

COLLECTIVE

2020





Literature reference

For literature references please use: Goedkoop, M.J.; de Beer, I.M; Harmens, R.; Peter Saling; Dave Morris; Alexandra Florea; Anne Laure Hettinger; Diana Indrane; Diana Visser; Ana Morao; Elizabeth Musoke-Flores; Carmen Alvarado; Ipshita Rawat; Urs Schenker; Megann Head; Massimo Collotta; Thomas Andro; Jean-François Viot; Alain Whatelet; Methodology Report Product Social Impact Assessment - 2020, Amersfoort, November 1st, 2020.

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Methodology Report 2020

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Message from the members of the Roundtable for Product Social Metrics

This Methodology Report belongs to the fifth iteration of the [Handbook for Product Social Metrics](#). In the [Methodology Report](#) the background and explanation of the Methodology can be found. The fifth edition of the Handbook reflects the work that has been done by the Roundtable Members over the last year. Since 2013 over 20 companies have contributed to this Framework, which is the result from many dialogues, the experience obtained by working on case studies and the testing of data tools. During this iteration the social topics have been revised: [The Social Topics Report](#).

Furthermore an [Implementation Guide](#) was published 2019. This guide leads organisations from the first case study, to formalization (policies and procedures), to measurement via KPI to continuous improvements in assessing impact on the value chains. As a result the Product Social Metrics toolkit consist now of the four underlined editions.

With these updates the group aims to contribute further to better decision making by the use of data and evidence in order to honestly evaluate the success or failure of measures taken.

Product Social Metrics is an on-going journey, where organisations can learn from one-another no matter the level of experience in this field. We wish you a lot of success in introducing or implementing the social metrics in your organization and welcome any suggestions or learnings worth sharing.

Only together we can learn and develop more efficient, whilst enjoying the co-creation of setting new standards.

Testimonials

Dave Morris

*Global competence leader life-cycle assessment at DSM
Co-Founder Roundtable*

"At DSM we provide Brighter Living Solutions; products that are measurably better than the mainstream solution on the market in terms of environmental or social impact. We measure these impacts over the full life cycle of the products. Insights from these studies show us where we can make further progress and where to target our Bright Science so we constantly improve the sustainability performance of our customers or end users.

Innovations in these Sustainable Growth Platforms secure our position as a company providing solutions for urgent societal challenges. DSM is driving economic prosperity, environmental progress and social advances to create sustainable value for all stakeholders. For this we need a shared, credible and broadly accepted methodology to measure the social impact of products. We are proud to be co-founder and contributor to the Roundtable that has now created a next stepping stone towards harmonised metrics with this fifth iteration of the Handbook for Product Social Impact Assessment."



Peter Saling

*Director Sustainability Methods, BASF SE
Co-Founder Roundtable*

"I see the development of metrics for assessing social indicators as an important initiative in a cross-sectoral setup as it is provided by the Roundtable for Product Social Metrics with PRé as facilitator and multiplier. As a co-founder of this group, we contributed from the beginning to the development of the metrics and the publication of several issues of the Handbook.

I'm looking forward in continuing the work in the Roundtable, encouraging other companies as well to join and to work with the methods and procedures that have been worked out. New case studies and applications will help to disseminate the assessment of social indicators in a holistic way supporting life-cycle assessment (LCA) and sustainability assessments for decision making, but as well for marketing and support of R&D activities."



Anne-Laure Hettinger

*Head of Global R&D Sustainability Department ArcelorMittal
Roundtable member since 2017*

"One key mission of our team is to support the continuous sustainability progress of ArcelorMittal's products and processes. This means assessing their environmental profile, and also understanding their positive or negative impact on society."



Diana Visser

*Sustainability Director Corbion
Roundtable Member since 2014*

"To enable our customers to make conscious choices, we will assess both the environmental and the social impacts of our products and work side by side with them to substantiate sustainability claims. To be able to do this, a credible methodology to measure social impacts along the value chain is essential."



Carmen Alvarado

*Senior Manager Sustainability and ESG Fuji Europe Africa
Roundtable member since 2019*

"Fuji Europe Africa sees itself as a member of society. Insight in the effect that our business activities have on society is key to fulfill our core value of working towards a sustainable society."



Urs Schenker

*Sustainability and Novel Packaging Nestlé
Roundtable member since 2016*

"At Nestlé, we have been using life cycle assessment and eco-design to evaluate the environmental performance of our products during their design & development process. Simplified eco-design has enabled us to systematically evaluate the environmental performance of different design alternatives, and to improve the sustainability performance of our product portfolio. We now want to expand this approach to social impacts. We intend to integrate social performance into our product design process as early as possible. Therefore, we want to develop a simplified, yet scientifically sound and externally recognized approach with the support of the Roundtable for Product Social Metrics."



Jean-François VIOT

*Senior principal scientist
LCA expert SOLVAY
Roundtable member since 2016*

"We, at Solvay, strongly believe that building a more sustainable business will create superior value for the society at large. We are convinced, as professionals, that sustainability can and must be measured in a robust, relevant and opposable way. This is why we have developed and implemented our "Sustainable Portfolio Management" – SPM - tool in the Group for about 10 years. The SPM tool is rooted in Life Cycle Assessment methodology, the reference practice for environmental impact assessment in the industry and beyond. Today, being a member of the Roundtable is a key opportunity to enrich our tool and progress in the field of Social impacts. The Handbook represents high valuable guidelines for our future expansions and improvements in our social assessments, within the frame of our overall program for sustainability: Solvay One-Planet."



Mark Goedkoop

Founder of PRé and Facilitator of the Roundtable since 2013.

"I started PRé in 1990 believing that decisionmakers need robust metrics to base their decisions in the field of sustainability on. After developing environmental metrics, I see social metrics as the next challenge for companies that want to understand, manage and improve sustainability in a life cycle perspective.

It has been truly great to work with the 20+ companies that have supported the development, shared their ideas, experiences and many casestudies for the last 7 years. We agreed we need to transform the Roundtable into a much broader partnership, in which many more companies can learn and share ideas, and build consensus on the best approach to use and implement social metrics. In the end implementation of social metrics in decisionmaking procedures is key. My believe that our efforts will enable better decisions, drives me to invest much of my time and resources in this Partnership.



Ilonka de Beer

Programme manager of the Roundtable since 2016

"As the programme manager for the Roundtable I have been actively involved now for almost 5 years. I truly enjoy the open spirit and energy of the group and the shared purpose of increasing transparency of value chains in order to improve the well-being of all stakeholders along the life-cycle of products."



Executive Summary of the Methodology report

Chapter 1: Introduction

Purpose

This report contains the methodological backgrounds that supports fifth iteration of the Handbook for Product Social Impact Assessment. It is primarily written for those who want to understand the scientific basis for selecting the topics, the reference scales and the performance indicators used in the Handbook.

The Handbook itself is released as a separate document and is written for practitioners who want to perform a product social impact assessment and covers topics like: setting goal and scope, identify hotspots and collect and interpret data.

The methodology and the Handbook are produced in a joint effort of the companies in the Roundtable for Product Social Metrics. The purpose of this Roundtable is to provide a clear, consensus-based methodology to qualitatively assess social impacts of products and services throughout the life-cycle of creation, use and disposal. This assessment aims to support all people and departments dealing with the design, production and marketing of products and services in making informed decisions and communicating the results in a responsible way.

In the Handbook we will refer to the impact of *products* on stakeholder groups, but it is also valid for services or combinations such as product/service business models.

| | Life-cycle stages | | | | |
|---------------------------|---|---------|-------|------------------------------|---------|
| Stakeholders addressed | Supply chain Raw material extraction, manufacturing, retail | | Use | End of life | |
| | Small-scale entrepreneurs | Workers | Users | Small-scale entrepreneurs | Workers |
| | Local communities | | | | |

Update of the methodology in the 2018 release

Changes in the methodology compared to the version 3 (2016) of the Handbook:

1. New stakeholder group, 'small-scale entrepreneurs' was added.
2. New selection of social topics.
3. Performance indicators redefined and made more consistent.

Update in the 2020 release

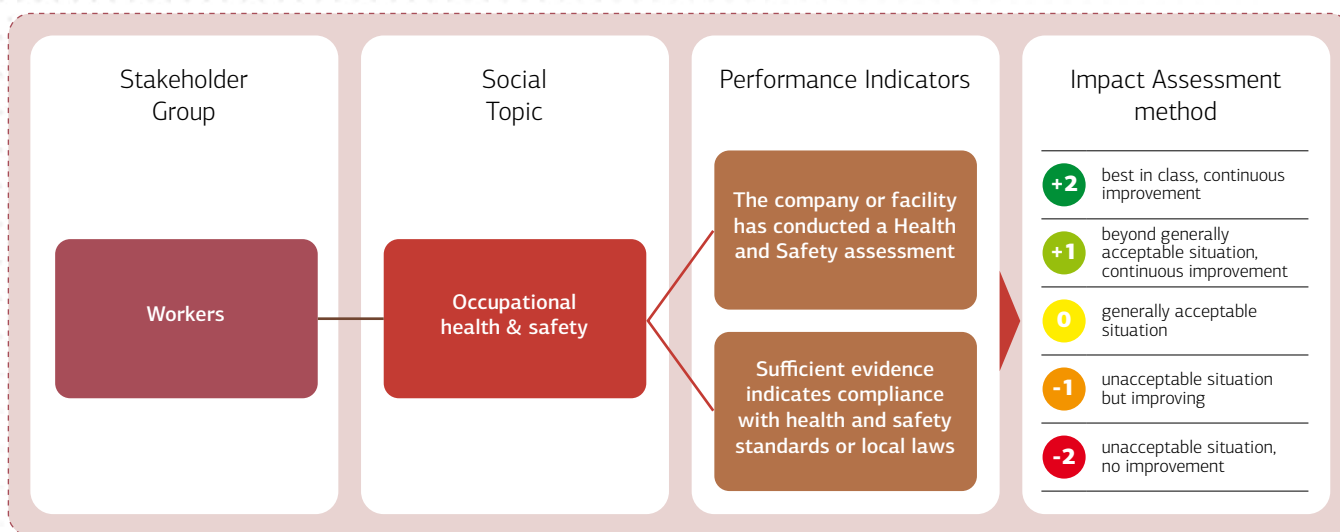
In the 2020 release the appendix that describes all the social topics and performance indicators was completely revised based on the experiences in cases and comments received. This appendix is now published as a separate Social Topics Report.

Chapter 2: Key elements of the methodology

The PSIA method outlined in this Handbook consists of four key components:

1. Stakeholder groups
2. Social topics
3. Performance indicators
4. Reference scales to assess impact

Figure below represents the relationship between these elements.

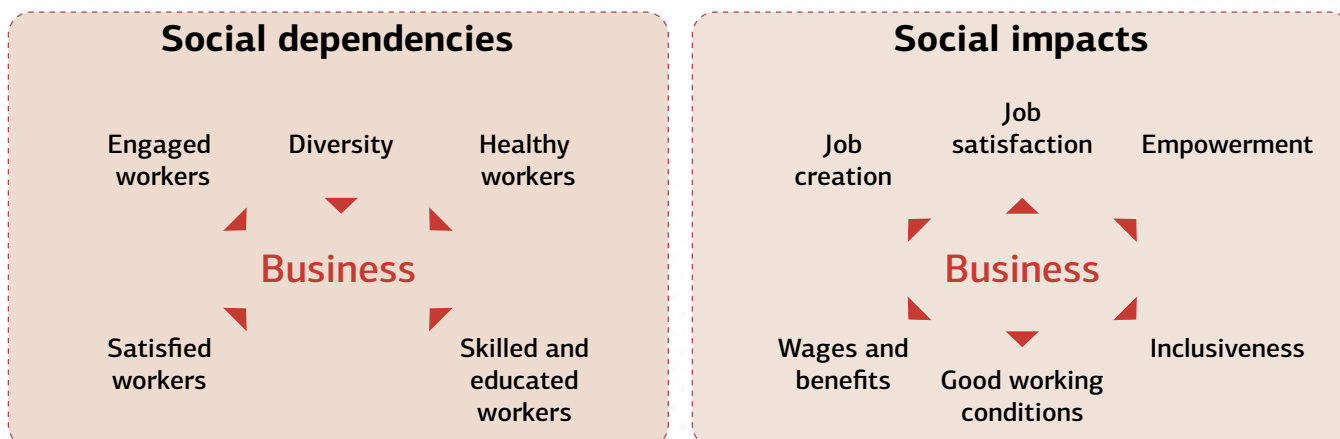


Chapter 3: Selecting social topics

The social topics are based on an analysis of the interaction between companies and society:

1. They are dependent on the way society functions (social dependencies)
2. They affect the way society functions (social impacts)

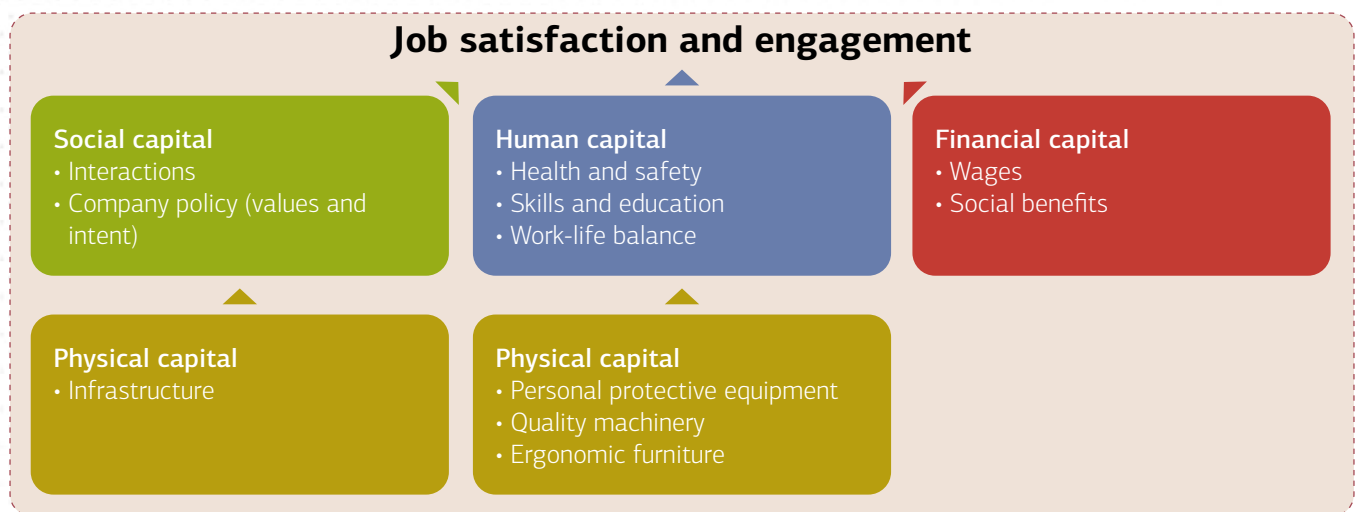
The impacts and dependencies that companies have on stakeholders influences various capitals of human well-being. Companies can build, maintain or damage capitals through its daily operations, or the products or services it provides various users.



The Area of Protection (AoP), or endpoint in ISO 14044 terminology, is defined as ‘human wellbeing’. For each stakeholder group, we further determined a more specific identification of the generic concept of human wellbeing:

- Workers: job satisfaction and engagement
- Local communities: healthy communities
- Users: wellbeing
- Small-scale entrepreneurs: livelihood.

Five types of capital – human, social, physical, economic and natural – represent all resources that matter for the present and future wellbeing of individuals¹. The capital approach to wellbeing highlights the assets and capabilities needed to facilitate wellbeing. For each stakeholder group, the detailed AoP can be linked – directly or indirectly- to one or more types of human wellbeing capital. See figure below for workers as an example.



From the concepts of business dependencies and social impacts, AoPs and capital, the following list of 25 social topics was determined.

| Social topics for workers | Social topics for local communities |
|--|---|
| 1.1 Occupational health and safety 1.2 Remuneration 1.3 Child labour 1.4 Forced labour 1.5 Discrimination 1.6 Freedom of association and collective bargaining 1.7 Work-life balance | 3.1 Health and safety 3.2 Access to material and immaterial resources 3.3 Community engagement 3.4 Skill development 3.5 Contribution to economic development |
| Social topics for users | Social topics for small-scale entrepreneurs |
| 2.1 Health and safety 2.2 Responsible communication 2.3 Privacy 2.4 Affordability 2.5 Accessibility 2.6 Effectiveness and comfort | 4.1 Meeting basic needs 4.2 Access to services and inputs 4.3 Women's empowerment 4.4 Child labour 4.5 Health and safety 4.6 Land rights 4.7 Fair trading relationships |

¹ Existing capital frameworks have served as an inspiration. For example, the capital approach to well-being proposed in 2011 within the OECD framework. It has also been recommended by the United Nations Economic Commission for Europe (UNECE)/Eurostat/OECD Task Force for Measuring Sustainable Development (OECD, 2013). The IIRC provides the 6-capital categories. The capital approach has also been highlighted by the Social and Human Capital Protocol (WBCSD, 2017) & (Social & Human Capital Coalition, 2018) and the GIST Advisory report on the capital of human well-being (Sukhdev, Das, Joshi, & Tripathi, 2018).

4 Establishing reference scales for impact assessment

PSIA is designed to consider both positive and negative impacts of the product or service, using a 5-point scale. Each position on the scale is a performance reference point, assigned a score ranging from -2 to +2. A score of -2 is unacceptable performance and +2 is ideal performance. Figure 4.1 shows a generic reference scale, which is adapted for each social topic.

| | |
|-----------|--|
| +2 | Best in class, continuous improvement |
| +1 | Beyond generally acceptable situation , continuous improvement |
| 0 | Generally acceptable situation, |
| -1 | Unacceptable situation but improving |
| -2 | Unacceptable situation, no improvement |

Figure 4.1: Generic scale to assess social performance

Reference scales for every social topic were constructed by selecting performance indicators for each position on the scales as described by the guiding principles. Performance indicators (PIs) are qualitative markers of performance for each of the social topics. A performance indicator can only have the values “True”, “Undetermined” or “False”. The positive part of the scale is measured in terms or outputs as defined in the Theory of Change, the lower part is merely defined in terms of risk assessment. This chapter ends with an example reference scale for the social topic “Occupational Health and Safety” for the stakeholder group workers. The full set of reference scales and performance indicators can be found in a separate Social Topic Report.

Chapter 5: Outlook

In the final chapter a to-do list is formulated for future work that still needs to be done in the next phases of development of this methodology.



Contents

| | |
|---|-----------|
| EXECUTIVE SUMMARY OF THE METHODOLOGY REPORT | 4 |
| 1 INTRODUCTION | 13 |
| 1.1 Purpose of the PSIA Handbook and its underlying methodology | 13 |
| 1.2 Mission and ambitions of the Roundtable for Product Social Metrics | 13 |
| 1.3 Changes compared to the previous version of the Handbook | 14 |
| 1.4 Changes in the 2020 version compared to the 2018 version of the Handbook | 14 |
| 1.5 Focus on qualitative approach | 15 |
| 1.6 Principles | 15 |
| 1.7 Limitations | 16 |
| 2 KEY ELEMENTS OF THE PSIA METHODOLOGY | 17 |
| 3 SELECTION OF SOCIAL TOPICS | 19 |
| 3.1 Area of protection, human wellbeing | 19 |
| 3.2 Five types of capitals | 20 |
| 3.3 Business dependencies and social impact | 21 |
| 3.4 Selecting social topics for the stakeholder group workers | 21 |
| 3.5 Selecting social topics for the stakeholder group users | 24 |
| 3.6 Selecting social topics for the stakeholder group local communities | 25 |
| 3.7 Selecting social topics for the stakeholder group small-scale entrepreneurs | 27 |
| 3.8 Full list of social topics | 28 |
| 4 ESTABLISHING REFERENCE SCALES FOR IMPACT ASSESSMENT | 29 |
| 4.1 Guiding principles for establishing individual reference scales | 29 |
| 4.2 Example reference scale for Occupational Health and Safety | 31 |
| 5 OUTLOOK | 33 |
| 5.1 The emerging field of Product Social Metrics | 33 |
| 5.2 Our to-do list | 33 |
| REFERENCES | 34 |
| ACKNOWLEDGEMENTS (HANDBOOK VERSION 4.0) | 37 |
| APPENDIX 1: SUMMARY OF REVIEWER COMMENTS | 38 |



Glossary

| | |
|-------------------------------------|--|
| Allocation | Partitioning the input and/or output flows of a process to the product system under study. |
| Area of Protection (AoP) | A cluster of the underlying themes of concern for the stakeholders that the assessment centres on i.e. Human wellbeing. |
| Capital | Wealth/stock available in different forms (human, social, natural, financial, physical) that are useful in furthering development of the society (adapted from Meriam Webster dictionary). |
| Circular Economy (CE) | A circular economy is a regenerative system in which resource input and waste, emission, and energy leakage are minimised by slowing, closing, and narrowing energy and material loops. This can be achieved through long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing, and closed recycling loops. |
| Child labour | Child labour is work that deprives children of their childhood, their potential and their dignity, and is harmful to physical and mental development. In its most extreme forms, child labour involves children being enslaved, separated from their families, exposed to serious hazards and illnesses and/or left to fend for themselves on the streets of large cities. |
| Business to Business (B2B) | Describes the relationship and selling process of goods and services between businesses, for instance, between a manufacturer and ingredient supplier. Most B2B products are purchased by companies to be used in their own manufacturing process, producing goods and services to be sold on. |
| Business to Consumer (B2C) | Business or transactions conducted directly between a company and the consumers who are the end users of its products or services. |
| End of life | Last stage of a product or service life cycle when it may be used, recycled or disposed with or without prior treatment. |
| Financial capital | Can be defined as such assets as income, savings, credit, bank deposits, shares, securities, currency, etc. |
| Functional unit | Quantified performance of a product system for use as a reference unit (source: ISO 14040:2006 and 14044:2006). |
| Guidelines | Set of recommendations that provide guidance on how to develop, implement or conduct an assessment in an effective and appropriate manner. |
| Hotspot | A life-cycle stage or process which has a negative or positive impacts on stakeholder groups along the product's value chain. |
| Human capital | It includes the knowledge, skills, competencies and attributes embodied in individuals. Human Capital is embodied within individuals – i.e. it is privately owned – and can only be leased to others. |
| Intended Audience | The people that are expected to read and/or use the results of the assessment. |
| Life cycle | Consecutive and interlinked stages of a product system, from raw material acquisition or generation from natural resources to final disposal (ISO 14044:2006). |
| Life-cycle assessment (LCA) | Compilation and evaluation of the inputs, outputs and the potential environmental impacts of a product system throughout its life cycle (ISO 14044:2006). |
| Local communities | People living in the surroundings of any one of the life-cycle stages of a given product impacted by the company's activities. |
| Materiality | The quality of being relevant or significant. |
| Modularity | The degree to which a system's components may be separated and recombined, often with the benefit of flexibility and variety in use. |
| Natural capital | Can be defined as an economic metaphor for the limited stocks of physical and biological resources found on earth, and of the limited capacity of ecosystems to provide ecosystem services. |
| Performance indicators (PIs) | Quantitative and qualitative markers of performance for each of the social topics, e.g. number of working hours during weekends, minimum wage paid, etc. |



| | |
|--|--|
| Physical capital | Includes all man-made assets such as infrastructure (manufacturing plant, buildings, roads, dams, etc.), technology (machinery, tools, patents, etc.). |
| Plan Do Check Act (PDCA) process | Iterative four-step management method used in business for the control and continuous improvement. |
| Primary data | Data from specific operations in the studied product's life cycle that is measured. |
| Principles | Guiding rules that have been considered while developing this Handbook or should be considered while conducting PSIA or embedding it as a tool in the company. |
| Process | Generic term for an activity somewhere in the value chain, without knowing the exact name of the company who performs this activity (see also value chain actor). |
| Product Social Impact Assessment (PSIA) | Methodology to assess the social impacts of a product or a service on stakeholder groups throughout the life cycle of the product. Although it may be associated with the acronym social LCA, it does not prescribe full alignment with the recommendations of the ISO 14040 norm for life-cycle assessment. |
| Reference scale | Scale used to measure social performance of each social topic. All scales defined in the report have five levels, from -2 to +2. |
| Secondary data | Process data that are not from specific processes in the studied product's life cycle. |
| Service | Intangible commodity equivalent to a product supplied by service industries, such as childcare, construction, entertainment and telecommunications. It does not refer to services such as warranties and service contracts associated with a tangible product. |
| Small-scale entrepreneurs | Independent persons who mainly rely on family labour to produce food and non-food products on a small scale with limited access to resources. Small-scale entrepreneurs can also refer to artisanal fishers, gardeners, hunters and gatherers, and other small-scale producers. |
| Social capital | Productive value of social connections, where productive is understood not only in the narrow sense of the production of market goods and services (although this is an essential component) but in terms of the production of a broad range of wellbeing outcomes. |
| Social impact | The potential positive or negative social impact of the product and some of its immediate effects on various stakeholders along its life cycle (workers, local communities, small-scale entrepreneurs, users). |
| Social topics | Social areas related to stakeholder groups that should be measured and assessed, for example, working hours, community engagement, child labour, etc. |
| Stakeholder groups | Groups on which the product has an impact along its life cycle, such as workers, consumers, local communities and small-scale entrepreneurs. |
| Supply chain | All production processes, logistics, services and marketing related activities up to the point of sale of the product or service. The term Value Chain is used in case also end of life, recycling etc. is included. |
| Sustainable Development Goals (SDGs) | On September 25th, 2015, countries adopted a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years. |
| Theory of change (ToC) | A causal flow that illustrates how a proposed set of interventions and inputs will result in specific outputs contributing to different outcomes leading to certain impacts. |
| User | The end users of the final product or service in a personal or professional. (Previously referred to as consumer). |
| Value chain | All production processes, logistics, services and marketing related activities up to the point of sale of the product or service. In line with the CE concept, reverse logistics, refurbishing, and recycling are considered from the moment the product is discarded. The use phase is not considered as part of the value chain. |
| Value-chain actor | Identifiable company or group of small-scale entrepreneurs with known name and location. |

| | |
|------------------|--|
| Weighting | Assigning weights or relative values to the different social topics based on their perceived importance or relevance in order to emphasise the most important potential impacts. |
| Workers | People who are paid to perform work related to the product or service, i.e. in the value chain, manufacturing, retail or end-of-life processes. It includes formal workers (i.e. employees with formal contracts, including temporary and part-time workers), workers employed through agencies or contractors, informal workers (i.e. workers without formal contracts), apprentices and trainees, migrant workers and homeworkers. |

Acronyms

| | |
|-------|--|
| AoP | Area of Protection |
| CE | Circular Economy |
| CSR | Corporate Social Responsibility |
| ISEAL | International Social and Environmental Accreditation and Labelling |
| LCA | Life-Cycle Assessment |
| GRI | Global Reporting Initiative |
| NGO | Non-Governmental Organisation |
| PDCA | Plan Do Check Act |
| S-LCA | Social Life-Cycle Assessment |
| UNEP | United Nations Environmental Programme |
| WBCSD | World Business Council for Sustainable Development |
| WHO | World Health Organization |
| SETAC | Society for Environmental Toxicology and Chemistry |
| ToC | Theory of Change |

1 Introduction

1.1 Purpose of the PSIA Handbook and its underlying methodology

This report contains the methodological backgrounds that supports fourth iteration of the Handbook for Product Social Impact Assessment. It is primarily written for those who want to understand the scientific basis for selecting the topics, the reference scales and the performance indicators used in the Handbook.

The Handbook itself is released as a separate document and is written for practitioners who want to perform a product social impact assessment and covers topics like: setting goal and scope, identify hotspots and collect and interpret data.

The methodology and the Handbook are produced in a joint effort of the companies in the Roundtable for Product Social Metrics. The purpose of this Roundtable is to provide a clear, consensus-based methodology to qualitatively assess social impacts of products and services throughout the life-cycle of creation, use and disposal. This assessment aims to support all people and departments dealing with the design, production and marketing of products and services in making informed decisions and communicating the results in a responsible way.

In the Handbook we will refer to the impact of products on stakeholder groups. However, the methodology is also valid for services or combinations such as product/service business models.

Uniquely, the PSIA methodology focuses on assessing social impacts of individual products and services rather than the impact of a company as a whole. The PSIA methodology has strong links with the environmental life-cycle assessment (LCA) methodology. This is further discussed in the Handbook.

1.2 Mission and ambitions of the Roundtable for Product Social Metrics

During the fourth year (2016-2017) of the Roundtable, the companies jointly formulated the mission of the group as follows:

To be the leading, cross-sector initiative to give guidance on how to measure social impacts of products and services, in a way that is recognised for its high quality, credibility and business viability. The purpose is to improve the lives of workers, users and local communities by better insights that enable more balanced decision making.

The group also defined the following application areas:

- Steering product portfolios
- Guiding investment decisions
- Steering engagement programmes
- Reporting the impact of companies activities in the areas of the relevant SDGs

And some basic principles:

- The methodology needs to be in alignment with best-in-class and up-to-date standards for measuring social impacts.
- The methodology creates shared value for all involved stakeholders (economic value and value for society), and takes stakeholder needs into account.
- The methodology continues to be further developed by practising and exchanging experiences.

1.3 Changes in the 2018 version, compared to the previous version of the Handbook

The 2018 version of the Handbook brings several changes and improvements compared to the previous version. Roundtable members have gained experience by applying the methodology in case studies and internal procedures. We also learned from and harmonised with other approaches and initiatives working on social metrics. For example, the fruitful collaborations with the WBCSD (Chemical Working Group and Social and Human Protocol) and Social and Human Capital Coalition.

This has resulted in the following characteristics and changes in the methodology:

1. The Handbook now includes a new stakeholder group, small-scale entrepreneurs (also known as smallholders). Previously, the Handbook focused on workers, consumers and local communities only. This new stakeholder group should be considered if there are clear indications to do so, e.g. when assessing farming in India. Developing this extension made us realise that we needed to rethink how we measure, and what we are trying to protect and achieve.
2. The selection of social topics was reconsidered by systematically assessing how companies depend on and influence stakeholders and applying the concepts of various types of capital (social, human and other). Overlapping social topics were eliminated or combined and additional social topics were established for the stakeholder group of users (previously referred to as consumers). The definition of human wellbeing as area of concern and the focus on business dependencies played key roles in our new selection of relevant social topics.
3. We redefined the performance indicators used to measure impact per social topic to make them more consistent. The previous Handbook mainly focused on understanding compliance with international agreements and legislation and not so much on creating and increasing shared value, even though that was mentioned in the mission. This version now captures progress beyond compliance. Consequently, the performance indicators and reference scales for each social topic have been re-established throughout the Handbook.

The experiences with the previous handbook versions, inspired us to develop and clarify the way a product social metrics assessment can and should be made; these changes are described in the Handbook and not in this report:

1. Data collecting is now presented as a two-stage approach, which strives to improve quality and efficiency. The experience of our members around the feasibility of data collection prompted us to rethink the data collection process. We describe a number of new and innovative tools that can help identify hotspots within the product value chain before embarking on in-depth data collection.
2. The Handbook no longer describes the quantitative impact assessment approach, as this proved too difficult to apply. The Roundtable member companies also expressed a fundamental doubt whether it is useful to quantitatively assess social impacts such as hours of child labour. See also 1.4 for the reasoning behind this.
3. This version makes a clear distinction between social impacts within product value chains and impacts within the use phase.
4. The Handbook now includes a separate chapter on assessing the social impacts of the circular economy strategies currently being implemented or at least considered in many companies.
5. We only briefly discuss weighting and aggregation, as this is hardly ever used by the members. This will at one point need to be developed.

1.4 Changes in the 2020 version compared to the 2018 version of the Handbook

The main difference with the 2018 version is in a complete revision of the social topics and performance indicators. These are available now in a separate report, and no longer in the appendix of this report. Important improvements are:

- Scale levels have been better aligned with the principles, and focus mostly on outputs, whereas the 2018 often defined only activities such as policies.
- The reference level is no longer linked to local laws, but as much as possible linked to international agreements.
- A better separation between local communities and the small-scale entrepreneurs.
- Three topics were redefined and split into two separate topics, and two topics were combined into one.

The Social Topics Report contains a more extensive description of the changes.

1.5 Focus on qualitative approach

This version no longer offers a quantitative impact assessment method. When tested and applied to multiple case studies by the Roundtable members, the quantitative method proved too difficult to apply, especially due to difficulties in getting access to the appropriate quantitative data. The case studies showed that using a strict numeric assessment leads to conclusions that were not in line with the intention of social assessments. For example, while one hour of child labour is less bad than two hours of child labour, it is not the case that one hour of child labour is exactly half as bad as two. Any amount of child labour is, of course, too much. In this case, a yes/no question ('Is there evidence for child labour?') is more appropriate. Additionally, databases that report quantitative data often derive these from statistics that may not link the impact to the production volume. For example, in the case of a facility that produces two products of slightly different production volume, accident allocation is not meaningful: 0.001 accidents vs. 0.002 accidents just because of higher volumes or production times is not a meaningful difference.

Ultimately, we may need to develop a new approach to quantitative social impact assessment. Without quantification, it is difficult to aggregate scores over the value chain or to apply prioritisation or weighting. Many companies, for instance those gathered in the Impact Valuation Roundtable (2017) have expressed their desire to have reliable and meaningful quantified information on social topics².

1.6 Principles

The following principles have guided our development of the PSIA Framework and are intended to guide users when applying the PSIA Framework and tailoring the methodology to different settings and needs. This list of principles is aligned with the principles of Social Life-Cycle Metrics for Chemical Products (WBCSD, 2016) and the ISEAL credibility principles.

Relevance

Both when developing the method and when performing the social impact assessment, the most significant social impacts should be identified and reflected as much as possible, chosen from all social impacts of a product or service on all impacted stakeholder groups along the total life cycle of the product or service. Relevant international norms and local laws should be included, and the assessment should serve the business decision-making needs of users, both internal and external to the company.

Impact

The methodology aims to support the higher goal of wellbeing for humans. Therefore, its use should contribute to progress towards intended outcomes (see also Theory of Change). Sharing insights from pilots and case studies helps integrate learning, encourages innovation and development of the methodology, and increases benefits to people.

Robustness

The methodology and assessments are structured to deliver quality outcomes. Using a consistent methodology enables meaningful comparisons of social impacts over time and between companies and products. All changes should be documented transparently.

² There are dozens of methods for monetising impacts, but most of them are proprietary and not transparent. They tend to give very different results, usually because they are based on very different assumptions. For instance, should health impact on rich and poor people be assessed in the same way? Are future damages less important than present damages? Are we considering only direct damages (lost working hours and medical care) or also indirect damages?



Data collected to support the assessment should be gathered, recorded, compiled, and (in the event of external verification) disclosed in a way that establishes its quality and relevance. Collected data and the completed impact assessment should be documented in such a way that the assessment can be reproduced within the organisation.

Completeness

The boundaries of the assessment and the limits of the methodology need to be clearly described and communicated. Cut-off criteria should be meaningful, and exclusion should be disclosed and justified.

Accessibility

Guidance for Product Social Impact Assessment focuses on making it possible for companies to use and implement the methodology, to develop it organically, and to improve its performance based on an aligned and transparent methodology. The Handbook is licensed under a Creative Common Licence. This license allows for redistribution and commercial and non-commercial usage of the method. The method can be downloaded for free.

Truthfulness

The method aims to address all relevant issues in a factual and coherent manner, based on a clear trail. All relevant assumptions should be disclosed, and appropriate references should be made to data sources. Claims and communications by actors about the benefits or impacts that derive from the application of this methodology should be verifiable, not be misleading, and enable informed choice for users and other actors.

Efficiency

Impact assessment should make efficient use of human and financial resources (e.g. by applying a limited but effective set of indicators) and should take a realistic approach.

The assessment methodology should be robust but also efficient, as it needs to be used in business. A screening assessment can deliver that efficiency.

1.7 Limitations

Although we think we made significant improvements over the previous Handbook, in terms of consistency and practicality, the results of any product social metrics assessment will be uncertain. It is simply hard and sometimes impossible to find data. Especially challenging is assessment of small companies, where almost no information is available.

We have tried to provide a complete set of topics to cover the most relevant cause/effect mechanisms that can affect a stakeholder, but we do not claim to be complete. There may be significant mechanisms which we did not capture or did not capture well enough.

Working with 5-point scales is a gross over-simplification of the subtleties of real-life situations. A problem with the scales is that -1 and -2 are interpreted as normal integers. The intuitive interpretation is that -2 is twice as bad as -1, which is of course not necessarily the case.

Two products which are very similar and produced along the same value chains may produce highly similar PSIA results. If the intention is to use the results in decision making, it may sometimes be challenging to produce meaningful results.

2 Key elements of the PSIA methodology

The PSIA methodology outlined in this Handbook consists of four key elements:

1. Stakeholder groups
2. Social topics
3. Performance indicators
4. Impact assessment (with reference scales)

In the PSIA methodology, social impacts are assessed in connection to various groups of stakeholders, people who may be directly or indirectly affected throughout the life cycle of products or services. In the previous version of the Handbook, the assessment covered three stakeholder groups: workers³, users and local communities. In 2017, an additional group of stakeholders – small-scale entrepreneurs – was added to the methodology. The stakeholder groups of workers and small-scale entrepreneurs directly relate to the product, as they include those who work within the value chain, in manufacturing, or in a role associated with treatment of the product at disposal. Local communities include people who are indirectly impacted by the product, because they live in the surroundings of any one of the life-cycle stages. Previously, users (then referred to as consumers) were only considered in business-to-consumer retail interactions. In this version of the Handbook, the term *user of a product or service* may also refer to professional users of products (in a business-to-business setting) and indirect users of products.

| Stakeholders addressed | Life-cycle stages | | | | |
|------------------------|---|---------|--------------------|---------------------------|---------|
| | Supply chain Raw material extraction, manufacturing, retail | | Use | End of life | |
| | Small-scale entrepreneurs | Workers | Users ⁴ | Small-scale entrepreneurs | Workers |
| | Local communities | | | | |

Figure 2.1 Stakeholder groups included in PSIA

Each stakeholder group is associated with a number of social topics, such as health and safety, child labour, local employment and responsible communication. These social topics represent the key social issues for these stakeholders. Inventory data for each of the social topics is collected via performance indicators. The PSIA methodology uses a combination of direct and indirect performance indicators to guide the data collection process, clearly indicating the type of information required. This Handbook includes performance indicators that reflect positive and negative impacts of the assessed product or service system. To interpret the collected data, reference scales assess social performance on a 5-point scale. The referencing step is crucial for interpreting the results and supports informed decision making.

³ Different groups of workers may be involved in the life cycle of a product: employees (i.e. workers with formal contracts, including temporary and part-time employees), contractors or workers employed through agencies, informal workers (i.e. workers without formal contracts), apprentices and trainees, migrant workers and home workers. The practitioner needs to specify which groups of workers are considered in the assessment.

⁴ Users may also refer to consumers, workers and passive users.

The relationships between the key components of the methodology and the stakeholders are displayed in Figure 2.2.

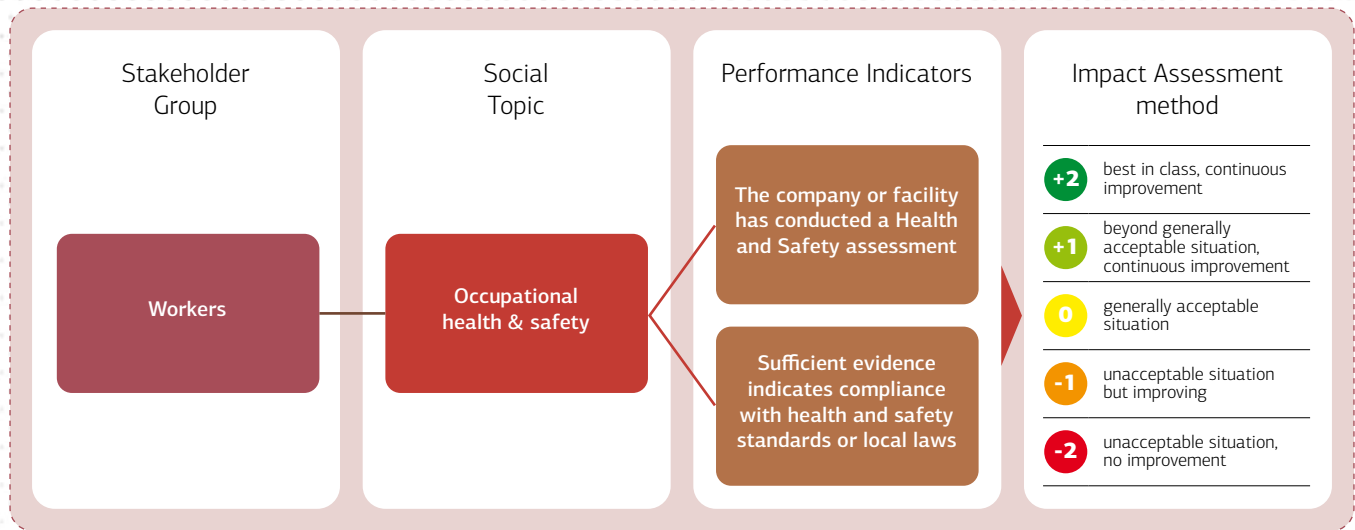


Figure 2.2: Key components of PSIA methodology

3 Selection of social topics

Social topics represent positive or negative social impacts on stakeholders that may occur at various life cycle stages of products or services. Selection of social topics for each stakeholder group were guided by the following elements and concepts:

1. The initial list of social topics⁵ presented in the Handbook v3 was re-evaluated based on 5 criteria:
 - Practical experiences from the Roundtable members on applicability and feasibility of the social topics.
 - No overlaps – social topic does not cover the same issue another social topic already covers.
 - Availability of secondary data – each social topic should be covered by secondary data.
 - Each social topic should reflect positive and negative impacts of assessed product or service.
 - Links with the Sustainability Development Goals (SDGs) – Each social topic should reflect social issues presented by the SDGs.⁶

Results from the revision of the initial social topics will not be further elaborated in this chapter. For more detail please contact the Roundtable for Product Social Metrics (or the results will be published on website of Roundtable for Product Social Metrics).

2. Roundtable members determined an Area of Protection for the Product Social Impact Assessment methodology to describe what we want to measure and strive to protect (see chapter 3.1).
3. Five capital approach was used to describe the various assets and capabilities required to facilitate wellbeing of stakeholders which further supported the selection of social topics (see chapter 3.2).
4. Business dependencies and social impacts were described to identify the key social issues associated with each stakeholder group (see chapter 3.3).

3.1 Area of Protection, human wellbeing

The concept of the Area of Protection asks the question **‘What do we strive to protect?’** The answer guides the selection of social topics per group of stakeholders. For this Handbook, the AoP should reflect two perspectives – the interests of the affected stakeholders and business dependencies – to be a meaningful assessment that supports the long-term viability of businesses.

Companies depend on how well individuals and groups are functioning in society and they also have a considerable influence on this. If they understand business dependencies, companies can plan to strengthen the relationship between the involved parties, improve communication and streamline the way business is conducted. By enhancing working conditions and relationships with value-chain actors, companies can establish robust and sustainable value chains, which ensure long-term supply of high-quality goods. For this reason, the PSIA methodology strives to clarify the business dependencies of companies on workers, local communities, small-scale entrepreneurs and users of products and services. The methodology also strives to protect the interests of the affected stakeholders, by bringing to light the positive and negative impacts a business may have on them. In an ideal situation, the PSIA results should indicate a win-win solution for all the parties involved.

⁵ The initial list of social topics presented in the previous version of the Handbook v3, were defined according to international agreements and conventions. The Roundtable determined a set of social topics to be addressed for each group of stakeholders through discussions and dialogues.

⁶ The assessment was conducted at the beginning of year 2018. At the time, company specific targets for SDGs were not yet published and the assessment was based on the targets and indicators published by the United Nations (UN). As the UN targets are mainly aimed at governments, finding linkages between PSIA methodology and SDGs was placed on the do list (see Chapter 5.2).

Through discussions with the Roundtable members, we determined the overarching AoP as human wellbeing of all the affected stakeholders. Human wellbeing is a broad concept that encompasses a number of negative and positive dimensions in life. In the literature⁷, it is stated that the creation of human wellbeing is facilitated by five types of capital: social, human, physical, natural and financial.

3.2 Five types of capitals

The term capital does not necessary refer to a monetary value; it should be thought of as the many tangible and intangible assets available in a society. The capital approach states that all types of capital are resources that matter for the present and future wellbeing of individuals. In broad terms, the different types of capital can be described as follows:

- **Social capital** refers to the productive value of social connections, where productive is understood not only in the narrow sense of the production of market goods and services (although this is an essential component) but in terms of the production of a broad range of wellbeing outcomes.
- **Human capital** includes the knowledge, skills, competencies and attributes embodied in individuals. Human capital is embodied within individuals – it is privately owned – and can only be leased to others. For example, a firm pays an employee wages for his/her skill and knowledge in undertaking specific tasks, but it cannot disembody that skill and knowledge from the individual and own it.
- **Physical or produced capital** includes all man-made assets such as infrastructure (manufacturing plant, buildings, roads, dams, etc.) or technology (machinery, tools, patents, etc.).
- **Financial capital** can be defined as assets such as income, savings, credits, bank deposits, shares, securities and currency.
- **Natural capital** refers to aspects of the natural environment. It can include individual assets such as minerals, energy resources, land, soil, water, trees, plants and wildlife. It also includes broader ecosystems – the joint functioning of, or interactions among, different environmental assets, as seen in forests, soil, aquatic environments and the atmosphere.

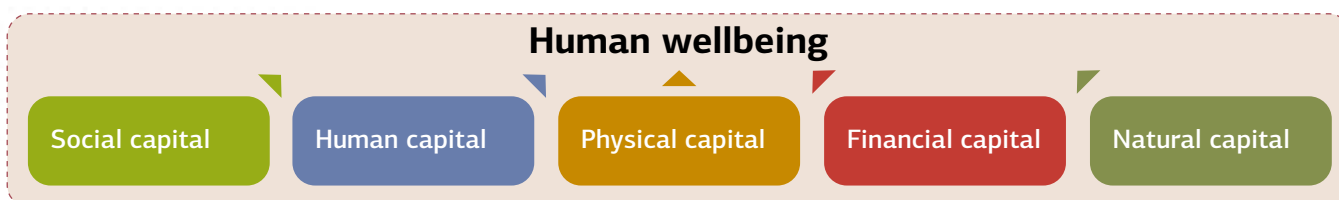


Figure 3.1 Example of a generic 5-capital approach to assessing Human wellbeing

There is a strong complementarity between the various types of capital. A highly skilled labour force and the prevalence of norms and networks facilitating social cooperation support higher levels of investment in physical capital. Similarly, sufficient access to physical, natural and financial capital facilitates the development of a healthy and skilled labour force that includes local communities and small-scale entrepreneurs. To effectively assess the wellbeing of stakeholders, we need to capture the positive and negative impacts associated with specific products and business activities across each category of capital. Companies are impacted by and have influence on only a subset of the various factors that can affect each of the types of capital.

⁷ Numerous capital frameworks have been proposed and are in use that have served as an inspiration for the update of this Handbook. For example, the capital approach to wellbeing has been proposed within the OECD framework for measuring wellbeing in 2011. It has also been recommended by the United Nations Economic Commission for Europe (UNECE)/Eurostat/OECD Task Force for Measuring Sustainable Development (OECD, 2013). The IIRC provides the 6 capital categories. The capital approach has also been highlighted by the Social and Human Capital Protocol (WBCSD, 2017) & (Social & Human Capital Coalition, 2018) and the GIST Advisory report on the capital of human wellbeing (Sukhdev, Das, Joshi, & Tripathi, 2018).

3.3 Business dependencies and social impact

The approach presented by the Social and Human Capital Protocol inspired revision of social topics based on the core idea that companies interact with society in two ways:

1. Companies are dependent on the way the society functions i.e. Social or business dependencies
2. Companies have impact on the way society functions i.e. Social Impacts

The impacts and dependencies that companies have on stakeholders influences various capitals of human well-being. Companies can build or maintain positive influence on capitals through its daily operations, or the products or services it provides various users. Companies can damage capitals by being complacent, not managing risks or neglecting labour or product safety standards. In the same time, companies depend on skilled and healthy workforce and customers/ users that continue buying products or services that maintain or increase their well-being.

For each stakeholder group, we outlined the business dependencies and the ways a company can have a positive or negative impact on the group. The potential social impacts and business dependencies listed for each stakeholder group are not exhaustive; the list is a result of internal discussions within the Roundtable, a working hypothesis established to guide the selection of social topics. With this thought exercise, we determined a sub-Area of Protection for each of the stakeholder groups. Then we mapped the various types of capital to understand which assets and capabilities are necessary to support the wellbeing of the affected stakeholders. We identified linkages that are plausible, but the impact pathways are uncertain and may be affected by multiple outside factors.

The process of selecting topics was an iterative procedure using all of the above elements.

3.4 Selecting social topics for the stakeholder group workers

Companies have a considerable influence on workers' job satisfaction, empowerment, engagement and overall working conditions and remuneration, all of which contributes to the overall wellbeing of workers. From a business perspective, our assumption is that companies need workers that are, at minimum, healthy, skilled and educated. Moreover, these workers need to be highly motivated, engaged and satisfied to perform their tasks effectively, efficiently and at the best of their abilities. The win-win for both parties is visible and achievable: a better educated, healthier and more diverse work force will be more likely to experience fulfilment and wellbeing in the workplace, which will in turn enable them to produce at a higher level. Therefore, job satisfaction and engagement are the key areas to protect and improve for both companies and workers.

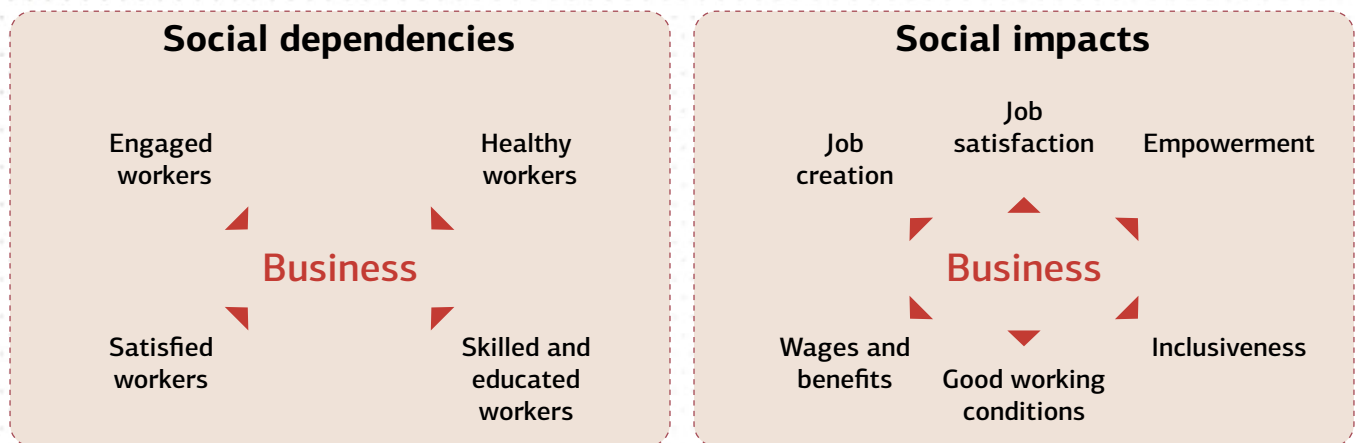


Figure 3.2: Business dependencies and social impacts on workers

While we were determining the business dependencies and impacts around workers, we uncovered multiple social issues that serve as basis for addressing workers' job satisfaction and engagement. Consequently, we selected Job satisfaction and engagement as a more specific identification of the generic concept of human wellbeing⁸. We linked job satisfaction and engagement to the five types of capital to determine whether we covered all crucial social aspects. Figure 3.3 shows an overview of the types of capital we assessed for workers as a stakeholder group.

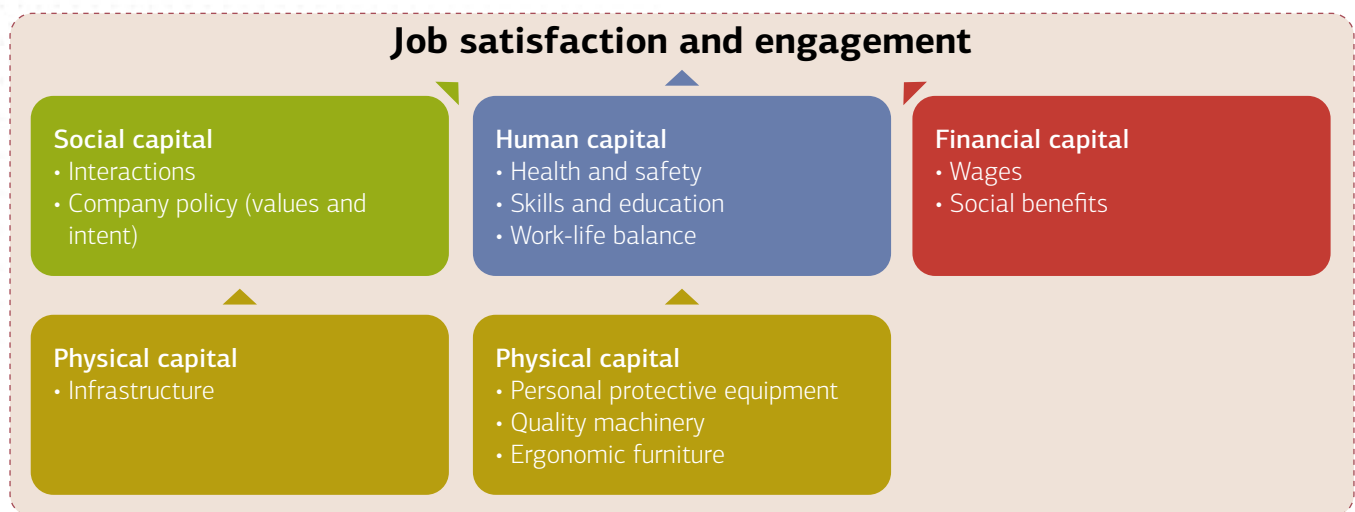


Figure 3.3: AoP for workers as stakeholder group

Human capital we linked to the health and safety of the workers, their skill, education and work-life balance (whether workers are performing at their best and are not overworked). Workers' interactions with co-workers and management we consider a crucial aspect of **social capital**, just like the internal policies, values and intent of a company. The working environment and office culture can play a significant role in motivating and engaging workers.

⁸ One can interpret this as a sub-Area of Protection; we have also defined such more specific sub Area of Protection for the other stakeholder groups.

Development of this human and social capital within companies is closely linked to **physical capital** such as infrastructure and adequate equipment. That means physical capital is also considered within the PSIA methodology. If not as a separate social topic, then as performance indicators that provide context – for instance, how considering access to adequate personal protection equipment is crucial when assessing the health and safety of workers.

Sufficient **financial capital** is required for the wellbeing of workers. This is considered within the methodology as remuneration – a social topic covering wage and non-wage compensations. The only type of capital we do not consider relevant for the wellbeing of workers is **natural capital**.

In summary: the selection of seven social topics for the stakeholder group workers is based on: 1) the revision of initial list of social topics presented in Handbook v3⁹, 2) the assessment of business dependencies and impact, 3) the identification of Area of Protection and 4) finding linkages to the five human wellbeing capitals. Relationship between social topics, human wellbeing capitals and assets and capabilities covered by the capitals can be seen in Table 3.1 below.

| Social topic | Capital | Assets & capabilities |
|--|-------------------|---|
| Occupational health and safety | Human capital | Overall health of workers, number of injuries, knowledge of safety procedures, etc. |
| | Physical capital | Personal protection equipment, quality of machinery, ergonomic furniture |
| | Social capital | Interactions, office culture, company policies |
| Remuneration | Financial capital | Wages, benefits |
| Child labour | Human capital | Health, physical and emotional development |
| Discrimination | Human capital | Education and knowledge, diversity |
| | Social capital | Unproductive interactions/office culture |
| Forced labour | Social capital | Interactions between management & workers |
| | Human capital | Overall health of workers and emotional wellbeing |
| | Financial capital | Wages, benefits (withholding wages) |
| Freedom of association & collective bargaining | Social capital | Interactions between management & workers, office culture, Relationship of trust |
| Work-life balance | Human capital | Health and ability to work (i.e. no burnouts) |

Table 3.1: Relationship between social topics for stakeholder group 'Workers' and types of capital

For certain social topics, the win-win scenario for companies and the affected stakeholder group is less obvious, especially not in the short term. For instance, the ability of workers to organise and engage in collective bargaining may not sound positive for the company. Yet in the longer run, this mechanism has been very important for lifting large communities out of poverty and creating social networks, helping preserve capital assets for the present and future wellbeing of workers and hence of the company.

⁹ Revision of initial list of social topics is not elaborated here, but an analysis is available on Product Social Metrics website.

3.5 Selecting social topics for the stakeholder group users

For users as a stakeholder group, the Area of Protection is defined more specifically as wellbeing.

Companies need the users of their products and services to trust them. Companies depend on their users for business, providing continuous demand for their products or services, and this depends in part on the reputation of the company. In turn, products and services may have an impact on the health and safety of users, or affect affordability and accessibility. From the perspective of a user, it is crucial that all the relevant information is disclosed in a clear and concise manner. This avoids misleading claims and facilitates trust between users and the company. The Handbook aims to capture impacts not only on consumers but also on professional users of the products and services (workers and small-scale entrepreneurs). Certain products and services may also have an impact on the people who are near the product in use; the passive users. The long-term goal of companies should be to develop and market products that create a healthy society, in which users trust companies to develop and provide solutions that work for them.

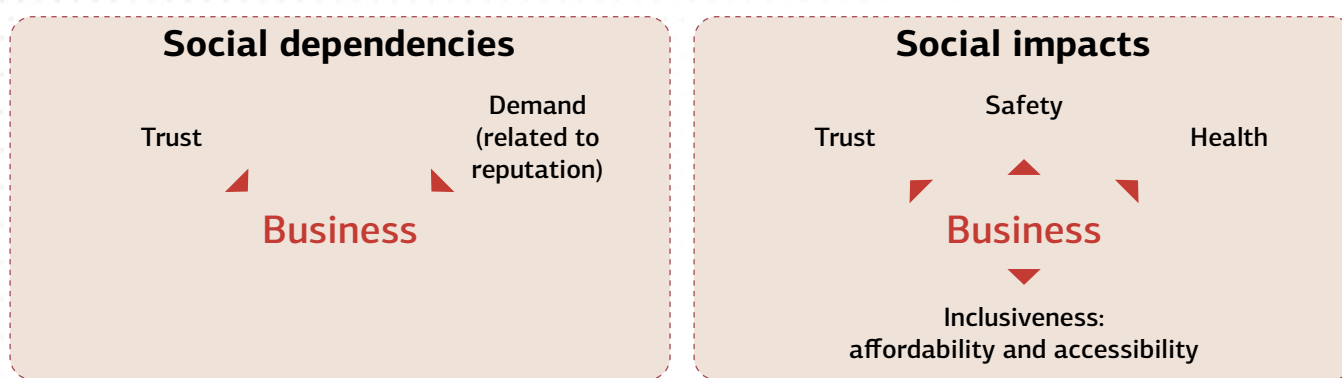


Figure 3.4: Types of capital and the ways they apply to users

Linking the social issues that affect users with the types of capital, we mainly cover **social and human capital**. Safety and health are closely linked with the assets outlined within human capital. Trust between parties is established through relevant, clear and responsible communication: social capital.

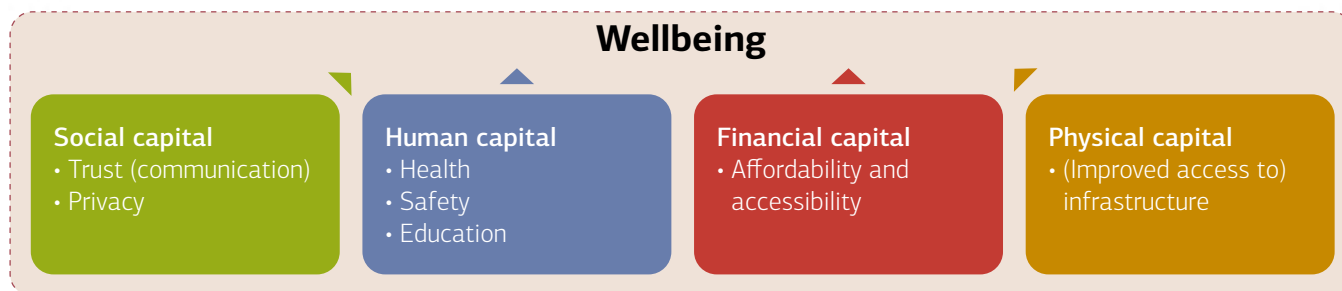


Figure 3.5: Types of capital and the ways they apply to workers

For users as a stakeholder group, PSIA proposes 7 social topics. The relationship between social topics, types of human wellbeing capital (and the assets and capabilities covered by these types of capital) is displayed in Table 3.2.

| Social topics | Types of capital | Assets & capabilities |
|---------------------------|-------------------|---|
| Health & safety | Human capital | Health, safety, knowledge |
| Responsible communication | Social capital | Interactions, relationship of trust |
| | Human capital | Health and safety |
| Privacy | Social capital | Relationship of trust |
| Accessibility | Financial capital | Improved access to tools and products for people with a disability |
| | Social Capital | Take part in society |
| Affordability | Financial Capital | Improved accessibility to products and services for vulnerable people |
| | Social Capital | Take part in society |
| Effectiveness and comfort | *Physical capital | Access to effective tools |
| | Human capital | Development of skills, knowledge |

Table 3.2: Relationship between social topics for users and the types of capital

3.6 Selecting social topics for the stakeholder group local communities

For local communities as stakeholders, the Area of Protection is defined more specifically as healthy communities.

From a business perspective, companies rely on healthy and educated communities that provide people who are able to work and will provide a skilled workforce in the future. It is relevant to consider such aspects as health, general training at school, opportunities for youth to develop skills and whether training is provided to all. Moreover, the ability of a company to operate also depends on whether the community accepts the company and agrees with the overall vision of the company.

Companies also have social impacts on local communities. Companies create jobs within a community, for instance, which can facilitate economic development. If not managed properly, the company may have negative impacts on the health of the community or its access to resources such as water or land. If managed properly, the company may create positive benefits for the community by raising awareness, educating and providing resources. By engaging in fair dialogue with the community, the company can facilitate cooperation with and ensure stability within the community.

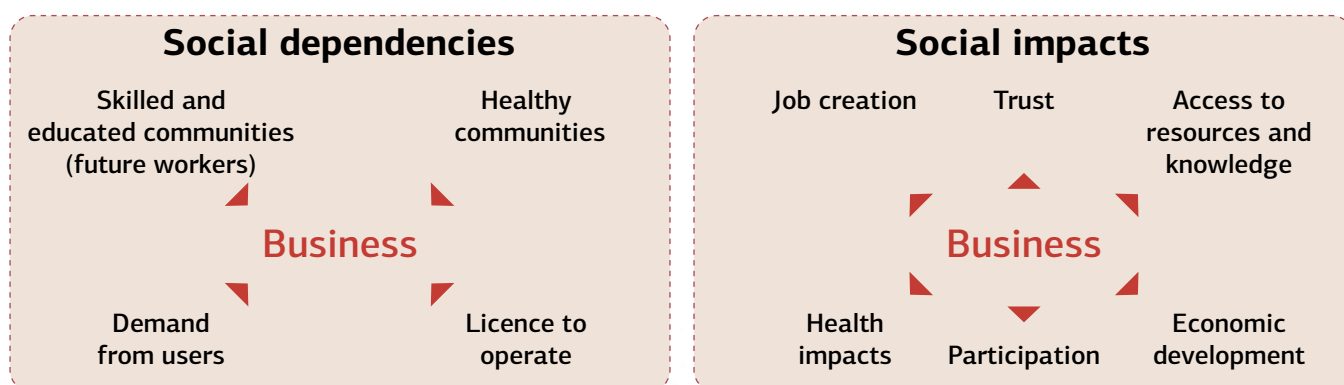


Figure 3.6: Business dependencies and social impacts on local communities

Overall, there are overlaps between the business dependencies and the interests of local communities. The company benefits from a well-functioning and productive local community, and the employment the company brings is of particular interest to the community.

A well-functioning society depends on good interactions between companies and communities, the efforts to create relationships of trust that facilitate cooperation: **social capital**. **Human capital** is linked to the overall health and education of the communities, which is facilitated by the **physical capital** available within the communities. Basic infrastructure – e.g., schools, roads, water supply systems, community centres – plays a huge role in determining the level of education, the overall health, the opportunities available in and the overall wellbeing of communities. Access to **natural and financial capital** also plays a crucial role in determining the overall wellbeing of the communities and is further addressed within the PSIA methodology for local communities.

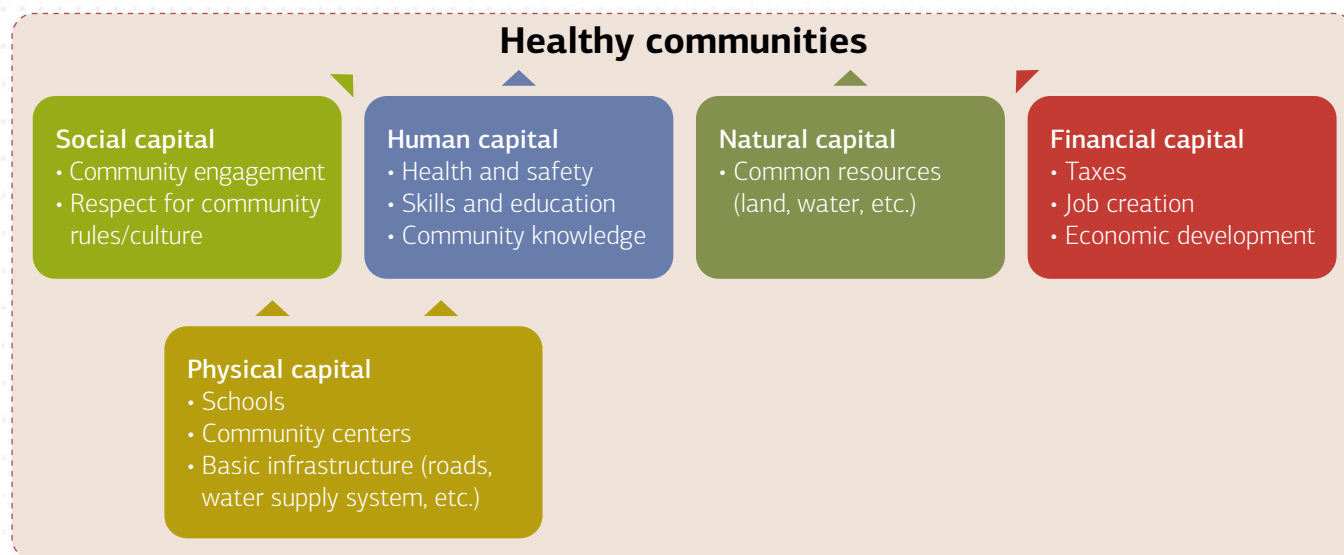


Figure 3.7: Types of capital and the ways they apply to local communities

For the stakeholder group of local communities, PSIA proposes 5 social topics. The relationship between social topics, types of human wellbeing capital (and the assets and capabilities covered by these types of capital) is displayed in Table 3.3.

| Social topics | Types of capital | Assets & capabilities |
|--|-------------------|---|
| Health and safety | Human capital | Health and safety, ability to work |
| | Natural capital | Clean air, low emissions |
| Access to material and immaterial resources | Physical capital | Basic infrastructure: roads, water supply system, schools |
| | Natural capital | Land, water, forest, relevant non-renewable resources, ore, oil, gems |
| | Human capital | Knowledge |
| | Social capital | Relationship of trust that facilitates cooperation |
| | Financial capital | Access to financing, taxes from the company or facility that contribute to local economic development, financial infrastructure |
| Community engagement | Social capital | Interactions, relationship of trust that facilitates cooperation |
| Skill development | Human capital | Skills and knowledge |
| Contribution to economic development | Financial capital | Increasing the wealth in the region |

Table 3.3: Relationship between social topics proposed for local communities and the types of capital

3.7 Selecting social topics for the stakeholder group small-scale entrepreneurs

For small-scale entrepreneurs as stakeholder group, the Area of Protection is more specifically defined as their livelihood.

The key area of importance for companies with regards to this stakeholder group is security of supply chains and a steady supply of high-quality goods and services. Our assumption is that the quality of these goods depends on the education level, skills and know-how of small-scale entrepreneurs. We need to consider whether small-scale entrepreneurs have access to the necessary equipment, knowledge and resources, and whether the basic infrastructure is there to enable them to work. In addition, companies are dependent on small-scale entrepreneurs' physical ability to work, which is closely linked to living conditions, meeting the basic needs and sufficient medical coverage. A certain level of trust and satisfaction is crucial for developing long-term relationship between companies and small-scale entrepreneurs.

In turn, companies influence the living income of small-scale entrepreneurs. By actively involving small-scale entrepreneurs in the supply chain, companies can enhance their livelihood conditions. Companies could also allocate resources to improve the availability of knowledge and technology to both male and female small-scale entrepreneurs, which also facilitates the company's access to high quality of goods.

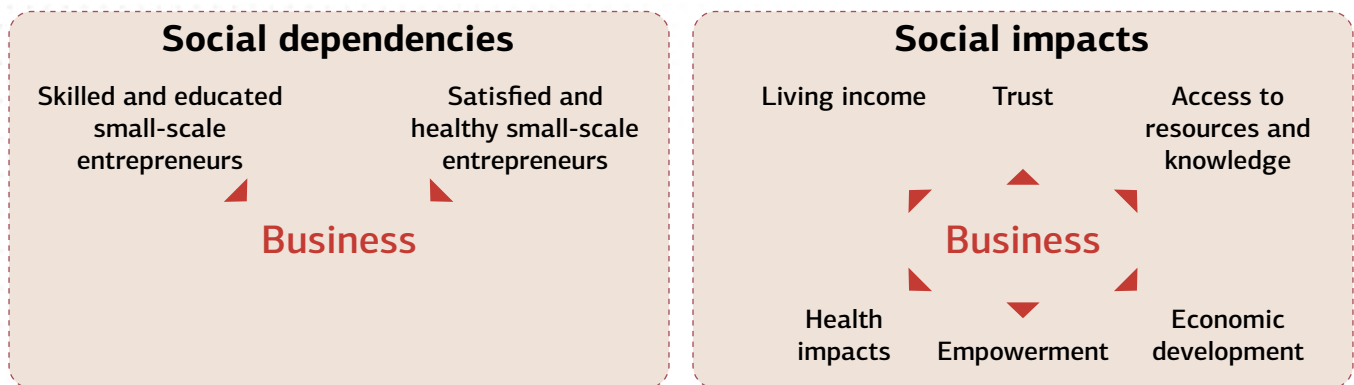


Figure 3.8: Business dependencies and social impacts on small-scale entrepreneurs

Linking the social issues described above with types of capital, we see that small-scale entrepreneurs need to draw on all five types of capital to support their livelihoods and that there is a strong complementarity between the various types of capital.

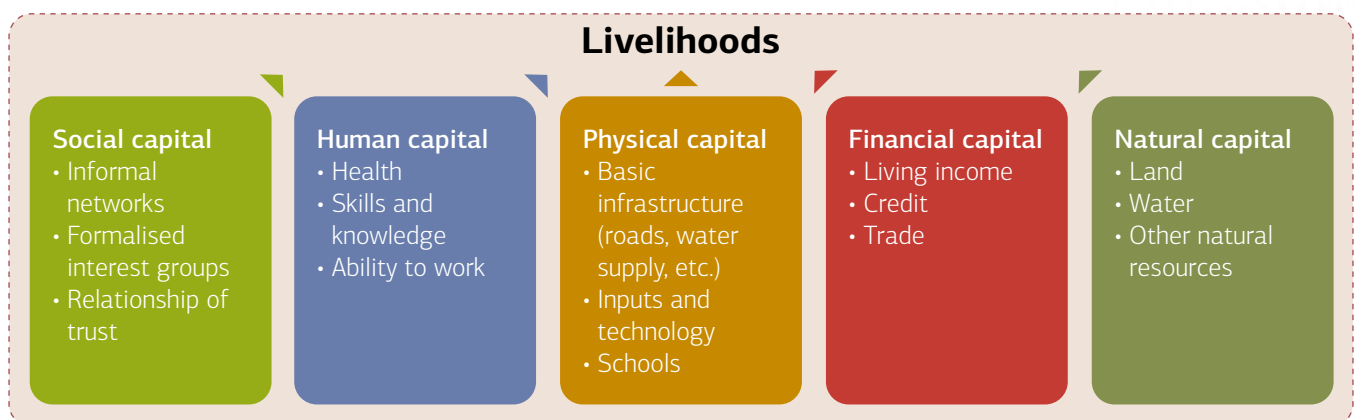


Figure 3.9: Types of capital and the ways they apply to small-scale entrepreneurs

Informal networks, the ability to form community interest groups are important assets for a community, and these are considered to be **social capital**. Sufficient access to **natural capital** is crucial in ensuring entrepreneurs' ability to work

(access to water or food). The skills and knowledge required to produce goods and services can be linked back to **human and physical capital**. **Financial capital** can be linked to living income or access to credit. Financial capital, to some extent, relies on the availability of physical capital. In table 3.4 these relationships are further specified.

| Social topics | Types of capital | Assets & capabilities |
|-------------------------------|-------------------|---|
| Meeting basic needs | Human capital | Physical health, ability to work |
| | Natural capital | Access to water |
| | Physical capital | Sanitation, water supply system |
| Access to inputs and services | Physical capital | Inputs such as equipment, tools, seeds, information and communication technologies, roads |
| | Financial capital | Income, credit, trade |
| Women's empowerment | Human capital | Skills, knowledge, health |
| | Social capital | Relationship of trust |
| Child labour | Human capital | Health of children, safety, education |
| | Physical capital | Schools |
| Health & Safety | Human capital | Physical health, ability to work, knowledge of safety procedures |
| | Physical capital | Personal protection equipment, quality of machinery or chemicals used |
| Land rights | Natural capital | Land |
| | Social capital | Relationship of trust |
| Fair trading relationship | Social capital | Relationship of trust to facilitate collaboration, membership of formalised groups, informal networks |
| | Human capital | Knowledge, education, skills |

Table 3.4: Relationship between social topics for small-scale entrepreneurs and the types of capital

3.8 Full list of social topics

All in all, the PSIA method includes 25 social topics (Table 3.5). More details, like the definition of the topics and the rationale to choose these, can be found in the Social Topics Report.

| Social topics for workers | Social topics for local communities |
|--|---|
| 1.1 Occupational health and safety 1.2 Remuneration 1.3 Child labour 1.4 Forced labour 1.5 Discrimination 1.6 Freedom of association and collective bargaining 1.7 Work-life balance | 3.1 Health and safety 3.2 Access to material and immaterial resources 3.3 Community engagement 3.4 Skill development 3.5 Contribution to economic development |
| Social topics for users | Social topics for small-scale entrepreneurs |
| 2.1 Health and safety 2.2 Responsible communication 2.3 Privacy 2.4 Affordability 2.5 Accessibility 2.6 Effectiveness and comfort | 4.1 Meeting basic needs 4.2 Access to services and inputs 4.3 Women's empowerment 4.4 Child labour 4.5 Health and safety 4.6 Land rights 4.7 Fair trading relationships |

Table 3.5: Overview of the social topics for each stakeholder group

Chapter 4: Establishing reference scales for impact assessment

In the PSIA methodology, data about each social topic – as structured by the performance indicators – is interpreted with a scale. The scale allows users to compare the data to a reference, usually an international standard or convention. If the assessment method is tailored to a specific study, then the reference points could even be set as improvement targets. The referencing step is crucial to interpret the results and support informed decision making. PSIA is designed to consider both positive and negative impacts of the product or service, using a 5-point scale. Each position on the scale is a performance reference point, assigned a score ranging from -2 to +2. A score of -2 is unacceptable performance and +2 is ideal performance. Figure 4.1 shows a generic reference scale, which is adapted for each social topic.

| | |
|-----------|--|
| +2 | Best in class, continuous improvement |
| +1 | Beyond generally acceptable situation , continuous improvement |
| 0 | Generally acceptable situation, |
| -1 | Unacceptable situation but improving |
| -2 | Unacceptable situation, no improvement |

Figure 4.1: Generic scale to assess social performance

4.1 Guiding principles for establishing individual reference scales

The following guiding principles were used to define the levels of the scales and the performance indicators.

level 0: generally acceptable situation:

Level zero is intended to reflect the situation that a supply chain actor neither has a detrimental nor contributing impact on the Area of Protection. This reference level is based on internationally agreed conventions and declarations. Examples of other performance indicators on this level can be:

- The company adheres to the global compact standard (of course only if the standard has relevant criteria for the topic).
- Evidence that the company has an effective policy which requires.... (depending on the topic, for instance for child labour it requires documentation of the age of children upon employment).
- The activities of the company or the small-scale entrepreneurs are certified under a labelling scheme or an NGO standard. This is of course only meaningful if the standard addresses the topic.

Positive scores on the reference scales:

When there is evidence that a supply chain actor has a contributing effect on the Area of Protection for the stakeholder, we attach a score of +1, when the contribution is recognisable and +2, in the case the performance can be seen as best in class. In both cases the actor is supposed to be in a process of continuous improvement.

Typical performance indicators are:

- On level +1: The company has implemented a management system to continuously improve the situation on this topic and this has resulted in tangible improvements (but does not need to be “best in class”).
- On level +2: The company has committed itself to be best in class, regarding the performance on this topic, which has resulted in a very high performance in comparison with its peers.

The principles described above, are based on the thinking applied to establish the smallholder extension, where it was established that each intervention undertaken by the company to promote good practices can be observed and measured at different points along an impact pathway. Thus, we decided to focus on certain points on the impact pathway for each level on the reference scale. That is, interventions undertaken to improve working conditions were linked with the Theory of Change¹⁰ (ToC). The ToC outlines a causal flow that illustrates how a proposed set of activities and inputs will result in specific outputs contributing to different outcomes leading to certain impacts” (Sustainable Food Lab, 2014). By building an impact pathway for each social topic, we outlined the relationship between the company’s inputs, activities and impacts on the creation or destruction of the different capitals.

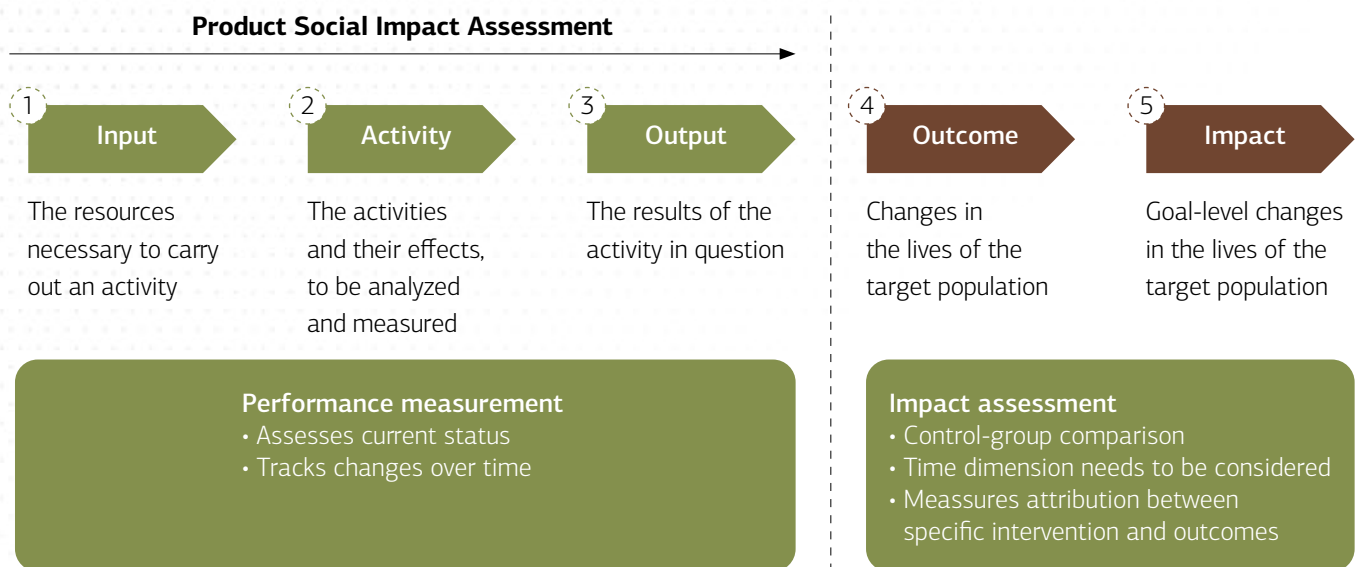


Figure 4.2: Illustration of Theory of Change

For the positive scores we have (tried as much as possible) to define the scale levels and associated performance indicators on the level of outputs. Having just a policy (activity, is not enough). On the level 0 and below we do sometimes refer to policies, and thus activities.

Negative scores on the reference scales:

When a supply chain actor has a detrimental impact on the Area of Protection for the Stakeholder, we distinguish two cases. A level -2 applies if the supply chain actor takes no action to address and remediate this situation, and level -1 applies if the situation is still detrimental, but there is evidence that the supply chain actor takes concrete action to address and improve the situation.

The more or less standard performance indicators are:

- For level -2: Absence of positive information, while the company is in an area where this situation often occurs according to statistics.
- For level -1: While the company is in an area where this situation often occurs according to statistics, there is evidence that the company has started to address the situation with a clearly defined timeline.

¹⁰Theory of Change is also called an impact or dependency pathway, logical framework or results chain

4.2 Example reference scale for Occupational Health and Safety

The social topic scales are meant to be used after the hotspot identification phase. This hotspot identification is meant to reveal the most important potential negative and positive performance in the value chain over the lifecycle. If the hotspot identification pointed towards a negative contribution of a value chain actor, it is wise to check the -2 level first, and move upwards. When data collected from the supplier provides sufficient evidence to determine if a performance indicator can be confirmed as being “True” or “False”. If “True”, check if the next level also has a performance indicator that can be assessed to be “True”. Repeat this until the level is reached where a “True” cannot be established on any of the performance indicators, which means the performance indicator is either “False” or undecided. This procedure implies that a certain level on the scale can only be reached if the lower levels have at least one performance indicator with the value “True”. In principle it is sufficient to have evidence that one of the performance indicators on a level is “True”.

To illustrate the mechanism, we use the example of Occupational Health and Safety for workers as defined in the separate Social Topics Report. Each social topic is based on a description of a definition and rationale. In the example of Occupational Health and Safety we discuss various definitions and then chose the following from a joined ILO/WHO report:

The main focus in occupational health is on three different objectives: (i) the maintenance and promotion of workers' health and working capacity; (ii) the improvement of working environment and work to become conducive to safety and health and (iii) development of work organizations and working cultures in a direction which supports health and safety at work and in doing so also promotes a positive social climate and smooth operation and may enhance productivity of the undertakings. The concept of working culture is intended in this context to mean a reflection of the essential value systems adopted by the undertaking concerned. Such a culture is reflected in practice in the managerial systems, personnel policy, principles for participation, training policies and quality management of the undertaking." Source: —Joint ILO/WHO Committee on Occupational Health¹¹.

¹¹ http://www.ilo.org/safework/info/publications/WCMS_110478/lang--en/index.htm

Reference scale for Occupational Health and Safety (OHS)

| | Definition of the scale level | Performance Indicators |
|----|---|---|
| +2 | The company is best in class compared to its peers on OHS performance | <ul style="list-style-type: none"> Credible statistics show the OHS performance is best in class compared to its peers in the same sector and region, and this performance has improved over at least 3 years Credible statements from NGO's, unions and workers that confirm this |
| +1 | The company has a management system in place to pro-actively and continuously improve the working culture, beyond an acceptable level and can show tangible results of these efforts | <ul style="list-style-type: none"> Documents that provide a credible description of management system to promote continuous improvement of health and safety and the results of these efforts Credible statements from NGO's, unions and workers that confirm this |
| 0 | Working conditions and working culture are adequately protecting workers health and safety, which includes that equipment, the use of personal protection equipment, the prevention of harassment are conforming to the state of the art regarding safety and exposure. | <ul style="list-style-type: none"> Documents like audits that show compliance with National standards, see Global ILO LEGOSH database Documents that show certification schemes/standards on health and safety, audits. |
| -1 | There has been a neglect in the working conditions (culture) regarding the maintenance and promotion of workers' health and safety, which results in high accident rates and deteriorating health conditions of workers, but the company or facility has developed a corrective action plan with clear timeline for completion. | <ul style="list-style-type: none"> While the company is in an area where this situation often occurs according to statistics, there is evidence that the company has started to address the situation with a clearly defined timeline. There are incidents of complaints, lawsuits and other signals but they have been significantly reduced during the last 3 years |
| -2 | There is a neglect in the working conditions (culture) regarding the maintenance and promotion of workers' health and safety, which results in high accident rates and deteriorating health conditions of workers. | <ul style="list-style-type: none"> Complaints, lawsuits and other signals Absence of positive information, while the company is in an area, where the risk of bad health and safety situations often occurs according to generic statistics. |

Fictional example:

A supplier produces cotton in India. The hotspot identification phase reveals potential risks regarding OHS. When the company is approached it can send an audited report, showing the efforts of the company to improve this, while the secondary country data show the situation is not on a generally acceptable level. Without such data this supplier would score -2, if the data is provided and deemed to be credible evidence, it can be scored -1. If the company can show that it has achieved an acceptable OHS performance or is accepted by a credible certification standard that covers the OHS performance, it can be scored a level 0. Further evidence may show even better performance, which could merit a score of +1 or even +2.

So, the fact that the company is based in a sector or region where OHS is far from being guaranteed can provide a starting point of the search for actual performance data of the specific supplier.

¹² See website: <https://product-social-impact-assessment.com/>

5 Outlook

5.1 The emerging field of Product Social Metrics

PSIA is quite a recent development, while environmental LCA has been around for 30 years and is now almost common practice. In the coming years, social impact assessment is expected to mature further. This is an important reason to continue to collaborate with other initiatives, especially the Social and Human Capital Coalition, the Social LC Alliance and other open source, non-proprietary initiatives. By sharing experiences, we can improve and learn from each other. Some important developments:

1. Sector-specific extensions like the development which was done by the Chemical Working Group of the WBCSD (2016).
2. The fast developments around the human and social capital protocol, which started at the WBCSD but has now become an independent organisation. We used their concept of the various types of capital in Chapter 2 to develop a rational basis for selecting social topics.
3. The redevelopment of the UNEP-SETAC Guidelines on Social LCA by the Social LC Alliance. There are also some emerging initiatives in Italy and Japan. In 2020 we are participating in a joined case-study with the Social LC Alliance.
4. Rapid development in the area of tools and data, with new screening tools and questionnaire tools being introduced.

5.2 Our to-do list

While we believe we have developed an important update with major improvements, we are not done yet. In Phase 8 of the Roundtable, which is expected to start in November of 2020, we would like to:

1. Test our methodology and communication guidelines on more cases.
2. Gain more experience with circular economy.
3. Continue work on the online Implementation Guide with practical examples on how the methodology is applied by Roundtable members and how the application scope can be expanded from single product studies to assessing whole company portfolios.

On the somewhat longer timescale, or perhaps in parallel projects, work should be done to:

4. Establish better linkages with the SDGs.
5. Develop a more in-depth guidance on aggregation, weighting and results interpretation.
6. Provide more examples of how the results can be used in strategic decision making.
7. Gain more experience and provide guidance on how the PSIA Framework can be used and integrated within a holistic sustainability assessment that covers economic, environmental and social aspects.



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¹³ See website: <https://product-social-impact-assessment.com/>



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Acknowledgements (Handbook version 4.0)

Version 4.0 (Handbook 2018) was extensively reviewed by a number of reviewers. We would like to thank the reviewers for their feedback and invaluable contributions. A summary of the comments and suggestions can be found in Appendix 1. The full formal academic review was conducted by an expert team consisting of: Marzia Traverso (University Aachen, Germany), Sara Russo Garrido (CIRAIG – Université du Québec à Montreal, Canada) and Gabriella Arcese (Università degli Studi di Bari, Italy). These experts are leading figures in the Social LC Alliance: <https://www.social-lca.org/>.

The following experts also provided inputs and comments (these are also summarised in Appendix 1 of the Methodology Report): Tim McAloone (DTU, Copenhagen, Denmark); Thomas Gloria (Harvard University, USA); André Nijhof (Nyenrode Universiteit, The Netherlands); Birgit de Vos (Wageningen University, The Netherlands and The Sustainability Consortium, USA); Thomas Grünenwald (BASF, Germany); Aurélie Wojciechowski (Evonik Technology & Infrastructure GmbH, Germany) and Peter Tarne (BMW (former member of the Roundtable), Germany).

We thank Albert Wijnen from Duo Ontwerp & Webdesign for the graphical design.

Appendix 1: Summary of reviewer comments

The draft of the 2018 version 4.0 was reviewed by an academic review panel, other reviewers with a scientific background and (external) potential business users¹⁴. We received a number of very useful reviews and comments; some detailed, some commenting in overarching ways. In the following pages, we share the main remarks and suggestions. The updates in the 2020 version have not been reviewed.

In-depth academic review

Marzia Traverso (University Aachen, Germany), Sara Russo Garrido (CIRAIG – Université du Québec à Montreal, Canada) and Gabriella Arcese (Università degli Studi di Bari, Italy) were asked to provide a formal scientific review. These experts are leading figures in the Social LC Alliance (<https://www.social-lca.org/>).<https://www.social-lca.org/>.

A general comment of the reviewers was that the guide brings value to the S-LCA landscape, in particular through the addition of small-scale entrepreneurs as new stakeholders and a deeper exploration of the use phase. The framework's links to the notions of types of capital, dependencies and the tools and data currently used within companies is also a welcome addition.

The reviewers provided many very useful comments and suggestions, which were taken into account in the final editing. A few key comments could not be addressed, for reasons we will explain here:

1. The panel asked if we could explain the differences between our social topics and the social impact subcategories addressed in the UNEP Social LCA guidance. We decided not to do this, because we do not expect our readers to know the social impacts and explaining them well would take a lot of space. We consider the UNEP Social LCA guidance an inspiration, not a starting point.
2. One reviewer commented on the decision not to include the quantitative method from earlier Handbooks in this version. The reviewer would have liked it to stay in the method. However, this was a very deliberate choice made unanimously by the member companies, based on experiences and trials.
3. The procedure and especially the data requirements for the hotspot identification module were considered not as clear and the weakest part of the Handbook. Currently, only BASF has extensive experience with this module. In textbox 6.1 of the Handbook, BASF describes how different data sources can be used and how to assess hotspots along the product's value chain. We are aware that more experience is needed. We aim to get hands-on experience during Phase 6 of the Roundtable, when we will focus on the use of data tools. In addition, the hotspot identification module is deliberately vague in terms of procedure. Each company may have access to different secondary data tools, which will determine the procedure and methodology for determining hotspots.
4. There were comments on how we determine data quality, especially representativeness. We tried to capture this in the data quality matrix in the interpretation section, but here, too, we need more experience from cases. We completely agree with the reviewers that this is a key concern.
5. The panel expressed concerns with using the Theory of Change (ToC) as guiding principle to establish the reference scales for each social topic. It was highlighted that the use of ToC is not always represented in the reference scales. We have changed the description in the Handbook but are aware that, instead of measuring impacts, the ToC shows outputs and sometimes outcomes. To reflect this, we use the term 'potential outcome'.

¹⁴ At the time of review the Handbook and Methodology Report were still in a single document; after processing comments and after having processed all comments from the text editor, we decided to split up the single document in a Handbook and a Methodology Report. Most of the comments were received on the contents of the methodology, but some of the comments also refer to the Handbook. All these changes did not have any relevant impact on the methodology or the text of the Handbook.

Comments from other experts with an academic background

Tim McAloone (DTU, Copenhagen, Denmark) structured his comments around the eight differences with the previous Handbook in the summary and section 1.3. He commented positively on dropping the quantitative method, separating the use phase from the value-chain assessment and the two-stage data collection approach. In general, he commented on all changes in a positive way, but some of his notes are important to consider in the future:

- Performance indicators are too much a mix of leading (guiding on action) and lagging (measuring after the fact) indicators. In his experience, companies like to have these separated, so that they can measure completed performance on the one hand and prepare for affirmative change action on the other.
- It is very important to expand the CE chapter in the future, with the warning that this could be a Pandora's box in terms of complexity and diversity of potential approaches. We look forward to obtaining more experience from our case studies, and we are happy to have received input from Steelcase for that chapter.

Thomas Gloria (Harvard University, USA) was quite critical of the length of the report and suggests that we should focus more on the management approach. He considers the Social Topics Report generic indicators that can be applied to a variety of management methods. In his opinion, the Handbook should be less about the structure of the assessment method and more about:

- Consensus about critical issues
- Indicators to measure severity
- Suggested approaches and examples to resolve or mitigate the issue

The suggestion was made, as follow-up, to provide referenceable case studies that capture the critical thinking needed to find solutions and manage an emergent social issue. We are taking these comments to heart, and know we need to gather more experience by applying the method to case studies. We also think these suggestions support our collaboration with the Social and Human Capital Coalition, which really focuses on the management approach and less on the assessment method. This expands the reach of our work beyond the task for which the Roundtable was established, the development of an assessment approach for products.

André Nijhof (Professor Sustainable Business and Stewardship, Nyenrode Business University, The Netherlands) complimented the authors on the accurate and transparent approach and description of the methodology. He gave us some interesting questions and suggestions, most of which were addressed. A generic comment was that more examples and cases would contribute to the usability of the Framework. During Phase 6, the member companies plan to work on more case studies.

Birgit de Vos (Wageningen University and The Sustainability Consortium) was only able to give comments on a high level. Her general impression was that the report was very lengthy and therefore difficult to read. This supported our decision to split the document in two parts.

Comments we received from experts with a company background

All companies already commented on the first draft. After processing these comments, we received a few more reviews.

Thomas Grünenwald from BASF commented that, if the companies of a product system in scope are unknown, it would be useful to apply the method on sector or country level. Although we have no experience with this (the IO databases are in fact based on country and sector), we think this is possible. Thomas also considered the Handbook too long, and suggested to split the application of the methodology into a separate report. This option was indeed implemented.

Aurélié Wojciechowski from Evonik Technology & Infrastructure GmbH would like to see a better explanation of why a quantitative method is no longer included. She brings up this important related question:

I understood that you do not recommend any aggregation or weighting. Does the quantity of a raw material used per functional unit have an impact? E.g. does a score of +2 in a category for a raw material representing 1% of total input have the same 'weight' as another material with a score of -2 and representing 30% of the input?

Since the quantitative method was dropped in this version, there is no clear solution to this issue. BASF, with their SEEbalance® methodology, gives some initial guidance to aggregation. We plan to revisit this topic in the future.

Peter Tarne from BMW (a former member company of the Roundtable) complimented us on the thoroughness, the structure and the comprehensiveness of the current report and methodology and considers the current draft a substantial improvement over the last version. Compliments were given on the inclusion of small-scale entrepreneurs and the removal of the quantitative approach, since BMW also experienced it as too technical and abstract. A suggestion for improvement is to further elaborate on the guidance for assessing the supply chain with hotspot identification. BMW experiences the step to get to the shortlist as the main challenge for conducting social hotspot assessment and social impact assessment. We understand this difficulty and hope to gain more experience in the next phase of the Roundtable. He also raised a comment on the difference between primary, secondary and passive users. This was addressed in the report.



Roundtable for Product Social Metrics





More background information about the Methodology Report and the development process is available on www.product-social-impact-assessment.com

Members of the Roundtable for Product Social Metrics (2018-2020):



This Methodology Report has been prepared by PRé Sustainability.

For 30 years PRé Sustainability has been at the forefront of life cycle thinking and has built on knowledge and experience in sustainability metrics and impact assessments to provide state of the art methods, consultancy and software tools. Internationally, leading organizations work with PRé to integrate sustainability into their product assessment and development systems in order to create business growth and value. PRé Sustainability has an office in the Netherlands and a global partner network to support large international or multi-client projects. PRé Sustainability is a trademark of PRé Sustainability B.V.

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