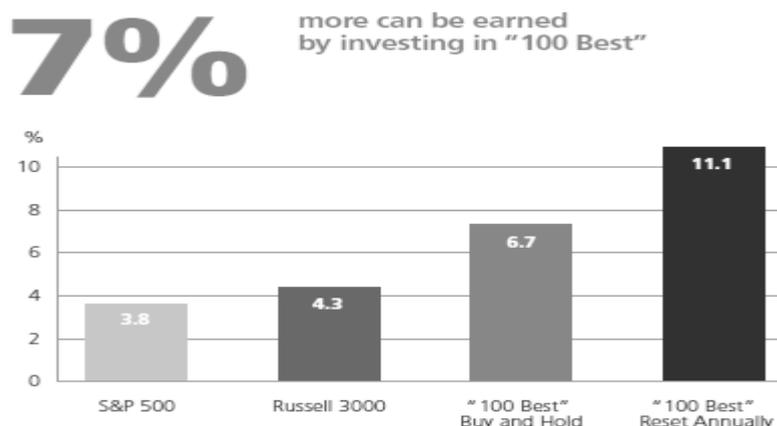
Shape 7: Novo Nordisk eVoice results (2006-2010)



Source: The blue print for change program (2012), p18

- In a survey of US employees conducted for this case study, 80% expressed that our Triple Bottom Line principle has a significant positive impact on our company's reputation (Skype, 2018).
- In the United States, Novo Nordisk has made the Fortune "100 Best Companies to Work for" list 3 times since 2009 and the "Best Places to Work in New Jersey" list 6 times since 2005.1 The Great Place to Work Institute, which creates the Fortune list, surveys employees on 5 key attributes: credibility, respect, fairness, pride, and camaraderie (Great Place to work, 2010).
- Companies on the Fortune "100 Best" list, reward investors better than other companies. The average annual return of the "100 Best Reset Annually" portfolio, from 1998 to 2010, was 7%-points greater than that of the Standard & Poors 500 (Shape 8) (The blue prent, 2012).

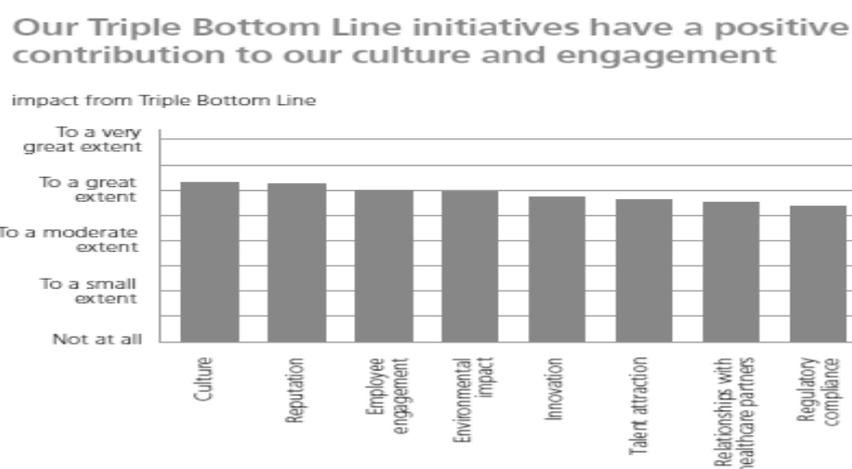
Shape 8: Investing in 100 Best



Source: The blue print for change program (2013), p19

- Novo Nordisk been named in 2010 to the “Working Mother 100 Best Companies” list; 3 times by the Dave Thomas Foundation as one of the “100 Best Adoption-Friendly Workplaces” since 2007; and 4 times to “Conceive Magazine’s 50 Best Fertility- and Adoption- Friendly Companies” rankings since 2007 (The blue prent, 2012, p19).
- According to an internal survey in July 2011, our employees are committed to the Triple Bottom Line Principle and believe that it contributes positively to the value create for society and Novo Nordisk (Shape9). The survey showed that field and home office employees have a similar opinion about the contribution of the Triple Bottom Line, suggesting a uniform and strong company culture (The blue prent, 2012, p20).

Shape 9: Average rating



Source: The blue print for change program (2013), p19.

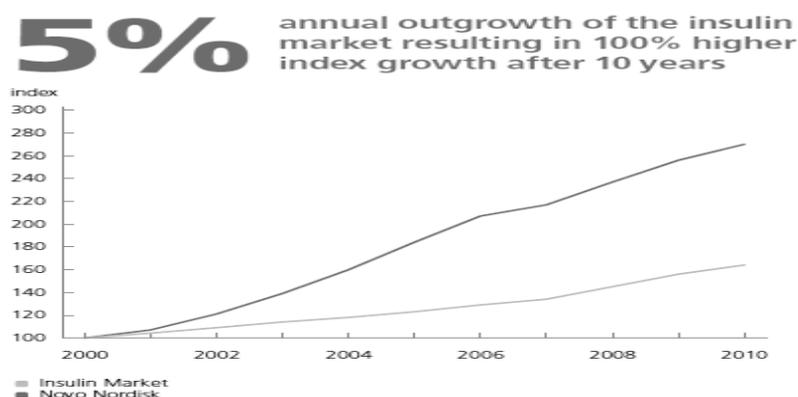
3.3.2. *Stakeholder support:* Previous programs allowed Novo Nordisk to reduce cost and create business value (Stakeholder support):(The blue prent, 2012, p21).

The Triple Bottom Line helps us to build win-win relationships; Healthy patients and high customer satisfaction create brand loyalty. This is evident from a cross-analysis

of our 2011 customer satisfaction survey with insulin prescribing rates; the results suggest a correlation between high prescribing and high PCP satisfaction with the company. In another study it was found that two-thirds of PCPs said our Triple Bottom Line principle is unique, believable, and motivating.

- Previous programs allowed Novo Nordisk to Increased market potential; Our efforts to improve quality of care and to develop innovative treatments poise us for long-term business success. Helping patients to achieve treatment goals and to stay adherent to medication therapy not only has an impact on their quality of life; it has the potential to drive sales volume and help us sustain long-term business growth. Our emphasis on Triple Bottom Line may be reflected on the company growth, which has outperformed that of the market (Shape 10). Whereas a decade ago our insulin market share was 25%, today it is 42%.

Shape 10: Insulin market development



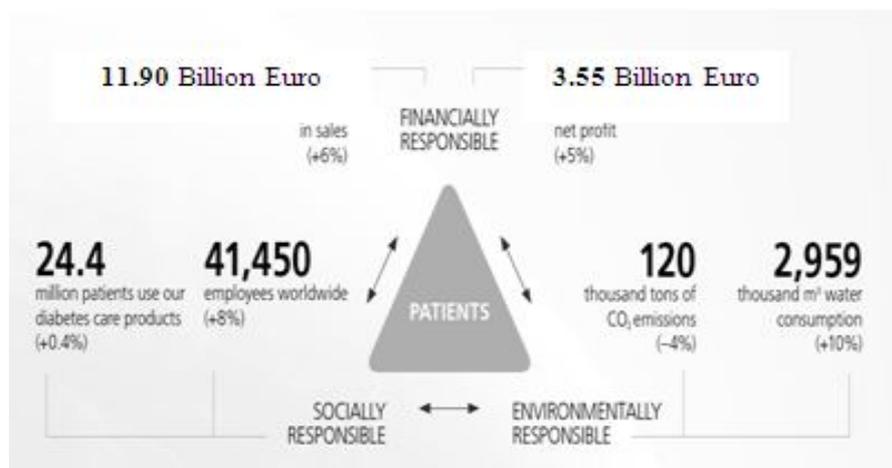
Source: The blue print for change program (2013), p21.

4. Results of the blue print for change program:

The blue print for change program provided good results and allowed Novo Nordisk to achieve the triple bottom line principal, in the same time Novo Nordisk created shared value as we see in (Shape 11).

As a result of the blue print for change program, 24.4 million patients use their diabetes care products, 41.450 employees worldwide work for Novo Nordisk. Novo Nordisk also reduce 120 thousand of CO₂ emissions and 2.959 thousand M³ water consumption, these numbers make Novo Nordisk socially and environmentally responsible, and allowed sales to reached 11.90 Billion Euro for 2014 while the net profit reached 3.55 billion Euro.

Shape 11: The Triple Bottom Line



Source: Novo Nordisk annual report (2014), P6.

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