

Expectations to companies on  
**Human Capital Management**



## Objective

This document is part of DNB Asset Management's (DNB AM) series of expectation documents, explicitly outlining our expectations for how companies within our investment universe should manage human capital. Our expectations are grounded in internationally recognized principles including the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises.

The DNB Group Instruction for Responsible Investments (Group Instruction) serves as the foundation for sustainable investment practices, ensuring DNB AM doesn't contribute to human or labour rights violations while integrating environmental, social, and governance (ESG) factors into investment decision-making<sup>1</sup>.

This expectation document forms the basis for company dialogues on issues and topics related to human capital management. Our expectations on human capital management are closely linked to other expectation documents, specifically [Human Rights](#). These expectations connect directly to several UN Sustainable Development Goals, particularly SDGs 4, 5, 8, and 10<sup>2</sup>.

## Definition and scope

Human capital refers to the economic value of workers' experience, skills, knowledge, and qualifications. While not listed on company balance sheets, human capital represents a fundamental asset for all organizations and directly impacts long-term value creation<sup>3</sup>. The sound and strategic management of a company's human capital is therefore a core concern and expectation for DNB AM.

DNB AM has worked on advancing the concept of this document from a foundational focus on diversity and inclusion to a more comprehensive approach to human capital management. This broadening of the scope reflects a maturation of our work on this topic, highlighting active human capital management as essential for unlocking value and addressing evolving business risks in line with shifting market trends.

Human capital management encompasses the strategic and administrative practices of hiring, developing, and retaining employees to optimize productivity and achieve business goals. This includes recruitment, onboarding, organization, compensation, talent development, analytics, and compliance. Effective human capital management enhances workforce capabilities, driving innovation, productivity, and ultimately, organizational profitability<sup>4</sup>. Companies that prioritise human capital management can enhance their human capital through recruitment or training, which can boost employee creativity and productivity, and ultimately, an organisation's profitability<sup>5</sup>. Failure to consider these elements may conversely create adverse impacts for company performance due to turnover, decreased worker motivation, or even material risks related to lawsuits and penalties.

DNB AM does not expect a uniform approach to human capital management. Approaches may and should vary by company, sector, and region as well as the development needs of the company. This expectation document is relevant for all companies operating in all countries and across all sectors, but the expectations is particularly relevant for companies operating in markets and sectors with a large proportion of knowledge or service workers such as<sup>6&7</sup>:

- Information Technology
- Communication Services
- Financials
- Health Care
- Industrials
- Consumer Discretionary

## Introduction to human capital management

DNB AM believes that human capital management is not merely a compliance issue or a matter of social responsibility. It is a fundamental driver of business performance, innovation, and long-term value creation. Companies that recognize and act on this understanding are better positioned to thrive in an increasingly competitive and dynamic global economy.

<sup>1</sup> DNB Group Instruction for Responsible Investments, 2023, <https://s3.eu-north-1.amazonaws.com/dnb-asset-management/231208-Responsible-investment-Group-Instruction.pdf>

<sup>2</sup> <https://sdgs.un.org/goals>

<sup>3</sup> The World Bank, 2019, <https://www.worldbank.org/en/publication/human-capital/brief/the-human-capital-project-frequently-asked-questions>,

<sup>4</sup> <https://esg.wharton.upenn.edu/wp-content/uploads/2023/03/The-People-Factor-Report.pdf>

<sup>5</sup> Khazaei, M., 2021, "The Impact of Human Capital on Corporate Profitability with Emphasis on Innovation, Knowledge and Employee Satisfaction" Journal of Global Economics issue. No. 9: 375.

<sup>6</sup> SASB Materiality Map, <https://navigator.sasb.ifrs.org/materiality-map>

<sup>7</sup> MSCI ESG Research, "Human capital risks in a changing world", <https://one.msci.com/esgManager>

## RESPONSIBLE INVESTMENTS

**Driver of performance and innovation**

Companies that prioritise human capital management are more likely to have a strong organisational culture that promotes collaboration, innovation, inclusion, and employee well-being.<sup>8</sup> This can lead to higher levels of employee engagement, which has been linked to increased productivity, lower turnover rates, and higher profitability.<sup>9</sup> Additionally, by investing in employee development and training, companies can ensure that they have the necessary skills and knowledge to adapt to changing market conditions and remain competitive over the long term – even if employees can apply those skills in other organisations<sup>10</sup>.

Notably, organizational development often proves more critical than the initial educational background of employees, making the format and delivery of training particularly significant<sup>11</sup>. The form of employee training and development therefore matters. From an OECD study, findings show a preference for informal training as the most impactful increase in productivity<sup>12</sup>. This is particularly evident in developing ICT-related skills, which have been shown to drive productivity and innovation more effectively than traditional STEM skills<sup>13</sup>. Integrating these factors in upper management is crucial. Mason et al. (2019) found that both high-level skills and upper intermediate (technician-level) skills play important roles in converting knowledge sourcing opportunities into innovative output, emphasizing the importance of diverse skill levels in the workforce<sup>14</sup>.

**Workforce management**

In addition to being more consistent than their sector peers, it has been shown that firms that develop their human capital management are better at retaining talent.<sup>15</sup> Management of employee turnover must be appropriate for the scale of operations, but discrepancies in turnover rate can be a signal to investors and other stakeholders on challenges to the stability of operations. Therefore, sound human capital management should integrate structured approaches to talent development, performance evaluation, and employee engagement. These practices create a resilient and dynamic workforce that can effectively resist the natural tendency towards disorganization and inefficiency, thereby maintaining organizational effectiveness and competitiveness and preventing organisational entropy.<sup>16</sup>

Additionally, diversity and inclusion provides a constructive lens for strengthening a company's human capital management. Companies that apply a broad and context-sensitive definition of diversity across their workforce and leadership are more likely to benefit from varied perspectives, complementary skillsets, and enhanced decision-making. This can lead to improved risk anticipation, greater adaptability, and increased innovation capacity.<sup>17</sup> While the definition of diversity may vary by region and sector, fostering an inclusive environment that values experience, encourages feedback, and supports employee development indicating a resilient and attractive corporate culture.

**Communication and worker safety**

Communication is a foundational requirement on this matter. Effective worker engagement, through structured communication channels and accessible grievance mechanisms, demonstrates a company's capacity to integrate employee concerns and expertise into decision-making. This is not only a marker of sound human capital management but also a proxy for operational resilience and risk mitigation. It is important that these communication channels are appropriate, with the option of making anonymous complaints without the fear of retaliation. Third party channels, especially through labour unions where appropriate, is encouraged.

Further, strong health, safety, and working environment (HMS) management is a core aspect of workforce management. HMS performance directly impacts employee well-being, productivity, and long-term workforce stability. Strong HMS practices not only reduce operational and legal risks but also contribute to a more engaged and resilient workforce, reinforcing efforts in talent retention and communication.

<sup>8</sup> McKinsey & Company, 2023, "Performance through people: Transforming human capital into competitive advantage" <https://www.mckinsey.com/mgi/our-research/performance-through-people-transforming-human-capital-into-competitive-advantage>

<sup>9</sup> S&P Global, 2023 "How good human capital management creates competitive advantage", <https://www.spglobal.com/esg/insights/featured/special-editorial/how-good-human-capital-management-creates-competitive-advantage>

<sup>10</sup> [https://www.cedefop.europa.eu/files/BgR3\\_Hansson.pdf](https://www.cedefop.europa.eu/files/BgR3_Hansson.pdf)

<sup>11</sup> Rahman, M.M., Akhter, B. The impact of investment in human capital on bank performance: evidence from Bangladesh. *Futur Bus J* 7, 61 (2021). <https://doi.org/10.1186/s43093-021-00105-5>

<sup>12</sup> OECD Directorate for Science, Technology and Innovation, The Role of Innovation and Human Capital for the Productivity of Industries, [https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/03/the-role-of-innovation-and-human-capital-for-the-productivity-of-industries\\_737ec506/197c6ae9-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/03/the-role-of-innovation-and-human-capital-for-the-productivity-of-industries_737ec506/197c6ae9-en.pdf)

<sup>13</sup> ICT meaning "Information and Communication Technology" and STEM meaning "Science, Technology, Engineering, and Mathematics".

<sup>14</sup> OECD Directorate for Science, Technology and Innovation, The Role of Innovation and Human Capital for the Productivity of Industries, [https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/03/the-role-of-innovation-and-human-capital-for-the-productivity-of-industries\\_737ec506/197c6ae9-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/03/the-role-of-innovation-and-human-capital-for-the-productivity-of-industries_737ec506/197c6ae9-en.pdf)

<sup>15</sup> McKinsey & Company, 2023, "Performance through people: Transforming human capital into competitive advantage" <https://www.mckinsey.com/mgi/our-research/performance-through-people-transforming-human-capital-into-competitive-advantage>

<sup>16</sup> Nicolae, S. (2009). The Knowledge-Based Society-a consequence of the entropy--value theory. *Annals of DAAAM & Proceedings*, <https://link.gale.com/apps/doc/A224712231/AONE?u=anon~ca64c89b&sid=googleScholar&xid=90b37372>

<sup>17</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)

## RESPONSIBLE INVESTMENTS

**Artificial Intelligence**

Artificial Intelligence (AI) is transforming human capital management, creating opportunities and challenges that institutional investors should consider. This "AI-talent nexus" is becoming a strategic imperative, with companies effectively managing the integration of existing workforce with AI systems, demonstrating greater resilience and performance<sup>18</sup>. AI is revolutionizing traditional HR functions, enhancing recruitment, personalizing employee engagement, and optimizing workforce planning<sup>19</sup>. Early research is demonstrating that the adoption of AI is uneven across industries and markets<sup>20</sup>, with adopters of AI already seeing drastic efficiency increases. Highly skilled workers are the early adopters of AI, but AI adoption is not a blank cheque for productivity increase in employees. Unless employees are trained to understand how an AI tool works, and how to improve its functionality for the specific use case, worker productivity can in some cases decrease due to output errors, in some instances as much as 24 per cent<sup>21</sup>. Emphasising employee judgement and skill has therefore already shown promise as constructive human-centred lens to drive AI adoption in organisations and in human capital management process.

Ensuring the efficacy of this implementation is paramount. Ethical AI integration in human capital management requires transparency, accountability, and fairness in how AI tools are developed and applied across workforce processes. Companies should ensure that AI systems used in recruitment, performance evaluation, and workforce planning are free from bias, respect employee privacy, and include clear governance around data collection and usage. Employees can also be a key resource in providing feedback for how these tools may be improved and potential challenges in digital ethics.

**Just Transition**

Human capital management is an integral aspect of both the digital and environmental transition. As the world is transitioning to a low carbon economy, companies need to balance the environmental outcomes of their transition plans with the consequences for the social dimension, with special emphasis on how this may carry implications for their own workforce as well as their communities. Human capital management has been largely absent from most business responses to climate change despite being essential for the successful delivery of value during transformational change<sup>22</sup>. This is a topic DNB AM also has covered in our expectations to companies on [Climate](#) and [Human Rights](#).

Furthermore, DNB AM also views the transition towards increasingly automated technologies and industries as a compounding challenge for companies. AI's rapid transformation of knowledge work challenges traditional just transition concepts by accelerating job disruption, exacerbating skill inequalities, and blurring human-machine boundaries at an unprecedented pace. To ensure equitable outcomes companies should address AI's unique impacts on workforce skills, job roles, and economic structures, while prioritizing inclusive dialogue and personalized upskilling approaches across diverse demographic groups in parity with their work on the environmental transition.

**Freedom of associations**

Unions and their role in collective bargaining are a key component of human capital management, as they can influence a company's cost structure, operational stability, and employee relations. Effective engagement with unions can also reduce the risk of labour disputes and ensure smoother workforce negotiations. Companies need to consider the potential effects of unionisation on the long-term sustainability of the business, as well as the potential for improved benefits for employees.<sup>23</sup> Unions are also a key resource for preventing adverse impacts of companies who do not have mature human capital mechanisms and management.<sup>24</sup> A study by Palladino (2024) indicates that companies with robust human capital management practices, which includes the freedom of association, experience more consistent earnings and demonstrate resilience during crises compared to industry peers<sup>25</sup> due to their ability to integrate worker concern and engagement in an appropriate manner.

Though there are differences between markets and sectors, DNB AM expects all companies to align with ILO convention No. 87 Freedom of Association and Protection of the Right to Organize which sets forth the right of workers and employers to establish and join organisations of their own choosing without authorisation. There is significant debate on the perceived impact of unions on share price and financial performance.<sup>26</sup> At the individual company level, unionisation may bring about short-term challenges, but organised labour is a valuable partner in sound human capital management.

<sup>18</sup> <https://www.cppinvestments.com/insights-institute/integrating-ai-and-human-capital/>

<sup>19</sup> <https://www.cppinvestments.com/insights-institute/integrating-ai-and-human-capital/>

<sup>20</sup> <https://www.sciencedirect.com/science/article/pii/S0165176524004336>

<sup>21</sup> <https://mitsloan.mit.edu/ideas-made-to-matter/how-generative-ai-can-boost-highly-skilled-workers-productivity>

<sup>22</sup> UN PRI, Climate change and the just transition; A guide for investor action, <https://www.unpri.org/download?ac=9452>

<sup>23</sup> Kim, Zhang, Xhong, "Does unionization affect the manager-shareholder conflict? Evidence from firm-specific stock price crash risk".

*Journal of Corporate Finance* Vol.69 <https://www.sciencedirect.com/science/article/abs/pii/S0929119921001127>

<sup>24</sup> ILO, 2023, How are trade unions adapting to changes in the world of work?, <https://www.ilo.org/resource/news/how-are-trade-unions-adapting-changes-world-work>

<sup>25</sup> <https://peri.umass.edu/wp-content/uploads/joomla/images/publication/WP595-1.pdf>

<sup>26</sup> Maranto, C. L. 1985. Union Effects on Human Capital Investments and Returns. *The Journal of Human Resources*, 20(3), 453–462.

<https://doi.org/10.2307/145896>



## RESPONSIBLE INVESTMENTS

**Challenges in assessing human capital management**

Delivering on informed and insightful human capital management is complex. Collecting and analysing broader human capital data poses several challenges. Outside specific regulatory requirements—such as pay transparency in certain markets—disclosure remains poorly defined and lacks standardisation. In addition, some data is considered sensitive, raising concerns around data privacy (e.g., under GDPR) and often leading to reluctance from companies to disclose it. Comparability is also difficult, as collective identities such as gender, ethnicity, or disability status can be fluid, self-reported, and vary across regions. To overcome these barriers, we encourage companies to align their reporting with international standards such as SASB/ISSB and GRI, and with regional frameworks like ESRS and the CSRD, which help improve consistency, transparency, and investor-relevant insights.

**Expectations to companies**

We expect companies to address human capital management 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 human capital management.

**1. Governance**

- a) The management of human capital should have Board-level oversight.
- b) The Board and senior management should meet the company's need for expertise, diversity, and capacity.
- c) Ensure targeted efforts to increase participation and equal access for the least represented gender at both board and senior management levels. In cases where gender diversity is lacking, companies should disclose a clear rationale and outline time-bound actions to address the imbalance. DNB AM considers a minimum of 40% representation of the least represented gender as current best practice, in line with evolving regulatory expectations and national gender quotas.
- d) Board member and senior management selection should be sufficiently evidenced and justified.

**2. Strategy**

- a) Articulate hiring goals and strategy tied to specific growth and corporate objectives — such as a revenue-to-headcount ratio, turnover (voluntary and involuntary), internal promotion rate, goals related to inclusivity — and should clearly define recruiting processes and standards to meet those objectives and needs across their workforce, and where relevant, their supply chain.
- b) Conduct and report employee satisfaction surveys, and where relevant, customer metrics like Net Promoter Score (NPS), to track engagement over time.
- c) Develop a policy demonstrating zero tolerance for all forms of discrimination with regards to recruiting, employment and occupation, with concerns for customers and suppliers, covering verbal, physical, sexual harassment, and gender based.
- d) Promote an inclusive culture with regards to the background, skillset, identities, age, religion, and beliefs.
- e) Have systems in place to actively manage pay equity, which includes a definition of pay equity for the organisation and relevant metrics and targets used to measure this. This should be aligned with best practice international frameworks.
- f) The structure of the company's short- and long-term incentive plans should be appropriate and aligned with shareholder interests. This includes careful consideration of dilution, vesting periods, and, where applicable, clearly defined performance conditions. Companies should avoid, where possible, guaranteed or discretionary elements in incentive schemes that may weaken the link between pay and performance.
- g) Have systems in place that facilitate work/life balance including flexible working schemes, overtime limits and maternity/paternity leave benefits.
- h) Offer opportunities for training and professional development, including, where appropriate, lifelong learning and re-skilling, that help retain and motivate workers and thereby support innovation, worker empowerment, business resilience and growth.
- i) Develop a clear strategy for integrating AI in human capital management, including employee training to enhance tool functionality for company-specific needs, and establishing ethical governance frameworks addressing transparency, accountability, data privacy, and non-discrimination.
- j) Aim to develop a policy on the ethical use of AI tools across all company operations.
- k) Develop a position on how they are aligning their human capital management with the concept of the just transition.

**3. Risk management and Engagement**

- a) Incorporate material human capital management risks in a robust and integrated risk management framework. This should include appropriate processes for prioritising, mitigating, monitoring, and reporting on these risks and, where relevant, clearly defined targets and timelines.
- b) Engage with workers and their representatives, such as trade unions, health and safety representatives and employee resource groups, as part of the human capital management and strategy for employee wellbeing.
- c) When considering or utilising new technologies that might alter the business model such as artificial intelligence or alternative workforce models, companies should be particularly aware of related risks and take steps to

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address these risks with regards to possible displacement of workers and be proactive in their workforce engagement to avoid disruption.

- d) Companies should engage responsibly with policy makers and regulators and be transparent about their engagements on topics related to human capital management, and report on their activities in different markets where applicable.
- e) Acknowledge the sensitivity of certain human capital data and develop transparent disclosure policies that balance reporting needs with data privacy regulations while striving for standardized disclosure aligned with emerging best practices.

#### 4. Disclosure, Metrics and Targets

- a) Implementation plans of corporate human capital management strategy should include quantifiable targets, actions, responsibilities, resources, and timelines. Progress towards the goals of the plans should be reported in a way that allows for meaningful comparison. Reporting aligned with the CSRD (ESRS), ISSB or GRI aides this.
- b) Disclose core information on their workforce in line with best practice for the sector, with priority on metrics such as numbers of workers, total cost of workforce, turnover separated by voluntary/involuntary, serious HMS incidents, employee training as well as relevant industry-specific metrics. These should be reported in a way that allows for comparison of year-on-year change and separation by management tier in line with country specific requirements/required by law in countries which they operate.
- c) Companies should have and disclose details regarding their grievance and whistle-blowing mechanisms with explicit mentioning of non-retaliatory safeguards.

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**Appendix:** Laws, norms, and standards concerning labour rights and inclusion that DNB AM expects companies to consider in their human capital management

International Standards and Initiatives	Description of Principles
OECD Guidelines for Multinational Enterprises	The OECD Guidelines are government-endorsed recommendations for responsible business conduct, covering areas such as human rights, labor rights, the environment, anti-corruption, and transparency. They align with international standards like the UN Guiding Principles and are a cornerstone for due diligence frameworks such as the EU Corporate Sustainability Due Diligence Directive (CSDDD). The 2023 update emphasizes climate due diligence, biodiversity, and responsible digitalization..
Women's Empowerment Principles	Developed by UN Women and the UN Global Compact, the WEPS offer a framework for businesses to promote gender equality and women's empowerment in the workplace, marketplace, and community. The seven principles cover leadership, equal opportunity, health and safety, education, enterprise development, community initiatives, and transparency in gender-related performance.
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 C No. 87 Freedom of Association and Protection of the Right to Organize	Sets forth the right of workers and employers to establish and join organizations of their own choosing without authorization.
ILO C No. 98 Right to organize and Collective Bargaining	Complements C87 by emphasizing the right to organize and the right of workers and employers to engage in collective bargaining.
ILO C No. 29 Forced Labour Convention and ILO C No. 105 Abolition of Forced Labour Convention	Defines and prohibits all forms of forced or compulsory labour, with limited exceptions, and prohibits forced labour as a means of political coercion, punishment, or economic development.
ILO C No. 138 Minimum Age Convention and ILO C No. 182 Worst Forms of Child Labour Convention	Requires countries to set a national minimum age for employment (usually ≥15 years) aligned with the end of compulsory schooling, and calls for the immediate elimination of hazardous work and exploitation involving children under 18 (e.g. slavery, trafficking, sexual exploitation).
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-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.
Sustainable Finance Disclosure Regulation (SFDR)	A European Union regulation (Regulation (EU) 2019/2088) that requires financial market participants to disclose information on

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International Standards and Initiatives	Description of Principles
	how they integrate environmental, social, and governance (ESG) factors into their investment decisions.
Corporate Sustainability Reporting Directive (CSRD)/ European Sustainability Reporting Standards (ESRS)	An EU directive mandating sustainability reporting for large companies in the EU to enhance transparency and accountability regarding their sustainability impacts and strategies. ESRS is the mandatory standards developed under the EU's CSRD, requiring comprehensive reporting on environmental, social, and governance topics from companies operating in the EU.
International Financial Reporting Standards (IFRS)	Accounting standards produced by the IFRS Foundation intended for use by public companies. The ambition is to ensure worldwide consistent and transparent company financial reporting. The foundation produces standards for financial accounting and sustainability. The latter comprises two key standards: IFRS S1 for general sustainability disclosures and IFRS S2 for climate-related disclosures, promoting transparency and accountability in reporting.

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See our website <https://dnbam.com/en/responsible-investments/guidelines-and-exclusions> for a full list and updated versions of our expectations to companies on a wide range of topics.



