

WALTER SCOTT

QUARTERLY COMMENTARY

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COMMENTARY

The news that Lars Fruergaard Jørgensen is stepping down as CEO of Novo Nordisk after eight years in the role has raised concerns that the company's prized culture may be under threat.

The decision to ask Mr Jørgensen to step down was taken jointly by the board of directors and the Novo Foundation, the company's largest shareholder. Speaking post the announcement, the chairman pointed to share price weakness and a loss of market share in the important US obesity market as triggers for the decision.

The unexpected departure of a CEO always invites questions. What factors motivated the decision? Is it a sign of behind-the-scenes problems? Does the company have a succession plan in place?

But the question of succession is especially pertinent when the company in question's culture has played an important role in its success. Corporate history is littered with the sorry tales of incoming CEOs who, whether by design or accident, have failed to nurture a winning way of working.

Working the Novo Nordisk Way

Few companies are as closely identified with their culture as Novo Nordisk, which is often viewed as taking a more considered and long-term approach than some of its more sales-oriented US peers.

The Novo Nordisk Way, a set of values and behaviours based on the principles of its founders, is steeped in the company's Danish heritage and steers the long-term strategy of the business. Given Novo's enviable track record of innovation and profitability, it is an approach that owes something to the concept of *obliquity* – the idea that goals are often best achieved by being pursued indirectly.

Challenging Times

We have long believed that Novo's purpose-driven culture is a key contributor to its success. It has allowed it to hire the right people for the right reasons and has conferred a long-term mindset that has enabled it to remain focused on the bigger picture.

This is a difficult juncture for the business, however. Its woes are lengthy and well documented. The sustained share price weakness over the past 12 months reflects supply chain bottlenecks, weaker-than-expected drug trial results, market share concerns, tariff and pricing fears, and competition from lower-cost 'compounders'.

We have engaged with several senior representatives from Novo since the announcement of the CEO's departure. This includes the Mr Jørgensen, who will remain in position until his successor is appointed.

Danish Company, Danish Pay

Encouragingly, everyone we have spoken with has acknowledged the importance of a good cultural fit.

Ensuring this happens is easier said than done, of course. Over a history spanning more than 100 years, Novo has only ever had Danish CEOs, helping it to retain its distinct identity and founding spirit. Most of today's top CEO talent in the global pharmaceutical industry is in the US, however, and these executives are typically better remunerated and used to wielding significantly more power than a Novo CEO.

By way of example, David Ricks, as well as being CEO of Novo competitor Eli Lilly, is also company chair. In 2024, he was paid approximately \$29m. At Novo, Lars Fruergaard Jørgensen earned around \$8m and did not have a seat on the board.

Can Novo attract the right candidate whilst still retaining its conservative pay structure? When we have discussed this in the past, Novo has always said that it believes it has struck the right balance between a level of remuneration that is acceptable to Danish society but still competitive. In the US business, it was explained that many senior recruits had come from 'Big Pharma', attracted by Novo's purpose and values.

The Culture Advantage

On culture more broadly, we are confident that Novo will remain committed to preserving its unique culture, even in the event of an 'outsider' CEO. As the company has grown rapidly in recent years, it has worked hard to ensure that senior recruits understand and adhere to the Novo Nordisk Way. Conscious that those coming from different workplace cultures might struggle to adapt, management tasked senior employees with making sure everyone understood the values and behaviours expected.

It is often said that culture is "hard to build but easy to destroy". We agree. A healthy culture is something we value highly in an investment and is one of the intangibles that we are most alert to when visiting companies. Get it right, as Novo Nordisk undoubtedly has done, and it can be an important competitive advantage that sets a company apart from its peers. It is in the interests of the new CEO to ensure that remains the case.

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