

# Human capital management Expectations of companies



Norges Bank Investment Management manages the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. As a long-term and global financial investor, we are dependent on sustainable development, well-functioning markets and good corporate governance.

Our expectation documents set out how we expect companies to manage various environmental and social matters. Our expectations are based on internationally recognised principles such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises and other topic-specific standards. This document serves as a starting point for our interaction with companies on human capital management. We expect companies to address this topic in a manner meaningful to their business model and wish to support them in their efforts.

Our expectations are primarily directed at company boards. Boards should understand the broader environmental and social consequences of company operations, taking into account the interests of relevant stakeholders. They must set their own priorities and account for the associated outcomes. Companies should pursue relevant opportunities and address significant risks. They should report financially material information to investors, and broader impacts as appropriate. Boards should effectively guide and review company management in these efforts.



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# Human capital management

Companies' effective management of human capital is increasingly critical to their success, as it supports both value creation and business resilience. We believe that companies that invest in their workers and effectively harness the value of their human capital are more likely to be successful over the long term. Investments in the skills and wellbeing of workers may also affect the economy at large. As a financial, global and long-term investor, we expect companies to adopt robust human capital management policies and practices and to report publicly on their efforts.

We invest for the long term and benefit from value creation both within individual companies and across the economy. Human capital, defined as the economic value of the collective skills, education, knowledge, abilities and motivation of a company's workforce, makes up a growing share of that value. Research highlights the importance of investment in human capital as a driver of productivity and growth. High levels of employee satisfaction can also be associated with improved financial performance. Strategic investments in human capital that foster an environment of innovation and empowerment of workers can help companies seize new business opportunities and gain competitive advantage. Human capital management that supports adaptation and resilience also offers clear risk-management benefits.

Health and safety, remuneration, development and training, diversity, equity and inclusion (DE&I), labour relations and company culture are key aspects of human capital management. However, there is no one-size-fits-all approach to human capital management, and approaches may vary by company, sector and region. For instance, while efforts to promote a diverse, equitable and inclusive workforce culture and to



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foster meaningful worker engagement are important for all companies, the strategies and priorities for implementation are likely to reflect specific circumstances. As an investor, we seek to understand a company's business model and operating context and how these inform their efforts to attract, retain, develop, motivate and engage their workers.

The human capital management landscape is changing rapidly. New technologies, including artificial intelligence and automation, and related alternative workforce models, such as hybrid working arrangements, seasonal and temporary workforces, and the gig economy, present new opportunities and risks for companies. At the same time, shifting societal pressures, growing wealth and income inequality, and new platforms that both amplify worker voices and allow a window into company culture and practices, are placing companies' management of human capital under greater scrutiny. Roles and responsibilities of businesses with regard not only to direct employees, but also to those in their supply chains, are further evolving. In this context, proactive and nuanced human capital management, as well as strengthened oversight and reporting, is increasingly relevant.

Failing to develop appropriate human capital management strategies can bring material financial, legal and reputational risks for businesses. For example, failures to invest in workers' welfare, motivation and development may stifle innovation and frustrate efforts to recruit or retain talent. Failures to uphold labour standards across operations and supply chains may also bring material risks. Due diligence and risk mitigation are therefore key components of a human capital management strategy.

Our expectations of companies also relate to their social license to operate and their broader market legitimacy. For instance, the argument in favour of innovative and robust policies to promote diversity, equity and inclusion transcends the direct company-level financial or risk-mitigation benefit such policies might bring. We believe that all market participants will benefit from the strengthened legitimacy of a diverse, equitable and inclusive economy. Similarly, we believe companies' investments in developing both their own workers and those in the supply chain are likely to have spill-over impacts on the economy. Such investments will



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indirectly support broader economic growth and potentially lower the cost of labour displacement and retraining associated with the transition to a low-carbon economy and other societal shifts.

Corporate balance sheets today generally fail to provide investors with a clear picture of companies' investments in their human capital. Given the breadth of issues and metrics that may relate to a company's investments in human capital, and the diverse approaches that may appropriately be taken, accounting and reporting practices in this area will continue to evolve. We therefore support the ongoing development of good practices and reporting standards that better enable us to assess the steps companies are taking to maximise value and reduce risks related to their human capital.

Companies' human capital management policies and strategies are closely connected to, and have an important impact on, respect for core labour rights. Good labour relations, including freedom of association and collective bargaining, provide a foundation for companies to adopt and implement human capital management strategies effectively. For further information about our expectations on labour rights as an essential component of human rights, please refer to our expectation document on human rights.<sup>1</sup>



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<sup>1</sup> Internationally acknowledged principles and conventions establish normative starting points for companies' policies and strategies on human capital management. UN Sustainable Development Goals 5 'Gender Equality' and 8 'Decent Work and Economic Growth', the ILO MNE Declaration and relevant ILO Conventions, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the UN Global Compact provide principles and guidance for companies in this regard.

## A. Integrate human capital management into policies and strategy

- Companies should harness the full value of their human capital through a human capital management strategy appropriate to their business.
- Boards should exercise oversight over, and be accountable for, the development and implementation of the human capital management strategy.
- Boards should encourage the development of a culture of investing in people and the creation of a safe and positive working environment.
- Companies should have a proactive and structured approach to promoting diversity, equity and inclusion across their workforce and, where relevant, their supply chain. They should have a zero-tolerance policy against all forms of discrimination, violence and harassment and should implement appropriate training programmes and reporting mechanisms as well as clear policies against retaliation.
- Companies should ensure that workers are paid fair wages or compensation, sufficient to sustain a decent standard of living.
- Companies should 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.
- Companies that rely on alternative workforce models should ensure their human capital management strategies include this workforce and should account for any material differences relative to the approach taken with direct employees.



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## B. Integrate material human capital management risks into risk management

- Companies should identify and 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.
- Companies should integrate diversity, equity and inclusion and health and safety systematically into risk management frameworks to ensure equitable treatment and mitigation of risks in their operations and relevant parts of the value chain.
- Companies should have and be open about systems to actively monitor and manage pay equity, including clear definitions and indicators of pay equity and relevant metrics and targets used to measure progress.
- When considering or utilising new technologies or alternative workforce models, companies should be particularly aware of related risks and take steps to address these risks.



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## C. Disclose material information related to human capital management

- Companies should report publicly on their human capital management strategies, policies, processes and risks in a manner appropriate to their business model and operational context. Reporting should be aligned with emerging best practices and international standards, such as SASB/ISSB and GRI, as well as relevant regional disclosure frameworks.
- Company reporting should provide sufficient context to enable investors to assess companies' investments, opportunities and risks related to human capital management. Reporting should cover both direct employees and other categories of workers, such as those in the supply chain and seasonal, part-time and temporary workers.
- Companies should disclose core information on their workforce, such as numbers of workers, total cost of workforce, turnover, and diversity data, as well as relevant industry-specific metrics. Reporting on diversity-related measures should be disaggregated by appropriate gender or minority groups and employee categories.
- Companies should be transparent about how they measure the effectiveness of their human capital management strategies. Where appropriate, reporting should use metrics that enable year-on-year comparison and assessment of performance against targets and action plans.



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## D. Engage responsibly and transparently

- Companies should engage with workers and their representatives, such as trade unions, health and safety representatives and employee resource groups, as part of their human capital management, including in the development and implementation of policies and practices. They should be transparent about their approaches in this regard.
- Companies should facilitate appropriate channels for worker voice and engagement to strengthen productivity, labour relations, company culture and organisational improvement.
- Companies should have grievance and whistle-blowing mechanisms that enable follow-up of complaints without fear of retaliation. Where appropriate, they should take steps to address inherent barriers to proper representation and access to worker voice channels and grievance mechanisms for women and minority groups.
- Companies should engage responsibly with policy makers and regulators and be transparent about their engagements.



Companies should engage with workers and their representatives.

See our website [www.nbim.no](http://www.nbim.no) for a full and updated list of our expectations on sustainability topics. We also regularly publish our perspectives on issues such as sustainability reporting and the UN Sustainable Development Goals.

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