

2A.II Case Story: Translating global values into local practice – Business integrity management in Novozymes

Michael H. Pedersen* | *Novozymes A/S*

A key challenge when devising business integrity measures is striking the delicate balance between two contrasting objectives: upholding international consistency on one side and adapting to and appreciating local cultural traditions on the other. This case represents an account of Novozymes' process of striking this balance by utilizing the United Nations Global Compact principle on anti-corruption as a reference framework for the company's business integrity measures.

Introduction

As is the case for many other companies, Novozymes is a part of numerous global value chains with customers, employees, suppliers and other business partners in many different countries, each having their own particular cultural and judicial perceptions of corruption. In the process of devising business integrity measures, this fact makes it particularly challenging to uphold international consistency without engaging in a crusade, while at the same time adapting to and appreciating local cultural traditions without being unprincipled.

Novozymes has found the United Nations Global Compact principle on anti-corruption a most useful reference framework for handling this challenge; first and foremost due to the universal authority and legitimacy that the principle holds by being derived from the United Nations Convention against Corruption, signed by the majority of the world's Governments; secondly due to the framework character of the principle, which provides room for local interpretation and clarification.

This case outlines how Novozymes has utilized the United Nations Global Compact principle on anti-corruption when devising business integrity principles and a business integrity management system. The case also gives a practice-oriented account of Novozymes' business

drivers for going beyond law compliance. And last but not least, the case outlines Novozyme's process of establishing organizational consensus, ownership and awareness about the company's business integrity measures.

A brief introduction to Novozymes

Novozymes is the biotech-based world leader in enzymes and micro-organisms with an estimated global market share of 45 per cent (2005 figures). The company operates in the business-to-business market. It has a turnover of DKK 6,300 million and has an operating profit margin of 19.2 per cent (2005 figures). Novozymes' 600+ products play an important role in thousands of products, ranging from foods and textiles to cleaning and wastewater treatment. The company's products are manufactured in Europe, Asia, North America and Latin America. They are sold in 130 countries, the largest geographical markets being Europe, North America and Asia.

Novozymes became a signatory to the United Nations Global Compact in 2002. This commitment has been integrated into the company's vision and corporate quality management system, e.g. policies and management standards. In its vision, Novozymes states: "We imagine a future where the company's biological solutions create the necessary balance between better business, cleaner environment and better lives."

A Corporate Sustainability Development Strategy Group, which is comprised of functional and geographical vice-presidents from across Novozymes' organization, devises the company's corporate responsibility strategy and oversees the efforts to further integrate corporate responsibility into the way of doing business. On a daily basis, this work is coordinated by a corporate Sustainability Development Center.

*Senior Corporate Responsibility Advisor, Sustainability Development Center, Novozymes A/S

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Novozymes publishes an integrated online annual report which includes the United Nations Global Compact Communication on Progress. The company also accounts for social and environmental performance in its quarterly financial statements. Furthermore, Novozymes has a corporate responsibility bonus scheme, according to which executive management, vice-presidents and directors can obtain a bonus based on the company’s ability to meet corporate responsibility performance and development targets as defined by the board.

At a corporate level, Novozymes is a member of World Business Council for Sustainable Development, CSR Europe and AccountAbility. In terms of business integrity, the company is a member of the United Nations Global Compact global working group on the 10th Principle. Novozymes also coordinates an anti-corruption network of Denmark-based companies. At the same time, the company strives to meet requests for sharing its experiences from devising business integrity measures.

Novozymes’ business integrity measures

Novozymes’ business integrity measures take the form of a management standard on business integrity that has been integrated into the company’s corporate quality management system.

The management standard, which all employees must comply with as part of their employment terms, outlines six business integrity principles (*see figure on right*).

Novozymes’ business integrity principles apply to all employees in their dealings with external counterparts and take the form of framework principles with room for local clarification. The principles come with further guidance in the form of a document that outlines definitions and examples of potential improper actions.

To ensure the effectiveness of Novozymes’ business integrity principles, the company’s employees are not allowed to actively request any business partner or potential business partner to engage in actions that would contradict the principles. For the same rea-

We don’t do corruption What does it actually mean?

Novozymes’ business integrity principles outline the company’s values of responsibility, accountability, openness and honesty:

Bribes: We do not give or accept bribes.

Facilitation payments: We pay only reluctantly to expedite public services.

Money laundering: We do not assist in laundering money from criminal activities.

Protection money: We do not pay criminals for protection.

Gifts: We do not give or receive big gifts.

Political and charitable contributions: We do not give money to political parties but sometimes we contribute to charities.

son, Novozymes’ employees are required to make the company’s business partners aware of its business integrity principles and to encourage them to adopt similar principles.

Novozymes’ management standard on business integrity also outlines a business integrity management system. It is based on three pillars, providing employees with means of:

- Seeking guidance on business integrity;
- Anonymously raising concern about potential breaches of Novozymes’ business integrity principles; and
- Reporting facilitations payments and excessive gifts given/received.

Novozymes' business integrity management system

Seeking guidance

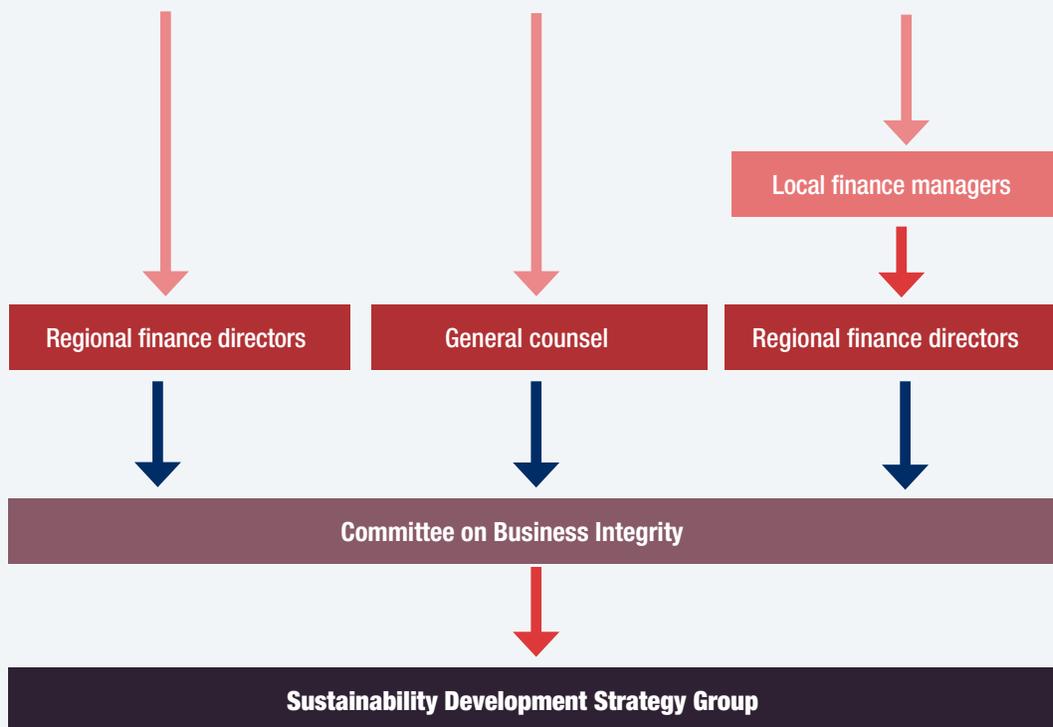
Employees can approach regional finance directors for guidance. They can also approach their manager, legal affairs or human resources department.

Raising concern

Employees can anonymously raise concerns at a particular Intranet on business integrity or directly to the general counsel.

Reporting facilitation payments and excessive gifts

Employees must report facilitation payments and excessive gifts to their local finance manager.



The three pillars of Novozymes' business integrity management system have been integrated into existing management systems to avoid creating new reporting entities. While the pillars of seeking guidance and reporting facilitation payments and excessive gifts are managed by Novozymes' local finance managers and regional finance directors, the pillar of raising concern is managed by the company's general counsel.

Accordingly, the only new organizational entity that has been established within Novozymes' business integrity management system is the Committee on Business Integrity (CBI). CBI is comprised of Novozymes' vice-president of finance, the vice-president of marketing and business development and the general counsel. Besides overseeing implementation, CBI handles concerns raised and assesses quarterly consolidated reports from regional finance directors on guidance given, facilitation payments paid and excessive gifts given/received. CBI also regularly assesses the effectiveness of Novozymes' business integrity measures and suggests improvements to the Sustainability Development Strategy Group. Furthermore, comprehensive quality management procedures are in place to ensure systematic and coherent handling of issues and consolidated reporting within Novozymes' business integrity management system.

Why business integrity and why now?

In the middle of 2004, Novozymes initiated the process of devising business integrity measures. Due to the company's long-standing tradition of complying with the law and carrying out its business with integrity, Novozymes was not facing any particular problems that needed to be corrected. However, for a number of other reasons, both in terms of obtaining competitive advantages and ensuring effective risk management, the company considered the time ripe for clarifying its values of responsibility, accountability, openness and honesty (*see figure on next page*).

In terms of obtaining competitive advantages, many of Novozymes' customers in the business-to-business market already had comprehensive business integ-

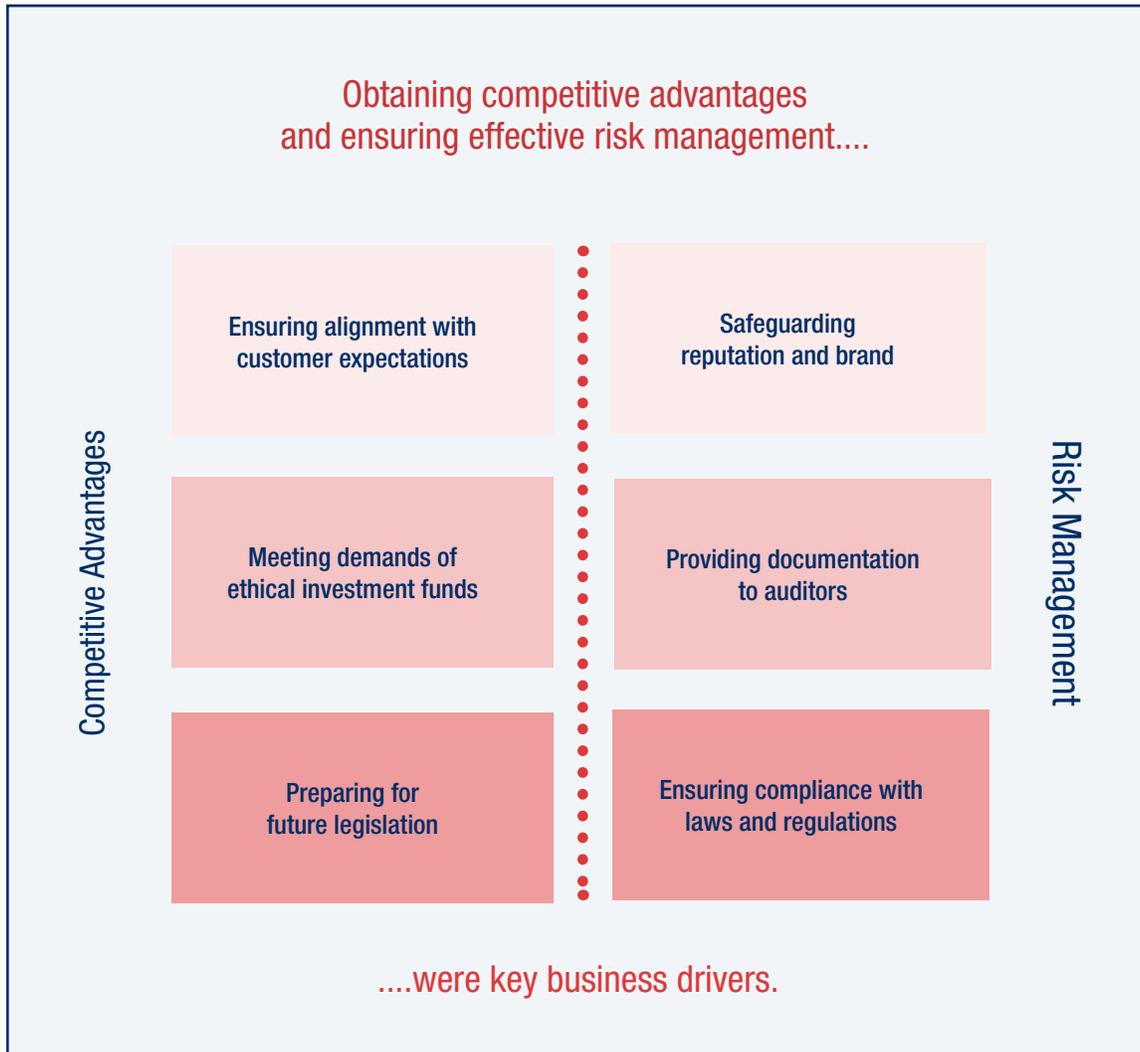
rity measures in place or were beginning to develop such. Increasingly, these customers were seen as requiring their suppliers to do the same, and some already even asked for documentation through the means of supplier audits. On these grounds, there seemed to be a window of opportunity for Novozymes, in the sense that devising business integrity measures would document that the company effectively contributes to limiting customers' supply chain risks.

Ethical investment funds also increasingly included detailed assessments on business integrity measures in their corporate responsibility rankings of companies. Consequently, being able to document such measures more and more seemed a pre-requisite for maintaining top rankings by such entities in the medium and long term.

Furthermore, the Sarbanes-Oxley Act, requiring companies listed in the USA to devise and publish comprehensive business integrity measures, was increasingly seen as raising the bar among even non-listed companies operating in the USA. In fact, sooner or later Novozymes expected business partners in the USA to require compliance with the Sarbanes-Oxley Act, despite the fact that the company is listed in Denmark only. Along the same lines, Novozymes anticipated that the European Union might well adopt similar requirements within a foreseeable future. If that were to happen, devising business integrity measures would leave Novozymes in proactive compliance with such requirements.

In terms of ensuring effective risk management, Novozymes acknowledged that bribery and corruption are widely and increasingly criminalized and sanctioned in most national jurisdictions across the world. Not least, recent criminal investigations and/or charges for corruption in third world countries against multinational companies reflect this fact.

For instance, in Denmark, where Novozymes is listed, the Danish Penal Act criminalizes giving bribes to employees of public entities (in any country), just as it criminalizes giving bribes to or receiving bribes from employees of private entities (in all countries with laws against it). The

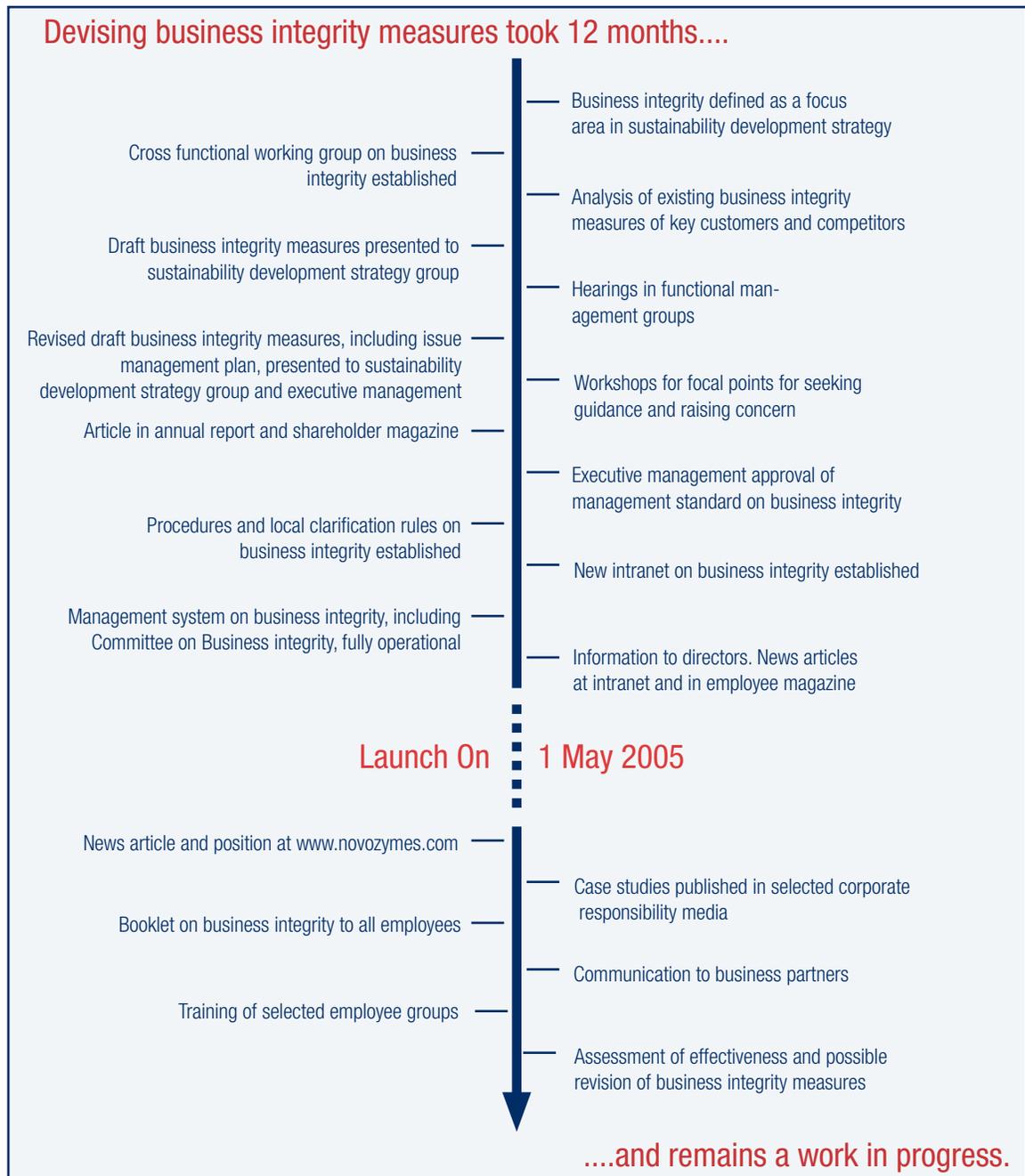


employees that commit such acts, as well as management members who knew or ought to have known about these acts, may be penalised. Furthermore, employees and company management, as well as the companies as legal entities, face liability for corruption committed by employees of the company or company management (fines and liability to pay compensation). Consequently, devising business integrity measures would enable Novozymes to ensure compliance with existing laws and regulations on anti-corruption.

At the same time, such measures would provide auditable documentation on compliance with anti-corruption laws and regulations. They would also strengthen the credibility surrounding Novozymes' brand and reputation as a responsible company, e.g. by proactively meeting possible criticism for being a signatory to the United Nations Global Compact but failing to effectively demonstrate compliance with the principle on anti-corruption.

Establishing organizational consensus, ownership and awareness

Novozymes' process of devising business integrity measures was initiated in the middle of 2004. It primarily included the following milestones:



The process, which took 12 months and remains a work in progress, was initiated by Novozymes' corporate Sustainability Development Strategy Group. Following the decision to include business integrity as a focus area in Novozymes' corporate responsibility strategy, a cross-functional working group on business integrity was given the mandate to draft the company's business integrity measures with reference to the Sustainability Development Strategy Group. The working group comprised employees from legal affairs, finance, marketing and business development, and sustainability development. Novozymes' vice-president of marketing and business development, who is also a member of the Sustainability Development Strategy Group, chaired the working group.

At first, the working group on business integrity carried out a comprehensive benchmark study on business integrity measures of key customers and competitors. This benchmark study was based on Transparency International's Business Principles for Countering Bribery (*see figure on next page*).

In addition to establishing a clear picture of current business integrity principles and management systems within Novozymes' market, the benchmark study provided a useful reference for internal discussions on the scope of the company's forthcoming business integrity measures; both in terms of comprehensiveness and profundity.

On the basis of these discussions, the working group on business integrity devoted much time and effort to giving Novozymes' Sustainability Development Strategy Group, the corporate executive management team and all relevant functional management groups the possibility of discussing draft business integrity measures and of providing feedback. Albeit time-consuming, this process was instrumental in establishing organizational consensus and ownership vis-à-vis Novozymes' business integrity measures. It also came with the valuable side effect that the management groups became confident with the undertaking and felt encouraged to engage in a process where nobody was deterred from making reference to real dilemmas.

Since the process primarily aimed at clarifying Novozymes' values of responsibility, accountability, openness and honesty, the company's business integrity measures ended up going well beyond ensuring compliance with laws and regulations. In fact, in many countries the measures go beyond such compliance in one or more of the following ways:

- No distinction is made between public and private bribes, although international conventions and laws of some countries have legally binding provisions against public bribes only.
- Gifts given and received must not supersede locally defined triviality limits.
- Financial transactions are only allowed to and from accounts registered in the name and the home country of the company with whom Novozymes does business.
- Financial contributions to political parties are not allowed.
- Facilitation payments and excessive gifts must be reported at a corporate level.

At an early stage of the process, the employees who had been given a particular role in Novozymes' business integrity management system were given a say to facilitate their commitment and ownership. Among other things, they were involved in devising procedures for seeking guidance, raising concerns and reporting facilitation payments and excessive gifts. Furthermore, these employees were given the task of devising local clarification rules, either regionally or country specific, to clarify local implications of Novozymes' business integrity principles. Besides facilitating local ownership, such local clarification rules made it possible to take particular local cultural traditions into consideration, e.g. traditions such as giving and receiving gifts, which tend to vary greatly across countries.

On top of establishing organizational consensus and ownership, Novozymes also attached great importance to creating awareness, both internally and externally, about the company's business integrity measures in order for them to become effective:

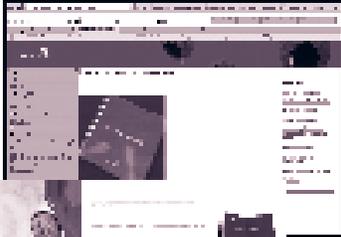
Initial awareness activities

Internal communications

Intranet news article



New Intranet on business integrity



Article in employee magazine



External communications

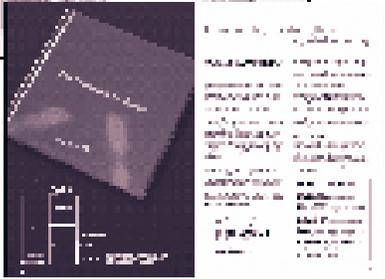
Article in shareholder magazine



News article and position at Novozymes.com



Article in the annual report



Before launching Novozymes' business integrity measures, the company published news articles in its annual report and its shareholder magazine. At the launch, Novozymes also published a news article and a position on business integrity at www.novozymes.com.

Internally, Novozymes published news articles at the company's Intranet and in its employee magazine. Furthermore, a particular Intranet on business integrity was established. It is maintained by Novozymes' corporate legal affairs department and contains comprehensive easy-to-read information for all employees, including:

- Links to management standard and procedures on business integrity;
- Guidance and clarification on each business integrity principle, e.g. definitions and examples of potential improper actions;
- Local clarification rules;
- Electronic form for anonymously raising concern about potential breaches of the business integrity principles;
- Templates for reporting facilitation payments and excessive gifts; and
- Contact information of focal points for seeking guidance, anonymously raising concern, and reporting facilitation payments and excessive gifts.

“Devising business integrity measures on the basis of the United Nations Global Compact principle on anti-corruption enables companies to operate with international consistency and acceptance.”

Novozymes' initial awareness activities were primarily undertaken to ensure that the company's employees know what is expected of them in terms of business integrity, e.g. what it actually means not engaging in corruption. Following these activities, numerous additional awareness activities were carried out:

- Information to business partners about Novozymes' business integrity measures. It included encouraging them to adopt similar measures.
- Distribution of an easy-to-read booklet on business integrity titled *Bribery – no thanks!*
- Integration of business integrity into internal training courses.
- Business integrity training for selected employees groups in selected regions.

As a start purchasing and sales and marketing personnel at Novozymes' entities in countries that Transparency International and other internationally acknowledged parties classify as the most corrupt ones received training. Purchasing and sales and marketing personnel were pre-selected for such training, because these employee groups are responsible for most of the value transfer between Novozymes and external counterparts.

Conclusions

The case of Novozymes demonstrates that the United Nations Global Compact principle on anti-corruption constitutes a most useful reference framework for devising business integrity measures. Utilizing the principle makes it possible to strike the delicate balance between two contrasting objectives: upholding international consistency without engaging in a crusade on one hand and adapting to and appreciating local cultural traditions without being unprincipled on the other.

First and foremost, devising business integrity measures on the basis of the United Nations Global Compact principle on anti-corruption enables companies to operate

with international consistency and general acceptance due to the universal authority and legitimacy that the principle holds by being derived from the United Nations Convention against Corruption. At the same time, the framework character of the United Nations Global Compact principle on anti-corruption enables companies to adapt and appreciate local cultural traditions by the means of local clarification rules, e.g. rules for giving and receiving gifts.

In more practical terms, the case of Novozymes also demonstrates the importance of having internal processes in place to identify relevant business drivers and to establish organizational consensus, ownership and awareness on business integrity. Furthermore, the case illustrates that there is no one-size-fits-all, and that devising effective business integrity measures remains a work in progress.

Further information about Novozymes' business integrity measures

Various external communications about Novozymes' business integrity measures are available at the company's Internet site:

- *Annual Report article about business integrity in Novozymes*
See www.novozymes.com > **About us > Publications > The Novozymes Report 2002-2004 > The Novozymes Report 2004 (pp. 22-23).**
- *Shareholder magazine article about business integrity in Novozymes*
See www.novozymes.com > **Investor zone > The Zymes > February 2005 (p. 3).**
- *News article about business integrity in Novozymes*
See www.novozymes.com > **About us > Sustainability > Sustainability news > Business integrity.**
- *Position on business integrity*
See www.novozymes.com > **About us > Sustainability > Positions > Business integrity.**