



FRAMEWORK FOR  
**PORTFOLIO  
SUSTAINABILITY  
ASSESSMENTS  
(PSA)**







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# Foreword

Over the past years, attention to the sustainability performance of individual products and broader business solutions has increased substantially. Recent global agreements such as the Paris Climate Agreement and the United Nations Sustainable Development Goals underpin the importance of improving sustainability performance. In support of these and other global ambitions, companies increasingly use Portfolio Sustainability Assessments (PSA) to proactively steer their overall product portfolios towards improved sustainability performance.

Many companies have started to develop in-house PSA methodologies – a number of which have already demonstrated tangible business value and delivered meaningful new information for stakeholders and customers.

Companies who have adopted PSA methods indicate that improved sustainability performance has resulted in tangible business benefits, such as:

1. Better decisions, more robust strategies
2. Higher growth rate for more sustainable solutions
3. Credible communication on sustainability benefits
4. Stronger customer and stakeholder relationships
5. Reduced risks
6. Improved corporate image

Companies within the World Business Council for Sustainable Development (WBCSD) expect that harmonizing approaches and developing a common framework for these practices will create value. A common framework will significantly increase robustness and credibility of company efforts,

because such a framework would be built on leading best-practices. In addition, it would also reduce complexity for external stakeholders, as a common framework enables more consistency in communicating results. It also would help to create shared language on sustainability-related benefits and concerns throughout value chains and industries.

The ambition of this **Framework for Portfolio Sustainability Assessments** (further referred to as “PSA Framework”), is to guide companies across different sectors in developing and applying consistent, high quality PSA approaches that will result in more sustainable product portfolios.









# 1. The value of this framework



The objective of PSA is to help companies steer their product portfolios towards improved sustainability performance. It mainly focuses on assessing the complete product portfolio (or segments of it) in order to get an overall view of how sustainable a company's products are.

Existing methodologies – such as environmental or social life cycle assessments (LCA) – cannot be easily used to assess entire product portfolios because they are typically effort-intensive and costly to carry out. Furthermore, such methodologies focus only on certain impacts (environmental and social) and do not take market perception and regulatory developments into account. While these LCA-based tools can deliver valuable input for PSA and should continue to be used for the purposes they are intended for, a new more pragmatic approach is needed for the task at hand.

PSA does not focus on aggregated company sustainability impacts, such as quantifying total company emissions, or a company's exposure to child labor. Nor is the methodology suited for product labeling or comparative assertions (i.e. comparisons versus other companies' portfolios or individual products), even though companies may use individual products as illustrative examples of the methodology.

PSA approaches, because they are based on a variety of inputs including environmental and social impact, market perception, regulatory direction and other indicators, provide a robust approach for companies to understand the risks in the portfolio, take action - and ultimately - transform the company's product portfolio towards improved sustainability performance.





## 2. Ambition of the framework

The ambition of the PSA Framework is to provide a set of quality criteria to guide companies in developing high quality approaches to PSA. The criteria enables companies to develop new PSA methodologies or to improve the quality and consistency of existing PSA approaches.

A methodology, based on the PSA Framework, aims to:

1. **Build a common understanding** of what is considered "sustainable" within product portfolios;
2. **Improve robustness of existing PSA approaches**, by adopting best-practice approaches applied by peers;

3. **Increase credibility of externally communicated results**, by agreeing on requirements with which a high-quality PSA must comply;
4. **Reduce complexity for companies starting with PSA**, by providing pragmatic "how-to" guidelines and case examples;
5. **Improve consistency in communication** on sustainability attributes and performance;

The PSA Framework aims to list the elements and rules that a methodology must define. **It does not constitute a methodology for companies to implement.**

The development of specific **PSA methodologies** can be completed at the industry level, resulting in industry-specific methodologies.

The industry-specific methodologies of related industries may be similar, but are not necessarily identical, ensuring meaningful results without duplicating work. Even within an industry, individual companies or groups of companies may decide (but are not obliged) to add further, more stringent criteria in order to achieve a more differentiated result.

The relationship between the PSA Framework, industry-specific methodologies and company-specific methodologies is shown in figure 1.

**Figure 1:**  
Relationship between PSA framework and PSA methodologies





### 3. General approach to a Portfolio Sustainability Assessment under the framework

Companies who have successfully designed and implemented PSA approaches now use the methodology throughout key decision-making processes and internal/external communications, including e.g.:

- Risk / opportunity identification
- Strategy development and review
- Innovation project management
- Capital expenditure (CAPEX) decisions
- Mergers and acquisitions (M&A)
- Sales planning and customer co-development projects
- Portfolio steering by target-setting
- External communication both at the product and the portfolio level
- External communication in customer/partner relationships

The versatile use of PSA outcomes for key business decision-making means that it is critical for PSA methodologies to simultaneously address multiple – and sometimes contradictory – objectives of stakeholders.

Effective PSA methodologies must for example:

- Provide **credible reporting** on sustainability performance which can be communicated to internal stakeholders and the outside world. The PSA methodology must also be sufficiently forward-looking and sensitive to spot any material opportunities and risks so as to provide **novel insights to inform decision-making**
- Be **easy to understand, implement and execute**, so that the barriers to start working with PSA become as low as possible. At the same time, the PSA methodology must ensure that assessments are **robust, comprehensive and fact-based** to ensure that PSA outputs can be effectively used for decision-making
- Warrant a sufficient level of **consistency across industries and value chains** to create a common language on sustainability performance. At the same time, must allow for some degrees of freedom to ensure that outcomes are relevant across a vastly different landscape of products, applications and regions.

Companies generally follow a five-step approach for PSA indicated in figure 2 below. This is an iterative approach, so companies should use the results to define the objectives, scope and process for the future assessments.

Therefore, the PSA Framework recommends that PSA methodologies follow the above five steps.

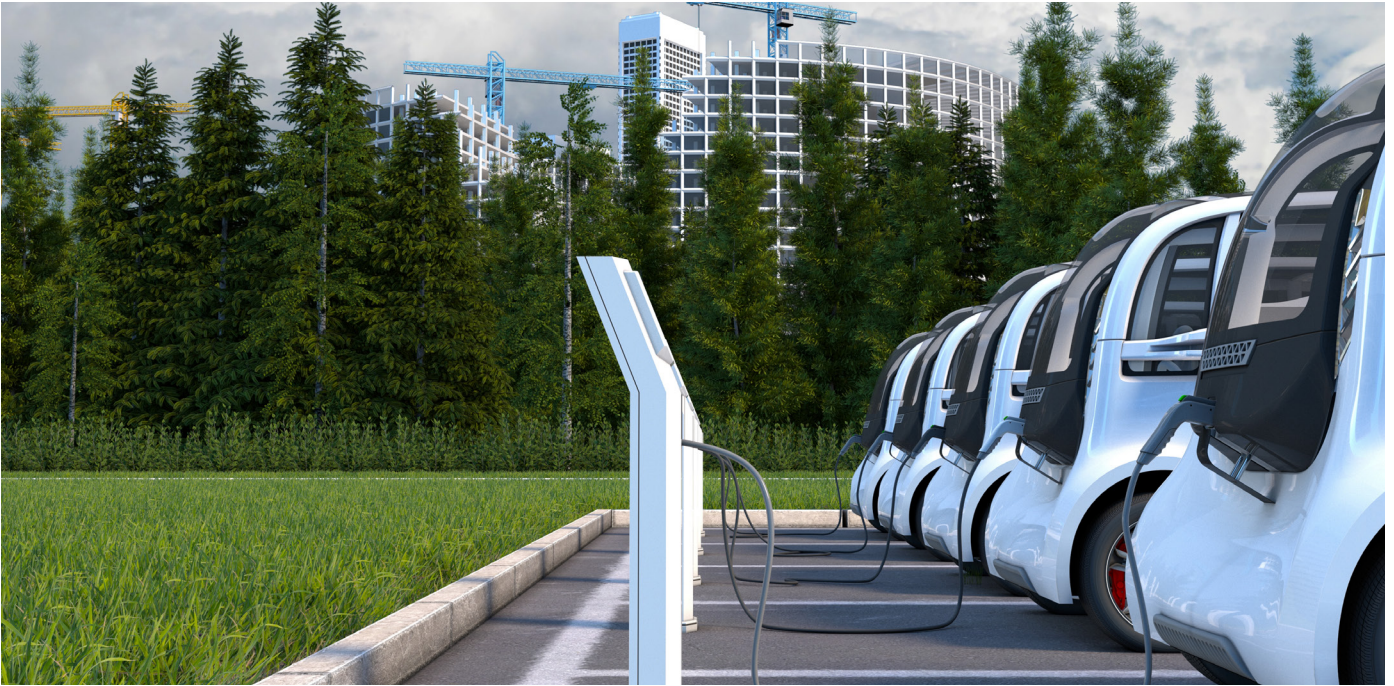
The quality criteria for each step are summarized in the following chapters and aim to guide industries and companies in developing and implementing credible and robust PSA methodologies.

A company's PSA should be based on existing guidelines/standards and on commonly-accepted sustainability metrics where possible and relevant.

Use of the terms "shall," "should," "may" and "can" conforms to ISO/IEC directives (2011):

- "shall" indicates a requirement
- "should" indicates a recommendation
- "may" is used to indicate that something is permitted





**Figure 2:**  
Overall process for a PSA



Companies claiming conformity with this PSA framework shall:

- Use a methodology based on the five steps described above and fulfil quality criteria defined for each of the steps, as summarized in the following chapter

Be in alignment with existing guidelines/standards and on commonly-accepted sustainability metrics where possible and relevant

- Review the PSA methodology based on this framework and results from the PSA on a:
  - o Regular, structured basis (at a minimum every 5 years) to ensure that the fact-base on which the assessment relies is still up-to-date and representative;
  - o And whenever any reason exists to consider that the assessment may need to be updated because of important changes in the market (e.g. new important regulation, industry initiatives, etc.).

What is seen as superior performance today may be average or inferior performance tomorrow, because both innovation and competition drive improvements and because market requirements and regulations evolve



# 4. Criteria for a high-quality PSA method

## Defining objectives, scope and process

The primary scope includes, in principle, all activities covered by the company's external financial reporting ("relevant activities"). Before deciding on the scope of business activities to be included in the PSA, companies should conduct a high-level screening of the complete portfolio. The objective of the high-level screening is to ensure that the company has an adequate understanding of where business topics with potential sustainability concerns are located in the portfolio. Reporting shall include a clear justification and rationale for activities included in or excluded from the primary scope.

The relevant scope of business activities is defined by the procedure described in the below steps one to three. Business topics concerning exposure to controversial sustainability performance should be included.

Following the high-level screening, the company may decide to either:

1. Include all activities in scope of the PSA (full scope), with focus on existing products, existing services and R&D projects

2. Select a part of the business (e.g. one business unit) for assessment (after all, not all companies can be expected to directly assess the complete portfolio of activities)
3. Exclude activities from the scope of its assessment (e.g. because some activities are regarded to be non-core, activities that will be divested in the short-term) provided that excluded activities:
  - Do not contain any activities for which controversial items / critical sustainability impacts were identified during the analysis
  - Are described (what is excluded) and justified (why is it excluded) in reporting

If a company opts to gradually increase the scope of business activities covered (e.g. PSA covers 25% of revenues in year one, 50% of revenues in year two and 75% of revenues in year three), reporting shall transparently explain:

- How the scope was selected
- What activities were excluded
- What the company roadmap towards more complete coverage of revenues looks like (e.g. what are key milestones)

Quality criteria mentioned throughout this document must still be fulfilled with any reduced scope. The process through which the unit of analysis is defined should foresee that this is a step-wise implementation pathway, with the goal to have more complete coverage of the portfolio over time.

## Defining assessment segments

The purpose of portfolio segmentation is to ensure that PSAs consider the specific context of a product/service and the supply and value chain in a region while simultaneously reducing complexity through the effective grouping of similar activities with similar sustainability performance.

The exact approach used by companies to define assessment segments needs to be defined in the methodology as it depends on, for instance:

- The type of product or service provided (e.g. companies providing a financial service may use companies in industries/ applications as assessment segments, instead of products in applications)



- The position in the value chain (e.g. companies close to the end customer / consumer may prefer to evaluate sustainability performance of ingredients in sold products)

The approach acknowledges that one single product or service may have acceptable sustainability performance in one value chain, whereas the product may be regarded as problematic in another value chain. A well-defined assessment segment is homogenous in terms of sustainability performance and cannot be divided into smaller segments.

When constructing the assessment segments, companies should strive to:

- Balance accuracy with effort in a pragmatic way (80/20 focus), by applying a transparent and robust approach to focus on the most relevant areas for assessment
- Maintain a precautionary principle and separate activities with potentially negative impacts in separate assessment segments to ensure that potential risks or concerns are not overlooked

Assessment segments should be defined before starting the PSA, yet the results of the PSA may lead to the grouping or subdivision of assessment segments.

Companies may further subdivide assessment segments to reflect the specific context of a specific region. Regionalization can help companies increase relevance and representativeness of results by reflecting differences in legislative frameworks, alternative solutions available in the market and/or differences in relevant ecolabels. Regionalization shall not be applied just to bypass negative signals found in other regions, as negative signals from other regions often influence decision-making.

The size of an assessment segment is determined based on the external sales (i.e. excluding intercompany sales) of the company in the year of reporting (if not possible, as recent as possible). Revenues used for sizing assessment segments shall be aligned with the financial and/or environmental reporting of the company (such as IFRS, GAAP).

## Detecting market signals

Having defined the unit of analysis (the assessment segments), companies can proceed to scan for "signals" on perceived sustainability performance for the respective assessment segments. Signals on sustainability performance aim to identify material environmental and social challenges and opportunities related to the assessment segment. The signal categories aim to represent the perspectives of different stakeholder groups, which are relevant for specific applications.

Assessing sustainability using criteria defined by relevant stakeholder groups enables the company to assess its own sustainability performance using a fact-based outside-in view and highlights areas where changes in decision-making are likely to occur for sustainability-related reasons. Signal categories may, for instance, evaluate sustainability performance based on:

- Regulatory trends
- Authoritative ecolabels
- Sustainability ambitions in value chain
- Sustainability performance compared to alternative solutions
- Economic value creation vs. the environmental and societal harms and benefits
- Contribution to Sustainable Development Goals
- Company internal guidelines and objectives

A signal is defined as a fact-based observation on material, sustainability-related actions or commitments of key stakeholders (e.g. by means of legislation, purchasing decisions, ecolabel requirements) which indicate whether the assessment segment is contributing to a transition towards to a more sustainable world. Signals are identified through the evaluation of public communication or through discussions with key stakeholders (e.g. customers, other value chain players, governments, ecolabels, industry associations, etc.).

Companies shall consider all four elements in assessment scope:

### 1. Environmental social, and economic impacts

- Assessment scope is limited to sustainability-related impacts
- Social indicators are fully included in scope of the PSA methodology.
- For more information on potentially relevant social metrics, please refer to the:
  - o WBCSD Social Capital Protocol, and
  - o UN Sustainable Development Goals

Other publications on social metrics may also be used.

- Profitability may be included as a minimum requirement (i.e. profitability below the minimum level results in a negative signal, minimum level to be defined by the reporting company. Profitability alone may not be used as a positive signal)



## 2. Fact-based signals on stakeholder action

- Signals shall be based on facts and supported by evidence. Companies shall consider an identified sustainability signal to be material if it is:
  - o Significant – the signal is expected to lead to changed behavior / actions by relevant stakeholders, and
  - o Measurable – the signal is based on a factual observation from an authoritative source
- Signals reflect actions undertaken by key stakeholders, which may also be driven by their perception on sustainability performance (e.g. novel laws, changing decision making, company policies)

## 3. Absolute and relative performance criteria

- Absolute performance assessments compare assessment segment characteristics with the requirements and objectives of relevant stakeholders in the value chains
- Relative performance assessments compare assessment segment performance with the performance of competing solutions in the assessment segment

## 4. The full life cycle of the product

- The assessment considers impacts from all relevant stages within the full product life cycle, including e.g. exploration of raw materials, manufacturing

footprint, processing, use and end-of-life

- Level of granularity/depth of analysis may differ across dimensions of the assessment segment and the value chains

## Additional observations regarding the market signals on sustainability performance

For each of the identified signals that could imply perceived sustainability benefits or concerns, the company shall decide on the materiality of the signal for the assessment segment.

Companies shall consider an identified sustainability signal to be material if the signal is:

- Significant – the signal is expected to lead to changed behavior / actions by relevant stakeholders, and
- Measurable – the signal is based on a factual observation from a credible source

Companies shall apply a cautionary, robust and transparent approach when identifying sustainability signals, implying that:

- Identified signals on sustainability performance shall be fact-based and supported by robust, independent (which may be internal) quality control
- Materiality thresholds shall be clearly defined in the methodology. Typically, companies consider a sustainability signal to be material if the identified facts are expected to lead to changed behavior / actions by relevant stakeholders
- Companies may include signals, which are an addition to industry-wide criteria to ensure the methodology remains relevant for them, in view of new market trends. Such additional, company-specific signals may not offset existing negative signals

Signals on environmental and social performance will evolve over time. For instance:

- Environmental and social impacts considered important in a specific application will change over time (e.g. water usage may become a hot topic in a specific application)

- Expected minimum performance levels on indicators may change (e.g. updates to legislation may require companies to reduce exposure levels of a specific substance)
- The performance of alternative solutions changes as novel solutions emerge and the performance of existing solutions improves

It is understood and accepted that companies do not have high quality data on all environmental and social impacts of assessment segments throughout the lifecycle (including impacts of related ingredients, co-products and competing products). Companies are expected to follow a best-effort approach by:

- Starting with information already available within the company
- Completing and upgrading this information through additional research on the signals described in this document (on a best-effort basis)
- Following-up on PSA results to determine in what areas data quality needs to be further improved

The assessment of sustainability signals shall therefore be reviewed on:

- A regular, structured basis (at a minimum every 5 years) to ensure that the fact base on which the assessment relies is still up-to-date and representative
- An ad-hoc basis, whenever any reason exists to believe that the assessment needs to be updated because of important changes in the market (e.g. new important regulation, industry initiatives, etc.)



## Categorizing the portfolio

Following the identification of sustainability signals, companies shall evaluate all material signals identified and categorize assessment segments based on the overall sustainability performance.

The categorization of assessment segments enables companies to aggregate results and evaluate performance at the portfolio level.

When categorizing results, companies shall make use of at least three reporting categories (companies are free in selecting the most appropriate colors, company-specific category names - e.g. Accelerator, Aligned, etc. - but shall be referenced to the standard categories to avoid confusion):

- A. Assessment segments contributing to a more sustainable world
- B. Neutral assessment segments
- C. Assessment segments with a material sustainability concern

Best-practice approaches use five categories, as defined as in figure 3.

Companies shall not offset material sustainability-related concerns (negative signals) with sustainability

benefits (positive signals) when assigning an assessment segment to a category.

## Using the results and external reporting

Companies who have successfully designed and implemented PSA approaches can use the methodology throughout all key decision-making processes (either directly or indirectly by using the insights or the results of the PSA assessments), including e.g.:

- Risk and opportunity identification
- Strategy development and review
- (Innovation) project management
- Capital expenditure decisions
- Mergers and acquisitions
- Sales planning and customer co-development projects
- Portfolio steering by target-setting

When reporting results externally, companies shall provide full transparency in their reporting on:

- Methodology used to assess sustainability performance

- Scope of assessment (including a summary of excluded activities and logic for exclusion)
- Result of assessment at least for the three categories (positive, neutral and negative)
- Process used to conduct the assessment
- Assurance process (what steps are taken to assure the quality, accuracy and representativeness of results)
- Results (including results of external verification, if relevant)

It is important to reiterate that this methodology aims to identify sustainability-related opportunities and risks. The categorization of assessment segments does not prescribe a specific action for the company. It's the company's responsibility to decide how to best act on the results (e.g. start R&D project, reformulation, etc.)

When reporting on conformance with the WBCSD PSA Framework, companies shall only indicate the PSA is conducted in line with the WBCSD PSA Framework if **all criteria** at the PSA Framework level are met.

**Figure 3:**  
Definition of 5 sustainability performance categories



<sup>1</sup> All companies are expected to comply with relevant legislation. Existing legislation is therefore out of scope for this document



# 5. Appendix - Glossary

## Assessment segments

The unit of analysis, as defined at the framework level. The sustainability performance of the assessment segment is characterized, measured/assessed, and finally categorized as "A", "B" or "C" as part of a PSA.

## Assurance

The quality management process aimed at safeguarding that the inventory results and report are complete, accurate, consistent, transparent, relevant and without material misstatements.

## Product

The product sold by the reporting company.

## Industry

Specific methodology for PSAs (also referred to as "PSA Methodology") - The PSA Methodology for a specific industry developed under the Framework for PSA and focusing on the needs of companies in the specific industry.

## Comparative assertion

A claim regarding the superiority or equivalence of the performance of one product versus a competing product that performs the same function.

## Company

The term company is used in this standard as shorthand to refer to the entity developing a PSA, which may include any organization or institution, either public or private, such as businesses, corporations, government agencies, non-profit organizations, assurers and verifiers, universities, etc.

## Cradle-to-gate inventory

A partial life cycle of an intermediate product, from material acquisition through to when the product leaves the reporting company's gate (e.g., immediately following the product's production).

## Cradle-to-grave inventory

Environmental and social impacts of a studied product from material acquisition through to end-of-life.

## Downstream

Environmental or social impacts associated with processes that occur in the life cycle of a product subsequent to the processes owned or controlled by the reporting company.

## Final product

Goods and services that are consumed by the end user in their current form, without further processing, transformation or inclusion in another product. Final products include not only products consumed by end consumers, but also products consumed by businesses in the current form (e.g., capital goods) and products sold to retailers for resale to end consumers (e.g., consumer products).

## Framework for PSA

Set of quality criteria to guide companies or whole industries in developing high quality approaches to PSA.

## Intermediate products

Goods that are used as inputs to the production of other goods or services.

## Materiality

Signals on sustainability performance are considered material when both of the following aspects apply:

- Significant – the signal is expected to lead to changed behavior / actions by relevant stakeholders
- Measurable – the signal is based on a factual observation from a credible source. Any performance claims are supported by quantified and credible evidence

## May

The term "may" is used in this document to indicate a course of action permissible within the limits of the document. (ISO/IEC, 2011).

## Shall

The term "shall" is used in this document to indicate requirements strictly to be followed in order to conform to the guidelines in this document and from which no deviation is permitted. (ISO/IEC, 2011).

## Should

The term "should" is used in this document to indicate that among several possibilities one is recommended as particularly suitable, without mentioning or excluding others, or that a certain course of action is preferred but not necessarily required, or that (in the negative form) a certain possibility or course of action is deprecated but not prohibited. (ISO/IEC, 2011).

## Life cycle

Consecutive and interlinked stages of a product system, from raw material acquisition or generation of natural resources to end-of-life.

## Life cycle assessment (LCA)

Compilation and evaluation of inputs, outputs and potential environmental impacts of a product system throughout its lifecycle.

## Life cycle stage

A useful categorization of the interconnected steps in a product's life cycle for the purposes of organizing processes, data collection and inventory results.

## Quality criteria

Guidelines to support companies in developing and applying consistent, high quality PSA approaches.



## Reporting

Presenting data to internal management and external users such as regulators, shareholders, the general public or specific stakeholder groups. External reporting refers to the reporting to external stakeholders.

## SDG

UN Sustainable Development Goals. For more information, please refer to <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

## Signal

A signal is defined as a fact-based observation on material, sustainability-related actions or commitments of key stakeholders (e.g. legislation, purchasing decisions, ecolabel requirements) which indicate whether or not the assessment segment is perceived to be contributing to a transition towards a more sustainable world. Signals are identified through the evaluation of public communication of key stakeholders (e.g. governments, downstream players, ecolabels, industry associations, etc.).

## Solution

Any product in its application along the value chain, a chemical product, a material from another industry, a component or a final technology which fulfills the need of the purchaser.

## Solution to compare to

The alternative (often competing) solution providing the same benefit to the customer as the reporting company's solution.

## Sustainability goals

Key objectives of respective actors to improve environmental or social performance.

## Third party (external) assurance

Assurance performed by a person(s) from an organization independent of the company performing the PSA process. Internal assurance refers to assurance processes performed by the reporting company itself, without a review by independent external parties.

## Value chain

In this standard, "value chain" refers to all of the upstream and downstream activities associated with the operations of the reporting company, including the use of sold products by consumers and the end-of-life treatment of sold products after consumer use.





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## Disclaimer

This publication is released in the name of the WBCSD. Like other WBCSD publications, it is the result of a collaborative effort by members of the secretariat and senior executives from member companies. A wide range of members reviewed drafts, thereby ensuring that the document broadly represents the perspective of the WBCSD membership. It does not mean, however, that every member company agrees with every word.

## About the World Business Council for Sustainable Development (WBCSD)

WBCSD is a global, CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. We help make our member companies more successful and sustainable by focusing on the maximum positive impact for shareholders, the environment and societies.

Our member companies come from all business sectors and all major economies, representing a combined revenue of more than \$8.5 trillion and 19 million employees. Our Global Network of almost 70 national business councils gives our members unparalleled reach across the globe. WBCSD is uniquely positioned to work with member companies along and across value chains to deliver impactful business solutions to the most challenging sustainability issues.

Together, we are the leading voice of business for sustainability: united by our vision of a world where more than nine billion people are all living well and within the boundaries of our planet, by 2050.

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