

## Expectations on Diversity and Inclusion



### Objective

The DNB Group is a driving force for equality and diversity, as this theme is an integral part of the Group strategy and is implemented throughout the organisation. The [DNB Group's Standard for Responsible Investments](#) shall ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm and other actions which may be perceived to be unethical and/or unsustainable. They shall also ensure that assessments of risks and opportunities arising from Environmental, Social and Governance (ESG) factors are integrated into the investment decision-making process. At DNB Asset Management (DNB AM) we exercise our ownership rights in line with international norms and standards, including the UN Global Compact, UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises. Our responsible investment approach utilises tools including standard setting, exclusions, active ownership (through dialogues, engagement and voting), and ESG-integration.

Our expectations call for a high level of transparency around how companies identify, assess and manage diversity and inclusion such that this information can be utilised in our company analysis and as an input to investment decision-making. Our expectations on diversity and inclusion build on our expectations to companies on human rights.

### Definition of Gender Equality and Diversity

Diversity is "an umbrella concept that recognises that people, whilst similar in many ways, have different life experiences and characteristics, such as gender, age, race, ethnicity, physical abilities, religion and beliefs. Some diversity is primarily cultural (e.g. shared norms and behaviours), other may be biological (e.g. age, sex), and other yet is defined in personal terms (e.g. sexual orientation, [gender identity], religion)"<sup>1</sup>. Discrimination on the basis of these factors can be considered to be a breach of human rights, where human rights are defined as "the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work, education, and more. Everyone is entitled to these rights, without discrimination"<sup>2</sup>.

### Introduction to Diversity and inclusion

The right to equality and freedom from discrimination is protected by international human rights law, and national constitutions, laws and regulations<sup>3</sup>. Despite this, many people continue to face discrimination, prejudice, harassment and violence. This may result in reduced levels of well-being in a range of key areas, "such as education, employment, living standards, health and housing (even after controlling for social and economic factors)"<sup>4</sup>. As diversity factors are beyond the control of each person, discrimination on the basis of these differences violates the notion of equality and opportunity.

<sup>1</sup> OECD, 2018, "Diversity Statistics in the OECD: How do OECD Countries Collect Data on Ethnic, Racial and Indigenous Identity?": [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC\(2018\)9&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC(2018)9&docLanguage=En)

<sup>2</sup> United Nations, 2019, "Human Rights": <https://www.un.org/en/sections/issues-depth/human-rights/>

<sup>3</sup> United Nations, 2019, "Rule of Law and Human Rights": <https://www.un.org/ruleoflaw/rule-of-law-and-human-rights/>

<sup>4</sup> OECD, 2018, "Diversity Statistics in the OECD: How do OECD Countries Collect Data on Ethnic, Racial and Indigenous Identity?": [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC\(2018\)9&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC(2018)9&docLanguage=En)

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Several of the United Nations (UN) Sustainable Development Goals (SDGs) call for improved equality and diversity<sup>5</sup>. The following SDGs guide our efforts in this area:

- SDG #4 Quality Education: seeks to ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- SDG #5 Gender Equality: seeks to end all forms of discrimination against all women and girls everywhere
- SDG #8 Decent Work and Economic Growth: seeks to promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG #10 Reduced Inequalities: seeks to reduce inequality in and among countries

However, delivering on gender equality and diversity is not straightforward. First of all, studies tend to focus mostly on gender as there are reliable and readily available data for this factor<sup>6</sup>. Collecting and analysing broader diversity is more challenging for several reasons. First, some diversity data is considered sensitive and may be associated with data collection issues (data privacy regulation) or unwillingness to disclose this information. Comparability of such data may also be challenging, as collective identities can be flexible and contingent. These concerns do not only affect companies, but are also relevant at country-level. Some Organisation for European Economic Co-operation and Development (OECD) countries with well-established national statistical systems have only limited statistics on diversity, and some have none at all<sup>7</sup>. Also, research on the impact of gender equality and diversity on efficiency and company performance draws different conclusions. For example, Hülshager, Anderson, and Salgado (2009) concluded no differential relationship between job-relevant (function, profession, education, tenure, knowledge, skills, or expertise) and background diversity (non-task related differences such as age, gender, or ethnicity) on company performance<sup>8</sup>. Whereas Google's Project Aristotle found that openness, including emotional interactions, and equal contribution are the most valuable factors to drive efficiency, but recognises that these may be difficult to optimise<sup>9</sup>. Moreover, some people believe that focusing on diversity may even be counteractive; as labelling people and placing them into buckets may foster division<sup>10</sup>. On the other hand, other research shows a correlation between greater levels of gender diversity and ethnic/cultural diversity with company performance. A study from Harvard revealed that gender diversity may be possible determinant of a team's effectiveness, as gender mix may offer a variety of knowledge and skills<sup>11</sup>. The study concluded that gender balanced business teams perform better than male-dominated teams in terms of sales and profits. Studies from Nordea and Morgan Stanley show a link between gender diversity and higher risk-adjusted returns and lower volatility on average<sup>12,13&14</sup>. Research by McKinsey draws the same conclusion, whilst also showing a statistically significant correlation between ethnic/cultural diversity and financial performance<sup>15</sup>. However, it is important to stress that no research suggests a causal link between gender diversity or broader diversity and company performance. This is because the research cannot determine definitively what drives the correlations found, as it is difficult to isolate and measure such factors. Despite inconclusive research, working with companies to improve gender equality and diversity remains an important priority area for DNB AM given the relevance of this work to delivering on SDGs 5 and 8.

Furthermore, inclusion is the prerequisite to deliver on the company agenda on gender equality and diversity. A McKinsey report from 2020, demonstrates that employees see value in diversity when inclusion is integrated into the corporate culture<sup>16</sup>. The report highlighted three distinct indicators for inclusion: equality, openness and belonging. Integrating the lens of inclusions is paramount for the advancement of the company's diversity work. McKinsey finds that even diverse companies struggle to include these aspects into the corporate culture<sup>17</sup>. Companies who succeed in

<sup>5</sup> United Nations, 2019, "Sustainable Development Goals": <https://sustainabledevelopment.un.org/?menu=1300>

<sup>6</sup> Nordea, 2018, "Diversity as a value driver": <https://docs.nordeamarkets.com/nordea-on-your-mind/2018/nyom-200218/#/>

<sup>7</sup> OECD, 2018, "Diversity Statistics in the OECD: How do OECD Countries Collect Data on Ethnic, Racial and Indigenous Identity?": [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC\(2018\)9&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC(2018)9&docLanguage=En)

<sup>8</sup> Hülshager, Anderson, and Salgado, 2009, "Team-Level Predictors of Innovation at Work: A Comprehensive Meta-Analysis Spanning Three Decades of Research": <https://www.ncbi.nlm.nih.gov/pubmed/19702361>

<sup>9</sup> NY Times, 2016, "What Google Learned from its Quest to Build the Perfect Team": <https://www.nytimes.com/2016/02/28/magazine/what-google-learned-from-its-quest-to-build-the-perfect-team.html>

<sup>10</sup> Forbes, 2018, "Companies Should Stop Focusing on Diversity": <https://www.forbes.com/sites/paologaudiano/2018/04/02/stop-focusing-on-diversity/#60766b667645>

<sup>11</sup> Hooendoorn, Oosterbeek, and Van Praag, 2013, "The Impact of Gender Diversity on the Performance of Business Teams: Evidence from a Field Experiment": <http://gap.hks.harvard.edu/impact-gender-diversity-performance-business-teams-evidence-field-experiment>

<sup>12</sup> Nordea, 2018, "Diversity as a value driver": <https://docs.nordeamarkets.com/nordea-on-your-mind/2018/nyom-200218/#/>

<sup>13</sup> Morgan Stanley, 2016, "Putting Gender Diversity to Work: Better Fundamentals, Less Volatility": <https://ny.matrix.ms.com/eqr/article/webapp/80096936-f69e-11e5-bd2e-abda853f0752?ch=rpxext&sch=sr&sr=3>

<sup>14</sup> Morgan Stanley, 2016, "Gender Diversity Continues to Work": <https://ny.matrix.ms.com/eqr/article/webapp/bd12cbb2-7f72-11e6-9c24-863a89b721c0?ch=rpxext&sch=sr&sr=1>

<sup>15</sup> McKinsey, 2018, "Delivering through Diversity";

[https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity\\_full-report.ashx](https://www.mckinsey.com/~/media/mckinsey/business%20functions/organization/our%20insights/delivering%20through%20diversity/delivering-through-diversity_full-report.ashx)

<sup>16</sup> McKinsey, 2020, "Diversity wins": <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

<sup>17</sup> McKinsey, 2020, "Diversity wins": <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

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creating these inclusive environments promote leadership and accountability among managers, equality and fairness of opportunity, and openness and freedom from bias and discrimination<sup>18</sup>.

How companies manage diversity has implications for investors. Companies with good diversity across their business may benefit from more varied perspectives and skills, resulting in deeper consideration when making decisions, better anticipation of challenges and obstacles, and heightened innovation<sup>19</sup>. All of these have the potential to improve the quality of discussions and decisions, and create a greater culture for equality. At the same time, such companies may reduce their exposure to litigation and fines, reputational damage, and more structural risks, such as difficulty in attracting and retaining a diversity of talent at various levels within the organisation – all of which may negatively impact performance and therefore long-term returns for investors<sup>20&21</sup>. For these reasons, integrating diversity within a company is considered an indicator of sound corporate governance and company quality<sup>22&23</sup>. Our conclusion is therefore that a change in company culture to be more inclusive is a key factor for companies to consider and will also naturally lead companies to be more diverse. The workplace equity data we seek can be used to make more precise assessments of the scope and depth of company programmes, performance relative to peers and progress over time.

## Expectations to Companies

We expect companies to address diversity and inclusion in their governance structure and strategy, and report on relevant metrics and targets. Our expectations are relevant for all companies within our investment universe and are viewed as best-practice guidance to create the structural and cultural change necessary to improve diversity.

### 1. Governance

- a) The management of diversity and inclusion should have Board-level oversight.
- b) Companies should target participation and equal access of women at senior level positions in line with national gender quotas for public companies. Where this is absent, a rationale for lack of female representation should be published. Note that we consider at least 40% of the least represented gender to be best practice today.
- c) The Board and senior management should meet the company's need for expertise, diversity, and capacity (including necessary industry and international expertise).
- d) Board member and senior management selection should be sufficiently evidenced and justified.

### 2. Strategy

- a) Company policy should demonstrate zero tolerance for all forms of discrimination with regards to employment and occupation, including verbal, physical, sexual harassment, and gender based. It should also promote an inclusive culture. Increased diversity may bring value to the company.
- b) Companies should have systems in place to actively manage pay equity, which includes a definition of pay equity and relevant metrics and targets used to measure this.
- c) Companies should provide targeted professional development, and where necessary also education and training, for employees to promote equal access for women and minority groups to senior level positions. It may also be necessary to raise awareness and conduct training for employees on how diversity adds value to the business.
- d) Diversity and inclusion should be promoted in every stage of employee recruitment, career development and retention.
- e) Companies should include women's and minority groups' rights criteria in their procurement and operational policies.
- f) Companies should include clauses on the compliance with gender, women's rights and diversity criteria in their contracts with subcontractors and suppliers.
- g) Companies should have systems in place to prevent and mitigate all forms of discrimination against its customers.
- h) Companies should have systems in place that facilitate work/life balance including flexible working schemes and maternity/paternity leave benefits. Companies may also consider offering support towards day care services.
- i) Companies should offer opportunities for training and professional development to all workers. This helps retain and empower workers thereby supporting innovation and growth.

<sup>18</sup> McKinsey, 2020, "Diversity wins": <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

<sup>19</sup> EY, 2018, "Why your Diversity and Inclusion Strategy Should Consider more than Gender and Background": [https://www.ey.com/en\\_gl/workforce/why-your-diversity-and-inclusion-strategy-should-consider-more-t](https://www.ey.com/en_gl/workforce/why-your-diversity-and-inclusion-strategy-should-consider-more-t)

<sup>20</sup> Sustainalytics, 2019, "10 for 2019: Systemic Risks Loom Large": <https://www.sustainalytics.com/esg-research/thematic-reports/10-for-2019-systemic-risks-loom-large/>

<sup>21</sup> Turban, WU & Zhang, 2019, "Research: When Gender Diversity Makes Firms More Productive": <https://hbr.org/2019/02/research-when-gender-diversity-makes-firms-more-productive>

<sup>22</sup> ILO, 2017, "Gender Diversity Journey: Company Good Practices", [https://www.ilo.org/wcmsp5/groups/public/---ed\\_dialogue/---act\\_emp/documents/publication/wcms\\_578768.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_578768.pdf)

<sup>23</sup> Barclays, 2014, "Women in Focus: Gender Diversity and Socially Responsible Investing": <https://www.investmentbank.barclays.com/content/dam/barclaysmicrosites/ibpublic/documents/investment-bank/global-insights/women-in-focus-gender-diversity-and-socially-responsible-investing-2.4mb.pdf>

### 3. Metrics and targets

- a) Implementation plans should include quantifiable targets, actions, responsibilities, resources and timelines. Progress towards the goals of the plans should be reported.
- b) The indicators/metrics used to assess gender equality and diversity in line with company strategy and policies may include recruitment, promotion, composition of senior management and board, training and diversity of skills in certain positions.

### Appendix: Laws, norms and standards concerning gender equality and diversity that DNB AM expects companies to consider

International Standards and Initiatives	Description of Principles
Women's Empowerment Principles	<ul style="list-style-type: none"> <li>• Establish high-level corporate leadership for gender equality.</li> <li>• Treat all women and men fairly at work – respect and support human rights and non-discrimination.</li> <li>• Ensure the health, safety and well-being of all women and men workers.</li> <li>• Promote education, training and professional development for women.</li> <li>• Implement enterprise development, supply chain and marketing practices that empower women.</li> <li>• Promote equality through community initiatives and advocacy.</li> <li>• Measure and publicly report on progress to achieve gender equality.</li> </ul>
UN Charter, the Universal Declaration of Human Rights and the International Bill of Rights	The UN Universal Declaration of Human Rights states "everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status".
UN International Covenant on Civil and Political Rights	Recognises the right to equality and non-discrimination.
UN International Covenant on Economic, Social and Cultural Rights	Recognises the right to equality and non-discrimination.
UN Convention of the Elimination of all forms of Discrimination against Women (CEDAW)	Defines what constitutes discrimination against women and sets up an agenda for national action to end such discrimination. CEDAW provides the legal basis for developing international legal regulation on women, business and human rights when imposing the obligations to prevent violations by private individuals and actors.
ILO Equal Remuneration Convention (No. 100)	Among ILO's Declaration on Fundamental Principles and Rights at Work, which state that equality and non-discrimination are at the core of the ILO.
ILO Discrimination (Employment and Occupation) Convention (No. 111)	Among ILO's Declaration on Fundamental Principles and Rights at Work, which state that equality and non-

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	discrimination are at the core of the ILO.
ILO Workers with Family Responsibilities Convention (No. 156)	Among ILO's Declaration on Fundamental Principles and Rights at Work, which state that equality and non-discrimination are at the core of the ILO.
ILO Maternity Protection Convention (No. 183)	Promotes equality of all women in the workforce and the health and safety of the mother and child.
ILO Indigenous and Tribal Peoples Convention (No. 169)	"Indigenous and tribal people shall enjoy the full measure of human rights and fundamental freedoms without hindrance or discrimination. The provision of the convention shall be applied without discrimination to male and female members of these peoples."
UN Guiding Principles on Business and Human Rights	These principles reference the principle of non-discrimination and the unique risks of women and men face in the context of business activities.
Beijing Declaration and Platform for Action	The declaration contains a standard for gender balance in decision-making positions. Women's full participation on the basis of equality in all spheres of society, including participation in the decision-making process and access to power, are fundamental for the achievement of gender diversity.
OECD Guidelines for Multinational Enterprises	<ul style="list-style-type: none"> <li>• Enterprises are expected to "promote equal opportunities for women and men with special emphasis on equal criteria for selection, remuneration, and promotion, and equal application of those criteria, and prevent discrimination or dismissals on the grounds of marriage, pregnancy or parenthood".</li> <li>• Business enterprises should pay special attention to any particular human rights impacts on individuals from groups or populations that may be at heightened risk in particular industry and context, as for example women.</li> <li>• The OECD Guidelines recognise that companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on gender equality. The requirements that companies set for their suppliers can be introduced in contractual agreements.</li> <li>• Recognises that companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements.</li> </ul>
UN Declaration on the Rights of Indigenous Peoples	This declaration calls on States to pay particular attention to the rights and special needs of indigenous women when measures are taken to ensure continuing improvement of economic and social conditions. It also calls for full protection and guarantees against all forms of violence

International Standards and Initiatives	Description of Principles
	and discrimination against women.
<p>IFC Performance Standards</p>	<ul style="list-style-type: none"> <li>• "The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, such as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement, and disciplinary practices".</li> <li>• "The client will take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women".</li> </ul>
<p>ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)</p>	<ul style="list-style-type: none"> <li>• "Multinational enterprises should be guided by the principle of non-discrimination throughout their operations without prejudice to the measures envisaged in paragraph 18 or to government policies designed to correct historical patterns of discrimination and thereby to extend equality of opportunity and treatment in employment. Multinational enterprises should accordingly make qualifications, skill and experience the basis for the recruitment, placement, training and advancement of their staff at all levels".</li> <li>• "Governments should promote equal remuneration for men and women workers for work of equal value".</li> <li>• "Governments should ensure that both multinational and national enterprises provide adequate safety and health standards and contribute to a preventative safety and health culture in enterprises progressively achieving a safe and healthy working environment. This would include steps to combat workplace violence against women and men and attention to building safety".</li> <li>• The MNE Declaration revised in 2017 also takes into account the ILC Conclusions concerning decent work in global supply chains (2016), which highlight that "instances of discrimination are also prevalent in some suppliers and contractors, including discrimination based on national origin, gender, sexual orientation and reproductive status".</li> </ul>

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