

# Social return on investment in the public sector

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Received 6 June 2018  
Revised 4 December 2018  
4 October 2019  
Accepted 10 February 2020

## Abstract

**Purpose** – Social return on investment (SROI) is a systematic way of incorporating social values of different stakeholders into public sector decision-making on sustainability. This study aims to identify salient factors that influence SROI implementation.

**Design/methodology/approach** – The interactions of four Dutch municipalities and their social enterprises were examined, by analyzing relevant documents and interviewing key actors.

**Findings** – External forces appear to have little influence on SROI implementation. Management systems, legal restrictions in relation to privacy and the administrative burden appear to hinder SROI implementation. Findings suggest that trust among the parties involved and their representatives is a major driver for SROI development. SROI is not measured well enough, which complicates analyzing and reporting its development.

**Research limitations/implications** – Achieving collaboration through trust is a characteristic of stewardship theory, and therefore useful for studying social sustainability. Combining agency and stewardship theory provides useful insights concerning the application of control mechanisms versus empowerment.

**Practical implications** – Barriers can be overcome by informing and engaging suppliers in SROI initiatives. Furthermore, findings of this study suggest that it is easier for municipalities to incorporate SROI when social firm activities are insourced. An independent procurement function stimulates SROI development. Engaged professionals can make the difference in SROI policy implementation, more so than written policies.

**Social implications** – SROI enables social sustainability. SROI can be used by public agencies to provide meaningful activities for the long-term unemployed and underprivileged adolescents.

**Originality/value** – The study is the first empirical work that relates public procurement to SROI implementation and its effect on suppliers. The findings provide valuable insights into government influence on social enterprises.

**Keywords** Public procurement, Agency theory, Social sustainability, Stewardship theory, Social return on investment (SROI)

**Paper type** Research paper

## 1. Introduction

Recent years have shown a gradual increase in the amount of literature on social sustainable issues (Carter and Rogers, 2008; Krause *et al.*, 2009; Yawar and Seuring, 2017). Regarding sustainability, quite some studies stress the importance of gaining more in-depth insights



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into the social aspect of sustainability (Ashby *et al.*, 2012; Meehan and Bryde, 2011; Seuring and Müller, 2008; Touboullic and Walker, 2015). However, it appears scholars have less attention in addressing this particular aspect (Cooper *et al.*, 2000; Leire and Mont, 2010; McCrudden, 2004; Mont and Leire, 2009; Park and Stoel, 2005). In their comprehensive literature study, Yawar and Seuring (2017) conclude that the social dimensions of sustainable development and its impact on supply chains have so far received less attention than the environmental dimension. Notwithstanding existing studies, there appears to be less attention for the social sustainability aspect of including groups of people at risk of exclusion for labour into supply chains (Baumgartner and Ebner, 2010; Lee and Kim, 2009). The procurement function can play an important role in driving the sustainable procurement agenda (Meehan and Bryde, 2011; Preuss, 2009). Public sector spending represents up to 57 per cent of a country's GDP (OECD, 2017) and because of procurement's ability to influence supply chains, the magnitude of public procurement is considered significant (Preuss, 2009). Procurement is considered a powerful tool that enables external organizations to implement social sustainability into their strategic agenda (Amann *et al.*, 2014; Brammer and Walker, 2011).

To encourage sustainability in public procurement, environmental and social policies have been implemented in many countries around the world (Andrecka, 2017). However, a major flaw of public procurement relates to the triple bottom line of sustainability, which addresses ecological, social and economic dimensions (Elkington, 1998). Social issues of sustainable development and its impact on public procurement have so far received less attention than the environmental dimension (Walker *et al.*, 2012; Yawar and Seuring, 2017). Social return on investment (SROI) is an instrument used to develop social sustainability (Van Emmerik, Jong and Brouwer, 2014). SROI is designed to help understand, manage and report on the social and economic value created by an organization (REDF, 2001). This study focusses on the concept SROI, with a specific focus on the development of employment opportunities for people who are at risk of exclusion from the labour market. Social return in The Netherlands means creating more employment opportunities for this group of people and public organizations are encouraged to implement social return in a variety of ways. Public organizations that adhere to the principle of social return make purchasing agreements with contractors concerning the creation of additional jobs, work experience jobs or internships for people who are disadvantaged within the labour market (Pianoo, 2015). These people include the long-term unemployed, people who are partially disabled or otherwise impaired, those characterized as unfit for work and underprivileged youth. By creating these additional jobs, the target group can participate according to their ability, hence making use of extra productivity that would otherwise remain unused (Pianoo, 2015). A notable feature of implementing SROI to manage social sustainability in supply chains is that it helps public authorities in fulfilling expectations of stakeholders while aiming for performance improvements (Yawar and Seuring, 2017).

Municipalities in The Netherlands generally outsource the SROI activities to social enterprises, which requires a form of governance between the municipality and the social enterprise to develop activities and generate compliance. The social enterprise acts as a linking pin between contractors and SROI employees. It also facilitates and monitors the SROI process and reports to the municipality. There is still a substantial gap in knowledge on the adoption of social sustainable practices (Amann *et al.*, 2014; Yawar and Seuring, 2017) and scant research is available on the practical challenges of SROI implementation (Moody, Littlepage and Paydar, 2015). This study builds upon existing sustainability knowledge, and elaborates its extension into the realm of public procurement. In addition, its purpose is to shed light on a neglected topic, gaining more in-depth knowledge on social sustainability

implementation through SROI by public authorities. By examining several municipalities and their social businesses, this study contributes to the knowledge on social sustainability practices and tries to provide a unique insight into government influence on social purpose businesses that pursue social responsibility directly. Figure 1, line number 1 (highlighted by the blue line), gives an overview of the relations in the process of SROI development. A municipality and its social firm are key players in developing job opportunities for SROI employees through contractors.

Several stakeholders influence the development of SROI as they interact with each other in diverse settings. Relations between stakeholders can be observed through the conceptual approaches: agency theory (Eisenhardt, 1989) and stewardship theory (Davis, Schoorman and Donaldson, 1997). Agency and stewardship theory can provide insight into the management approach between the principal and the subordinate (Van Slyke, 2007). In the public procurement context, neither theory alone has adequate explanatory power. However, both theories combined provide useful insights on the application of control mechanisms versus empowerment.

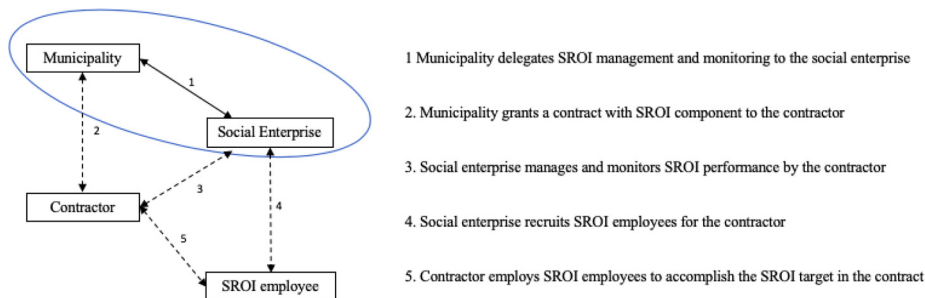
The following research question was formulated:

RQ. What salient factors influence the implementation of social sustainability through SROI in the relationship between the municipal procurement function and social enterprises?

## 2. Literature review

### 2.1 Sustainability in the public sector

2.1.1 *Social sustainability.* Organizations have primarily focused on achieving environmental goals, resulting in a limited focus on the social and economic aspects of sustainability (Ramos et al., 2007). In recent years, sustainable business research has shown an increasing interest in the economic and social aspects of sustainability (Leire and Mont, 2010; Mont and Leire, 2009), although the social dimension still receives far less attention than the environmental dimension (Yawar and Seuring, 2017). Preuss (2009) describes the use of “community benefit clauses” as part of the procurement process: socio-economic criteria that are incorporated into supply contracts, providing a legal basis in the “well-being powers” of local government. These clauses support (local) economies and communities (Walker, 2015) and result in both social and economic benefits, for example by social enterprises to fulfil contracts (Preuss, 2009). This approach is beneficial to vulnerable parts of the community and reduces poverty (Walker, 2015). Using government contracting as a tool for social regulation is also referred to as linkage (McCrudden, 2004). Within this concept, public bodies transfer part of their sustainability responsibility onto external



**Figure 1.** Schematic overview of relationships in the process of SROI development

organizations. These organizations are encouraged to capture the impact of their sustainability initiatives (Millar and Hall, 2013), because sustainability can be deemed successful with adequate measurement of the impact (Brammer, Jackson and Matten, 2012; Carter and Rogers, 2008; Hubbard, 2009).

*2.1.2 Social public procurement.* Several studies address factors that influence the implementation of sustainability in public procurement (Gelderman *et al.*, 2015; Seuring and Müller, 2008; Walker and Phillips, 2009; Walker *et al.*, 2012). However, the social dimension of sustainable development is still much less researched than the environmental one (Searcy and Ahi, 2013; Seuring and Müller, 2008). Social issues become relevant in supply chains because of the involvement of multiple parties who have a direct affect on the procuring firms' reputation (Hoejmose *et al.*, 2014; Roberts, 2003). Amann *et al.* (2014) identify a significant impact of public sector authorities engaging suppliers in sustainability through the use of procurement. This implies the importance of public procurement policies in stimulating the uptake of social sustainable practices. Furthermore, this suggests that public procurement occupies a similar role towards social sustainability and emphasizes the importance of public, private and third-sector organizations working together (Amann *et al.*, 2014; Walker and Brammer, 2009).

Increasingly, more attention being paid to sustainability development in the public sector (Gelderman *et al.*, 2015; Young *et al.*, 2016), a call for more in-depth knowledge arises (Brammer and Walker, 2011; Crespín-Mazet and Dontenwill, 2012; Giunipero *et al.*, 2012). On the one hand, public authorities are developing closer attention to sustainability, whereas, on the other hand, public bodies and suppliers still show less awareness on socially responsible practices (Amann *et al.*, 2014). This creates the potential to learn more about the existence and effect of both the internal and external factors that influence the development of social sustainability and their salience. Examples of external factors are regulatory compliance, social and ethical concerns and union pressure (Bansal and Roth, 2000; Brammer and Walker, 2011). Examples of internal factors are attitude towards sustainability initiatives, organization policy and organizational incentives for sustainability initiatives.

By virtue of their position and size, public bodies are able to influence their supply chains through procurement activities (Bratt *et al.*, 2013; Grob and Benn, 2014). Amann *et al.* (2014) conclude that public bodies that integrate social policy goals into their procurement processes generate a significant impact on considering socially responsible criteria in awarded contracts. Williamson *et al.* (2014) confirm that many European companies have not yet fully integrated social concerns into their operations and business strategy. A possible reason for this can be that public authorities have not yet been able to address social sustainability in the right manner. Furthermore, this could mean companies are less familiar with the integration of social sustainable aspects and are not provided with exact information or incentives by public authorities.

*2.1.3 Factors influencing sustainability development.* A wide array of factors have been identified as influencing sustainable activities within businesses (Crespín-Mazet and Dontenwill, 2012). Top management is responsible for setting the strategic agenda and the policy outline (Brammer and Walker, 2011). Therefore, management support is considered essential to achieve successful sustainability implementation (Crespín-Mazet and Dontenwill, 2012; Gelderman *et al.*, 2015). Initiatives and appropriate leadership by top management provide a basis for senior and middle management to execute policy objectives (Bansal and Roth, 2000; Brammer and Walker, 2011; Vredenburg, 1993). However, positive results are less likely to be achieved when sustainability initiatives remain independently managed programs, (Crespín-Mazet and Dontenwill, 2012; Zhu, Sarkis and Lai, 2008).

Implementation is expected to be more successful when a well-defined overarching sustainability policy is present (Thai, 2001).

To generate successful sustainability implementation, Thai (2001) emphasizes the need for a sustainable procurement policy with clearly stated goals and well-defined authorities and responsibilities. To align all organizational levels, there is a need for familiarity with sustainable policies and adequate communication to facilitate employees in operationalizing these policies (Georghiou *et al.*, 2013; Walker and Brammer, 2009). However, only focussing on communication does not guaranty a successful implementation of the sustainability policy. Regarding SROI development, information is often difficult to collect (McDougle and Handy, 2014), leaving municipalities unable to measure the value of their actions. Some challenges of SROI implementation include the need for sufficient resources and commitment to gather and track necessary information, as well as the difficulty, complexity and subjective variability of valuation techniques (Arvidson *et al.*, 2013; Cooney and Lynch-Cerullo, 2014). Municipalities face the challenge of selecting the right group of stakeholders to build consensus on the various indicators to determine success (Moody *et al.*, 2015). The uncertainty and complexity of assessing social criteria and measuring the performance is a main barrier affecting the effective implementation of SROI (Sutherland *et al.*, 2015).

Gelderman *et al.* (2006) emphasized the need for organizational incentives. They stress incentives are an indicator for an organizations' attitude towards sustainability development and the extent to in which there is a positive environment for sustainable procurement. Organizational incentives may take away barriers related to perceived costs or inefficiencies of the policy (Walker and Brammer, 2009). In addition, a lack of incentives is noted as a major challenge to implement SROI (Barman and MacIndoe, 2012). Numerous practical organizational challenges can arise during the implementation of SROI. Such challenges include selecting the right group of stakeholders to define SROI goals, manage lasting commitment among stakeholders, building consensus around indicators, determining the portion of an observed change that is because of the activities under consideration and possible resource limitations. Besides these challenges, Moody *et al.* (2015) argue that the process of talking about, identifying and specifying the many benefits of SROI development might be potentially the most valuable part of SROI development. By stimulating interpersonal and interorganizational contacts, SROI development can be understood better as people learn from each other (Moody *et al.*, 2015). Managing these interorganizational relations is a key element in enabling SROI implementation.

### *2.2 Managing the relationship: agency theory versus stewardship theory*

Two main influencers of SROI development are municipalities and social enterprises. How these two entities are able to manage their relationship impacts the SROI development. Municipalities are an important stakeholder for the social enterprises because in many cases, these organizations are partially funded by municipalities. Municipalities are able to grant special sector contracts and delegate tasks to the social enterprises, such as social return activities. The inter-dependency between both entities results in mutual interests, which result in a need for governance between the two organizations. Agency theory and stewardship theory can provide insight into the management approach between the principal and the subordinate (cf. Gelderman *et al.*, 2015). Van Slyke (2007) studied the management approach between public organizations and their non-profit contractual partners by using two theoretical perspectives: agency theory and stewardship theory. Agency theory is based on a principal-agent relationship in which human behaviour affects organizational performance (Eisenhardt, 1989). Agency theory suggests that the relationship between principal and agent is based on lack of trust. The agent acts

individualistic, opportunistic and self-serving (Eisenhardt, 1989). Stewardship theory is based on a principal–steward relationship (Davis *et al.*, 1997). The steward places the organizations' interest before his/her own interest. The steward is seen as a collectivist, pro-organizational and trustworthy. The relationship between principal and the steward is believed to be based on trust.

According to agency theory, the level of trust determines the intensity in which the relationship is being monitored (McCue and Prier, 2007). Based on agency theory, low levels of trust suggest the principal will monitor with a greater intensity, control mechanisms and use sanctions to enforce desirable behaviour (Soudry, 2007). This behaviour is to ascertain goal alignment from the principal's perspective (Hill and Jones, 1992; Van Puyvelde *et al.*, 2012). Relevant assumptions are that decisions are made based on the available information (bounded rationality); and the principal and the agent do not share the same levels of information (information asymmetry) and do not necessarily have the same goals and interests (self-interest, partial goal conflict), which place the agent in a position to take advantage of the situation (moral hazard, adverse selection) (Van Puyvelde *et al.*, 2012).

Stewardship theory assumes that agents have a high identification with the mission of the organization. The attribution of organizational successes to themselves will contribute to their self-image and self-concept (Davis *et al.*, 1997). Two basic classes of motivations to perform an activity can be distinguished within an agent: intrinsic motivation and extrinsic motivation (Deci, 1972). Stewardship theory stresses the agent's tendency to be collectively oriented and intrinsically motivated (Sundaramurthy and Lewis, 2003). According to Deci (1972, p. 113), an agent is intrinsically motivated if it performs an activity for no apparent reward except the activity itself. Stewardship theory suggests the principal empowers the steward through responsibility, autonomy, personal power and trust, and thereby establishing a setting in which the steward's behaviour is in the interest of the principal (Van Puyvelde *et al.*, 2012). Relevant assumptions are that the principal places a great amount of trust with the steward, leading to mutual beneficial behaviour (goal alignment). A high level of trust reduces the need for monitoring and control and reduces the threat of information asymmetries, moral hazard and asset specificity (Van Puyvelde *et al.*, 2012). Table I describes the theoretical tenets and applications of agency theory and stewardship theory.

### *2.3 Research model*

This study focusses on the two main stakeholders that are involved with SROI operationalization in public procurement: municipalities with their procurement officers and social firms with their SROI officers. The theoretical framework shows a need for a stable basis: support from management, a policy with clearly stated goals and well-defined authorities and a well-organized supportive organization with good allocation of resources. These factors are likely to be present when SROI is included in the formal strategy of the organization. Based on the literature, four main categories of factors are defined with a prominent role in sustainability implementation in the public sector: management support; information and communication; and organization and external pressure.

Based on extant literature, it is suggested that the applied management structure between actors influences the implementation of social sustainability (Gimenez and Tachizawa, 2012). Collaboration between municipalities and social firms is vital to SROI implementation. Both agency and stewardship theory characteristics should be recognized within the governance structures. This should demonstrate collaboration between the actors, facilitated by a governance structure. Four major concepts are converted which can have a positive or negative influence on implementation on either the corporate or functional

Characteristics	Agency theory	Stewardship theory
Main theme	Goal incongruence: assumes goal divergence based on self-interested rational actors. Initial disposition is to distrust. Control-oriented management philosophy. Theoretical assumptions are from economics	Goal alignment: mutual goals and objectives achieved through initial trust disposition. Involvement-oriented management philosophy. Theoretical assumptions derived from organizational behaviour, psychology and sociology
Theoretical tenets	Use of incentives and sanctions to foster goal alignment: Assign risk to the agent to ensure goal compliance Monitoring Reward systems Use of bonding threat to reputation	Empowers workers through: Responsibility Autonomy Shared culture and norms Personal power and trust Other governance mechanisms
Applications	Eliminate opportunistic behaviour Provide the level of incentives and sanctions to which reduce the threat of information asymmetry Correct, through specific contract requirements for asset specificity and moral hazard Uses reputation as an incentive and sanction Ensure goal alignment	Goal alignment based on shared goals and trust Reward workers through nonpecuniary mechanisms Reduces the threat of opportunistic behaviour through responsibility and autonomy Reduces the threat to the organization of information asymmetries, moral hazard and asset specificity Reduces dependence on legal contracts to enforce behaviour Uses reputation as an incentive and sanction

Source: Adopted from Van Slyke (2007, p. 167)

**Table I.**  
Theoretical tenets  
and applications of  
agency theory and  
stewardship theory

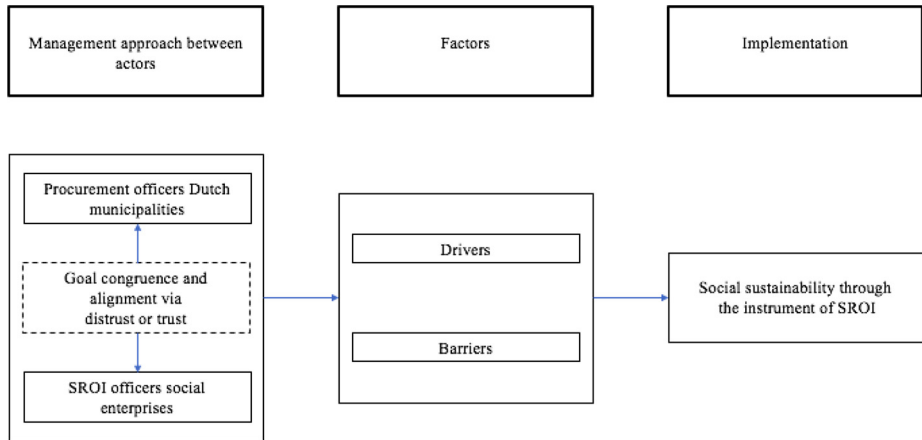
level (Schneider *et al.*, 2014). Salient factors on the corporate level may differ from the functional level and vice versa. The relationship between actors and the deployed elements within each major concept determine the extent to which SROI is implemented. SROI implementation is influenced by different factors and governance between the actors. The research model (Figure 2) shows the collaboration between the actors is either facilitated or hindered by the management structures in place.

### 3. Method

A qualitative research approach was chosen to study social sustainability initiatives in the public sector. Through this approach, salient factors that influence the implementation of SROI initiatives can be identified. Because the aim was to gather more in-depth knowledge on the relation between municipal procurement professionals and social firms as they develop SROI, a case study was deemed the best design. Case research allows to generate a clear view of the nature and complexity of phenomena and lends itself to exploratory investigations when phenomena are still inadequately understood (Eisenhardt, 1989; Meredith, 1998; Seuring, 2008; Yin, 2013). A multiple-case study was preferred over a single-case, to gather data from multiple organizations to contribute to an overall understanding of challenges in SROI implementation within public organizations.

Contact with potential cases was established via a platform dedicated to SROI adoption in The Netherlands. Respondents were sampled through a respondent-driven approach in

**Figure 2.**  
Research model  
actors, governance,  
factors and social  
return  
implementation



which the respondents' network was used to contact other respondents. Respondents were then invited to participate in the study via email or telephone. In the initial conversation, we inquired about the relationship between the municipality and the social enterprise to ensure that both parties were willing to participate in the study. During this initial contact, we were also informed about the respondents' relationships with actors in other municipalities and/or social enterprises who might participate. We used a checklist with four questions, based on questions derived from the Dutch municipal sustainability ranking (<http://www.duurzaamheidsmeter.nl/LDM>):

- Does the municipality have a procurement policy?
- Is the procurement policy publicly available?
- Does the municipality have an SROI policy?
- Is the SROI policy publicly available?

Prior to this assessment, we decided that Questions 1 and 3 had to be positive. For this purpose, organizations procurement policies and other internal documents were studied. Questions 2 and 4 were not mandatory but were used to measure the availability and accessibility of information. A case was considered relevant when the municipality, through its purchasing department, had outsourced the SROI activities to a social firm.

Prior to the interviews, all available documentation was studied and its information was used during the interview sessions. Also, before conducting the interviews, a dialogue was entered with procurement officers and/or social return officers aligned with different potential municipalities. During this process, it was possible to determine whether a potential case had enough resources to operationalize its policy. Finally, the pre-selection phase was completed with a selective sample of four cases. This selection was based on the cases high ranking on the Dutch "duurzaamheidsmeter" research for municipalities ([www.duurzaamheidsmeter.nl](http://www.duurzaamheidsmeter.nl)).

Multiple sources of evidence were used to complement each other and to ensure the validity of the study (Yin, 2013). Each case study involved background research and documentary analysis on procurement policies and other internal documents. More specifically, the procurement policy of each municipality was studied with a focus on the sustainability and SROI sections as well as SROI menu options with specific conditions and action plans on socially responsible purchasing. Regarding each social firm, specific policy documents on SROI



conditions were studied as well as strategy documents on collaboration with stakeholders such as municipalities and other partners. Semi-structured interviews were held with key actors within each organization. The selected key actors are responsible for the operationalization of the policy during different phases of the procurement process: the pre-award and post-award phase. The municipalities' procurement function is responsible for policy operationalization during the pre-award phase. The social firms' SROI department is responsible for policy operationalization during the post-award phase. A selected number of semi-structured interviews were conducted to empirically validate the data gathered from the policy documents: four interviews with senior procurement officers of each municipality and four interviews with each of the SROI officers at the social firms. More specific, the types of actors are as follows:

- *Procurement officers (municipality)*. The interviewed procurement officers were employed by the municipality for 7-20 years and function on a senior level. In three cases, the procurement officer is, or previously was, involved with procurement policy and SROI policy development.
- *SROI officers (social enterprise)*. Each interviewed SROI officer acts as the primary contact person between the social enterprise and the municipality for SROI-related affairs. Each of the four SROI officers is involved in the SROI policy development and operationalization.

The research is designed to elaborate (Ketokivi and Choi, 2014) on existing social sustainability theory. By generating a better understanding on social sustainability development within the public sector and the relationship between municipalities and social firms, existing knowledge on sustainability development is expanded. The interview protocol covered the themes as presented in the theoretical framework (Table I) and also allowed a certain amount of serendipity to explore experts reflections on experiences with SROI operationalization. Interview questions were designed to address relational mechanisms between stakeholders as well as factors influencing SROI implementation. Each interview lasted between 60 and 90 min. Interviews were audiotaped and verbatim fully transcribed. The data were analyzed using thematic analysis (Creswell, 2003) where the themes were extracted and coded until saturation was attained (Miles and Huberman, 1994). To facilitate analysis, and allow for a systematic comparison of variables in and across the cases, two phases were used:

- (1) a within-case analysis in which the focus was on the relationship between the municipality and the social enterprise; and
- (2) a cross-case analysis in which similarities and differences between the cases were analyzed. All transcripts were manually analyzed for patterns and alignment with the concepts from the theoretical framework (Yin, 2013).

## 4. Results

### 4.1 Organization of social sustainability through social return on investment

The selected cases (Table II) are represented by two organizational entities each:

- (1) the municipality; and
- (2) the social enterprise.

The municipalities are responsible for the procurement of a wide portfolio of goods, works and services. The social enterprises are responsible for a wide array of activities stimulating

Case #	1	2	3	4
Municipality (province)	Utrecht (Utrecht)	Nijmegen (Gelderland)	's-Hertogenbosch (Noord-Brabant)	BIZOB (Noord-Brabant)
Inhabitants	340,000	170,000	150,000	650,000 combined
Annual spend	€700,000,000	€380,000,000	€245,000,000	Unknown
Procurement policy?	Yes	Yes	Yes	Yes
SROI policy?	Yes	Yes	Yes	No
Characteristics organization	<p>SROI activities centralized for the municipality</p> <p>SROI is executed by an organization in which the municipality is a stakeholder;</p> <ul style="list-style-type: none"> <li>– Monetization of SROI activities is based on “building blocks”, a set menu that allows the contracting parties to choose by what means they want to fulfil their SROI-terms</li> <li>– SROI policy and methodology has gradually been adopted by municipalities in the region</li> <li>– Wants to be a front runner on SROI</li> </ul> <p>The municipality promotes social entrepreneurship. The SROI policy aims to facilitate this goal and functions as a catalyst for social entrepreneurship. The SROI officer operates as an extension of the municipal policy and is given the means and freedom to facilitate this process</p> <p>The municipality applies a flexible</p>	<p>SROI activities centralized for the municipality</p> <ul style="list-style-type: none"> <li>– SROI by organization established by merging a department of the municipality and the largest regional enterprise. Now a stand-alone enterprise (regional hub)</li> <li>– Monetization of SROI is based on the labour component of contracted activities</li> <li>– Wants to be a front runner. Policy and methodology adopted by nine municipalities</li> </ul> <p>Frontrunner in the region, actively promoting SROI for several years. Neighbouring municipalities lack the resources to have full SROI-policy, that is why they start working together. Foundation of SROI-policy has been the same for many years, enabling actors to promote and apply</p>	<p>SROI activities centralized for the department (integrated in the merger with regional social enterprise</p> <ul style="list-style-type: none"> <li>– Monetization of SROI activities is facilitated by the social enterprise</li> <li>– SROI policy and methodology has gradually been adopted by municipalities in the region</li> <li>– Wants to be a front runner on SROI</li> </ul> <p>Different from most municipalities, the SROI department is a part of the municipality itself. This negates coordination between two different organizations, and at the same time enables efficient coordination. This also means that the procurement policy and SROI guidelines are one and the same. As a result of this, the municipality</p>	<p>Procurement activities centralized for 22 municipalities/shareholder in cooperation. Share knowledge and expertise</p> <ul style="list-style-type: none"> <li>– Every municipality has its own procurement policy, supplemented with overarching policies that concern all municipalities involved. Most municipalities have the same or a similar procurement policy.</li> <li>– Most municipalities share the same SROI policy or will do so in the future</li> <li>– Four different social enterprises</li> </ul> <p>The procurement function was established by the partaking municipalities. Procurement activities are outsourced to this organization. As a result, the procurement officer acts as an advisor, rather than an employee. The procurement officer has less active involvement in the decision-making process. Involvement in</p>

(continued)

Case #	1	2	3	4
SROI monetarization protocol	<p>approach about the functional execution of SROI. The primary goal is to create labour opportunities, but if this goal is achieved by means of other SROI initiatives, this is allowed as well</p> <p>- 5% of contract turnover for all contracts &gt;€100,000</p>	<p>SROI as intended. The SROI department is a stand-alone operation established by a merger of a social enterprise and a department of the municipality. The social enterprise executes certain activities themselves</p> <p>- 5% SROI of estimated contract turnover</p> <p>- 7% SROI of the labour component of estimated contract turnover for labour-extensive contracts</p> <p>- Specific contracts can be placed with the social enterprise</p>	<p>can outsource "special sector contracts" to its own municipality, with minimal legal restrictions. The social enterprise has the facilities to execute different types of labour themselves</p> <p>- 5% SROI of estimated contract turnover</p> <p>- 2% SROI for labour-extensive contracts</p> <p>- Contracts &gt; €209,000 or contracts &gt;€50,000 with a repetitive nature</p> <p>- Specific contracts can be placed with the social enterprise</p>	<p>SROI activities is terminated once the procurement process has been terminated. Responsibility is transferred to the social enterprise and the municipality. The municipalities use one or more different SROI enterprises to manage SROI activities</p> <p>- 5% SROI based on estimated contract turnover</p> <p>- 7% of the labour component of estimated contract turnover if &lt;30% of the contract value is labour</p> <p>- Specific contracts can be placed with the social enterprise</p>

employment for disadvantaged people on the labour market, for example through SROI activities. The four selected cases vary in size, budgets, organization structure, policy and culture.

(1) *Case 1 – Municipality of Utrecht – Province of Utrecht*

The municipality has an annual spend of approximately €700,000,000. The municipality aims to empower contractors and to establish social entrepreneurship. Another aim is to be a leader in the region and to promote their SROI policy with surrounding municipalities. SROI is operationalized by a so-called service point which functions as a linking pin between the municipality, the contractors and the employee insurance agency (UWV). SROI monetarization is based on a building block method and is not strictly related to the labour component.

(2) *Case 2 – Municipality of Nijmegen – Province of Gelderland*

The municipality has an annual spend of approximately €370,000,000. Its aim is to be a leader in the region. The social enterprise is an independent organization that was established by merging a local social enterprise and a municipal department with a focus on social entrepreneurship. The social enterprise also provides services to nine other smaller municipalities in the region. SROI monetarization is strictly related to the labour component of the estimated turnover of the contract.

(3) *Case 3 – Municipality of ‘s-Hertogenbosch – Province of Noord-Brabant*

This municipality has an annual spend of approximately €245,000,000 and also aims to be a leader in its region. The social enterprise became a part of the municipality after a merger with an external social enterprise. The social enterprise is the contractor for all the municipalities’ contracts. SROI monetarization is strictly related to the labour component of the estimated turnover of the contract.

(4) *Case 4 – BIZOB Municipalities – Province of Noord-Brabant*

This case represents 22 small municipalities. These municipalities have established a largely independent collective procurement organization. The annual spend of the collective procurement organization is unknown. The municipalities work with four regional social enterprises. SROI monetarization is strictly related to the labour component of the estimated turnover of the contract. The SROI component has to be fully completed during the post-award phase.

#### *4.2 Social sustainability on an organizational level*

*4.2.1 Management support.* Management support is considered very important to achieve social sustainability goals. In all cases, top management support is very high. Three municipalities [1,2,3] consider themselves leaders in the field of SROI development and pursue an exemplary role in the region. As one respondent pointed out: “we promote our SROI policy in neighbouring municipalities and provide them with the possibility to access our resources” [1]. In all cases, top management was responsible for agenda setting and prioritizing SROI as a part of the procurement policy. To a certain extent, top management is involved in the decision-making process of SROI application in procurement activities and demands management information about SROI application. Policy compliance is reviewed periodically. According to a procurement officer: “Management expects periodic updates about the status of contracts” [2]. In two cases [1,2], all procurement activities above a threshold require authorization by top management before the pre-award phase.

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*4.2.2 Information and communication.* All case organizations claim to have proper provision of information about both the procurement policy and the SROI policy. Information is transparent and available for all employees. Knowledge about and familiarity with the policy within the organizations is on par, but simultaneously is in constant need of (top) management's attention not to fade away. In one case [4], the information on SROI achievements is diffused and not easy to collect because of the external role of the procurement organization. All cases are in possession of SROI checklists to support procurement preparations to incorporate SROI application. Not keeping knowledge on SROI up to date is a barrier to successful implementation. Both the procurement officers and the SROI officers state a constant need for information on the importance and use of SROI, especially with procurement officers. Without this attention, SROI development will likely lose priority. "Experienced procurement officers tend not to use checklists anymore, which may cause them to forget incorporating SROI elements within the pre-award phase"[2]. Another barrier is the personal preference and experience on SROI incorporation by procurement officers. In case organisations 3 and 4, specific types of contracts are more receptive to SROI application. For instance, works contracts (roads, utilities, buildings) tend to have lower SROI-priority than services contracts (e.g. cleaning, catering) because the latter have a greater possibility of successful integration of a substantial social component.

In all cases, communication between the municipal procurement officer and the SROI officer takes place during the pre-award phase. This helps to establish whether SROI-terms are accessible in the pre-award phase. Evaluation in the post-award phase differs between the case organizations and mainly depends on the extent to which the policy offers freedom for SROI realization. Some municipalities use a very strict policy [2] where there is no space for interpretation. Others use a more liberal policy [1,3] where professionals are able to make contractual adjustments. Non-application of SROI-terms can occur in three of the case organizations. Only one municipality [1] applies SROI in all of its contracts. All case organizations tend to collect information about SROI performance and results. However, a lack of information on SROI performance makes it difficult to meet the standard. Information is not always available when required and all case organizations lack adequate (centralized) tools to measure and monitor SROI progress and results. As one respondent stated:

When we first started with SROI, a spreadsheet could hold all the information we needed. Now we have a multitude of contracts. We will start looking for a more appropriate reporting tool in the near future [1].

*4.2.3 Organization.* Policy is typically translated to a checklist or working instructions, including responsibilities for the various stakeholders. In three cases [1,2,3], SROI is integrated as a part of the formal strategy, as it is included in the municipal procurement policy. Case 3 has a social enterprise that is part of the internal municipality organization. This positioning seems to have a positive effect on SROI development as officers, both procurement and SROI, are colleagues within one organization which apparently has a positive effect on the collaboration between these stakeholders. In one case [4], the procurement function acts as an independent entity relative to the municipalities it represents. The allocation of SROI resources in this procurement organization can function as a driver as well as a barrier for SROI development. The procurement officers act as advisors to the municipalities on the feasibility of SROI in a contract. Based on the procurer's advice, the municipal board decides on the SROI priority and whether resources are allocated for a specific contract. Furthermore, a lack of resources to perform adequate contract management is a prominent barrier within the smaller municipalities. Several

organizational incentives could be detected within both the municipalities and the social enterprises. Also, some diversity in incentives is observed between the municipalities and the social enterprises. The incentives within the municipalities particularly are managerial support, guidelines in policies and awareness and knowledge by procurement officers. The main incentive within the social enterprises is the professionals' intrinsic motivation to create opportunities for disadvantaged people to the labour market. In all cases, the social enterprises state that they have a natural incentive to generate a high-performance level because they are very passionate about generating work for their target group. Three out of four municipalities have included a check by their board in the pre-award phase to approve contracts above the threshold to ensure SROI is incorporated in these contracts.

Regulatory compliance is not seen as a driver for SROI, with the exception of one case [4], where a partnership between smaller municipalities uses a shared procurement policy to achieve SROI results. As one respondent stated: "the shared procurement centre allows us access to various expertise's we otherwise would not be able to consult. This has a positive effect on our purchasing abilities". Although regulatory compliance is reported as a barrier in all cases, respondents refer to a lack of national SROI policy with clear guidelines on the application of SROI. Practical problems arise, such as to what extent SROI has to be applied within the duration of the contract, or when should the subject of SROI be tied to the subject of the contract.

*4.2.4 External pressure.* Regarding external pressure, more barriers than drivers were found. These barriers result from non-realistic expectations on SROI targets by municipalities, as well as indistinct SROI regulation by the national government. National regulation functions both as a driver and as a barrier. The focus by the Dutch government on SROI implementation drives the adoption by municipalities. Still, all respondents claim that the national government provides minimal and multiple interpretable guidelines. Most respondents consider the published guidelines to be ambiguous. National guidelines follow up on previously developed policies by municipalities, leading to situations where well-functioning municipal SROI-policies appear to be in conflict with the national guidelines; for example, the supposed obligation to apply SROI on the subject of the contract as well as the execution of SROI-obligations within the duration of the contract. One of four cases [2] claims to fully comply with the national guidelines. In two cases [1,3], SROI-policy deviates notably from the national guidelines.

Ethical concern is not a driver for the municipalities, while it is for the social enterprises. We did not find barriers related to ethical concern by either party. Although some stakeholders did mention that SROI has a down side, because it is likely it takes away labour opportunities for people who would otherwise be eligible for a position. The third factor related to external pressure is the risk of public embarrassment, reputation or legal risks. In one case [4], this was mentioned as a driver. This municipality can only deviate from its SROI policy if the municipal board decides to do so, based on an advice provided by both the procurement officer and the SROI officer. Barriers were found in two cases with both the procurement officer and the SROI officer. A possible risk lies in the liberal policy execution which may conflict with national policy guidelines on SROI. The actors are aware of substantial policy differences between states/municipalities. Both the procurement officers and the SROI officers suggest the possibility that SROI conditions might lead to legal conflicts because of policy dissimilarity between municipalities/states. [Tables III](#) and [IV](#) show the confirmed drivers and barriers per factor.

#### *4.3 Social sustainability on a functional level*

Through SROI, people facing limitations to work, physically and/or mentally, are supported to integrate and participate in a working environment. In some cases, an SROI employee is

Drivers		Procurement Case	SROI Case	Social return on investment in the public sector
Management support	Top management support	[1][2][3]	[1][2][3]	
	Top management initiatives/appropriate leadership	[1][2][3]	[1][2]	
	Senior/middle management support for procurement officers with implementation	[3][4]	[1][4]	
Policy	Extra check by municipal board on SROI incorporation for contracts above threshold	[1][2][3]	-	
	Liberal and more open policies create more room for SROI development and evaluation	[1][3]	[1][3]	
Information/communication	Applying PSO-certification for entrepreneurs	[1][2][3][4]	[1][2][3][4]	
	Transparent compilation and dissemination of information	[1][2][3][4]	[1][2][3]	
Organization	Good education and awareness of procurement officers	[1][2]	[1]	
	Familiarity with policies by actors	[1][2][3][4]	[1][2][3][4]	
	Sustainable procurement policy with clearly stated goals and well-defined authorities and responsibilities	[1][2][3][4]	[1][2][3][4]	
	Organizational incentives	[1][2]	[1][2][3][4]	
	Inclusion in the formal strategy and planning process with good allocation of resources	[1][2][3][4]	[1][2][3]	
Collaboration	Regulatory compliance	[4]	[4]	
	Motivation for target group by professionals	-	[1][2][3][4]	
	Independent role of procurement function	[4]	[4]	
	Trust between parties	[1][2][3][4]	[1][2][3][4]	
	Involvement of SROI officers in pre-contractual phase	[1][2][3][4]	[1][2][3][4]	
External pressure	Social enterprise as part of municipal organization	[3]	[3]	
	Contract management as intermediary between actors	[1][2][3]	[1][2][3]	
	Promotion by entrepreneurs	[1][2][3][4]	[1][2][3][4]	
	Freedom in actual application during contract phase	-	[1][2][3][4]	
External pressure	Ethical concern	-	[1][2][3][4]	
	Governmental regulation	[1][2][3][4]	[1][2][3][4]	
	Risk of public embarrassment/reputation/legal risks	[4]	-	

**Table III.**  
Drivers related to SROI implementation in the four cases

unable to perform up to his task. When this is the case, it can have a negative impact on the willingness of entrepreneurs to continue to contribute to SROI efforts. This situation is reciprocal and can also generate the promotion of SROI in case of positive experiences between a social entrepreneur and an SROI employee. The latter, promoting SROI among entrepreneurs, is considered paramount by all municipalities and social enterprises. Both municipalities and social firms' intent is to create more insight and understanding amongst entrepreneurs. In all cases, monitoring SROI results is delegated to the social enterprise, whereas it remains the municipalities' responsibility. This delegation can lead to friction between both parties because of ambiguity in interpretation of the data. Also, monitoring and reporting SROI progress requires disproportionate time and effort on behalf of the social firms, considering the municipalities lack of interest in the data. Municipalities lack incentives to implement profound SROI measures as well as resource and capacity limitations (Barman and MacIndoe, 2012). Entrepreneurs lack the time for reporting and also have a major flaw in reporting experience which is considered a barrier to bid for contracts including SROI-terms. Respondents claim, "SROI implementation generates a disproportionate administrative burden". Both municipalities and social enterprises consider it a challenge to decrease the

Barriers	Procurement Case	SROI Case	
Management support	Viscous decision-making process	[1][2]	[1][2]
	Top management initiatives/appropriate leadership	-	-
	Senior/middle management support for procurement officers with implementation	[3][4]	-
Policy	Blurry and ambiguous national SROI policy	[1][2][3][4]	[1][2][3][4]
	Lack of alignment between national and local SROI policies	[1][2][3][4]	[1][2][3][4]
Information/communication	Privacy legislation	[1][2][3][4]	[1][2][3][4]
dissemination of information	Transparent compilation and	[1][2][3]	
	Good education and awareness of procurement officers	[2][3]	[1][2][3]
	Familiarity with policies by actors	[2][3]	[1][2][3][4]
	Attention and focus on development by actors	[1][2][3][4]	[1][2][3][4]
Organization	Sustainable procurement policy with clearly stated goals and well-defined authorities and responsibilities	[4]	[2][4]
	Organizational incentives	-	-
	Inclusion in the formal strategy and planning process with good allocation of resources	[4]	[2][4]
	Regulatory compliance	[1][2][3][4]	[1][3][4]
	Lack of resources for contract management in small municipalities	[4]	[4]
	Improper competition between social firms and commercial suppliers	[3]	-
Contracting	Depending on contract subject more evident in services	[3][4]	[2]
	Personal preference and experience of procurement officer	[1][4]	[1][2][4]
	Non-realistic expectation of SROI implementation by municipalities	[4]	[1][2][3][4]
	Policy dissimilarity between municipalities/regions	[1][2][3][4]	[1][2][3][4]
	Involvement of too many parties in contracting	[1][2][3][4]	[1][2][3][4]
	Dysfunction of SROI employees	[1][2][3][4]	[1][2][3][4]
	Requirements seem to generate a disadvantage for small entrepreneurs because of their lack of knowledge and resources	[1][2][3][4]	[1][2][3][4]
	Not measuring past performances by contractors in new tenders	[1][2][3][4]	[1][2][3][4]
External pressure	Ethical concern	-	-
	Governmental regulation	[1][2][3][4]	[1][2][3][4]
	Risk of public embarrassment/reputation/legal risks	[1][3]	[1][3]

**Table IV.**  
Barriers related to SROI implementation in four cases

administrative workload in the future. In two cases [3,4], this process can be bypassed by allowing PSO-certification on the topic of SROI. PSO stands for ‘prestatieladder sociale ondernemen’, the PSO-certificate is a quality mark for social entrepreneurship in the Netherlands. This enables certified employers to qualify for SROI conditions, based on previous efforts. This certification requires resources such as time and money, making it more difficult for small entrepreneurs to obtain and retain social contracts.



When a policy has strict SROI guidelines, such as in Cases 2 and 4, it might be impossible to fulfil SROI within these terms. A respondent argued this is the case when SROI is applied in, for example, a contract for custom software: “It is virtually impossible to find SROI employees to meet the requirements for IT projects”. In Case 4, the municipality prescribed the exact component of a specific contract that had to be executed within the SROI clause, which proved to be a challenge for all bidding parties. Some municipalities grant contracts to the social enterprise at the expense of commercial suppliers [2,4]. In some cases, this may lead to conflicting situations such as repression of employees who would otherwise be eligible for the position. Another concern is that municipalities at the moment are unable to apply past performance information related to SROI. In the future, this might be used [1] to ensure contracts are only granted to contractors with a proven SROI track record. Entrepreneurs who fail to meet past SROI requirements can be penalized or withheld a new contract. One respondent pointed out: “we are currently looking into possibilities to use past performance as a mechanism in tenders, mainly to stimulate entrepreneurs to fulfil their SROI obligations in current contracts”. Municipalities and social enterprises experience some difficulties related to legal boundaries concerning SROI development. Privacy legislation is an example where new legislation has an impact on information sharing needed to report on SROI targets. Not all actors are allowed to use or share information about certain SROI employees which makes reporting on the subject more difficult. [Table V](#) represents quotes by respondents regarding the four major concepts.

#### *4.4 Management of social return on investment*

Respondents were asked how the relationship between the municipality and the social enterprises are managed and to what extent this affects SROI development. The findings show that three municipalities are organized in a similar manner and that one case [4] uses a different approach in procuring works, goods and services. The social enterprises all originate from different backgrounds and therefore are each organized differently. In Case 3, the social enterprise is a part of the municipality which was established after the municipality adopted and integrated the local social enterprise into the municipal organization. In one case [4], the 22 municipalities cover a larger geographical region which uses a total of four social enterprises to organize SROI initiatives. The municipality in Case 1 is a shareholder of the social enterprise and participates directly in SROI activities. In Case 2, the social enterprise is a stand-alone organization that was established after a merger of a local social enterprise with the SROI department of the municipality. This organization aims to function as a social enterprise for several other municipalities in the region. In all cases, intensive collaboration between actors is at order during several stages of the procurement process.

#### *4.5 Agency theory versus stewardship theory*

*4.5.1 Goal alignment.* In all cases, the respondents state that the goals related to SROI align. The procurement officers follow the guidelines as determined in the procurement policy. The SROI component is then accomplished by the social enterprise(s). In one case [4], the procurement function is not a part of the municipal organization, but functions independently. This is especially beneficial to the smaller municipalities who can rely on expertise they would otherwise not be able to obtain on their own. By combining their procurement function, these municipalities manage to align their goals within the procurement department. In one case [3], the social enterprise is a part of the municipal organization, which is considered to be beneficial by respondents in aligning interests between functions.

**Table V.**  
Quotes on major  
concepts

Major concept	Quotes by procurement officers	Quotes by SROI officers
Management support	<p>Management can overrule advice from the procurement officer, forcing the application of SROI in a contract [4]. In spite of the focus on SROI, both in the past and present, management has to keep focusing attention on the importance of SROI. Otherwise, SROI efforts might weaken [3].</p> <p>Top management is informed frequently on the status of SROI activities. Unclear is to what extent this information is used for future reference [2].</p> <p>Because of the independent role of the procurement officer, there is no involvement in monitoring SROI. This is a task for contract management. There is no need for information for procurement [4].</p> <p>Communication between the procurement officers and the SROI officers is important. A lot of effort is being made in ensuring the right persons are involved and that possible barriers are removed [2].</p> <p>In spite of a clear policy with clear procedures, not all procurement professionals have equal focus on the use of SROI [3].</p> <p>It is paramount that information is disseminated periodically to keep sufficient focus on the use of SROI [3].</p> <p>The SROI policy can be interpreted differently by every procurement officer, allowing divergence in the execution of the policy [4].</p> <p>It is of importance to involve entrepreneurs in the Social Return process. Their support drives success. A lot of effort is made to facilitate entrepreneurs and to enable them to apply to SROI [2].</p> <p>SROI activities can be applied outside the span of the specific contract. However, legally SROI activities have to be applied within the span and terms [3].</p>	<p>Managements' perception is that SROI cannot be applied on specific contracts. SROI application should not be optional [3].</p> <p>Top management uses its networking position to enable SROI activities. This is positive for SROI development but is questionable regarding a good procurement process [2].</p> <p>SROI policy and goals are stimulating for SROI development, but can be a burden when not applicable in practice [1].</p> <p>Awareness by procurement professionals is sufficient, but can be improved. Expecting them to know all about SROI is not realistic. Therefore, SROI experts are involved during the design-phase of the contract [3].</p> <p>Information dissemination is divided between various functions. This does not have a positive effect on SROI implementation [4].</p>
Information and communication		<p>Contractors new to SROI have little knowledge about SROI and may see SROI as a burden. Dissemination of information to market parties is necessary and should be improved [1].</p> <p>Actors outside of the municipality can be better informed, which can lead to more SROI opportunities [1].</p> <p>We lack the means to address entrepreneurs based on past performances, except for the specific contractual conditions [2].</p>
Organization		<p>Policy is not always considered achievable as its goals often are generic and only focus on the application of SROI. They are not developed with specific SROI goals in mind [4].</p> <p>Municipalities in the region tend to work and act differently with various interpretations of the policy. This makes it hard to say if SROI reaches its full potential [4].</p>

*(continued)*

Major concept	Quotes by procurement officers	Quotes by SROI officers
	<p>Functional implementation of SROI requires effort to involve contracting parties and to provide a sustainable basis for a long-term relationship. The municipality should aim to inform and involve entrepreneurs [3]</p> <p>The role of dedicated SROI officers cannot be underestimated. SROI needs sufficient attention from experienced professionals. The procurement function itself should solely focus on the procurement process [2]</p> <p>SROI implementation is not generalizable, and to grasp within a format with fields which are mandatory. When managed this way, the whole principle of SROI is treated inferior [1]</p>	<p>To me, SROI is considered successful when it leads to a win-win-win situation for the employee, the employer and the municipality [3]</p> <p>Collaboration with the municipality is important to accomplish a situation that suits the target group, the entrepreneurs and the municipality. The main objective for SROI officers is to facilitate this situation [2]</p> <p>The administrative burden of managing, monitoring and enforcing SROI contracts is considered to be high [1]</p>
External pressure	<p>Expectations by external parties on the application of SROI-terms are not always realistic [4]</p> <p>The local policy may conflict with the national guidelines on SROI. These guidelines are considered ambiguous and hinder effective and positive SROI execution [3]</p> <p>National regulation provides conditions in which SROI has to be executed. This limits the possibilities for a municipality to apply SROI conditions [1]</p>	<p>The municipal board demands legitimate procurement activities, including SROI activities [4]</p> <p>There is no national policy on the application of SROI. This may lead to various interpretations of rules and stimulate conflicting interests between stakeholders [4]</p> <p>Some policy choices may involve legal risks. Within our organization, there is willingness to overcome these risks for SROI to be successful [1]</p>

Table V.

*4.5.2 Trust.* From both perspectives, the amount of trust is very high. From the procurement perspective, the SROI officer performs valuable work, which the procurement officer neither has the time nor the expertise to perform. Because of the wide array of tasks and responsibilities that have been added to the procurement function, the procurement department is not able to perform these tasks on its own. Therefore, procurement departments have to rely on external experts such as SROI officers. In all cases, there appears to be an intensive collaboration between the two actors, even though differences were found in the process of SROI implementation. Also, all SROI officers point out that their trust in municipalities' good intentions is very high. The main reason for this trust is that social enterprises mostly rely on the municipality to generate contracts to provide their services. Another reason is that the SROI officers who are involved in different stages of the procurement process are enabled to consult on possible SROI application and have a great amount of freedom in the actual application of SROI during the post-award phase.

*4.5.3 Monitoring.* Monitoring occurs when the principal wants to be informed about the agents' performance. The findings suggest that the municipalities have little to no desire to monitor the performance of the social enterprises. In three cases, the social enterprise provides periodic updates about the performance in general and, when asked, deliver specific project information to the municipality. In Case 4, the monitoring is assigned to a third party being the procurement department which cooperates with several social enterprises in the region.

*4.5.4 Incentives and sanctions.* None of the respondents had any experience with sanctions used to influence the performance of the social enterprise. There is, to a certain extent, case of monitoring but it appears this does not lead to sanctions. The relationship between the municipalities and the social enterprises is experienced as mutually beneficial. One case [3] has integrated the social enterprise within the municipal organization, allowing for SROI contracting within the municipality itself. This ensures direct SROI jobs under own management which could be extra beneficial for the municipality. Case [1] uses a different method to monetarize SROI initiatives, using "building blocks", a system that functions as a "al la carte" menu. All SROI target groups get appointed a specific monetary value, which creates a supply and demand. The municipality can change the value of the "building blocks" to promote certain target groups by increasing their SROI-value.

*4.5.5 Information.* All respondents point out there is a limited desire for information sharing. The only exception to this is when a contractor does not comply with the contracted SROI-terms. After a contract is granted, a procurement officer has limited involvement in monitoring performance. In all case organizations, the responsibility for the contract is transferred to either a budget holder or contract manager. From procurements perspective, there is a desire to obtain information when requested. All procurement officers confirm they have sufficient access to information, either via a central system or via the SROI officer. In Case 3, the monitoring system can be accessed by both actors, which enables self-service. In Case 2, there is a system that can be accessed by the SROI officer. Case 1 will implement a central information system in the short term.

*4.5.6 Reputation.* Reputation is a factor for which we found several differences between respondents. Reputation related to SROI is directly connected for what the municipality wants to be known for. All municipalities have their own goals related to employment opportunities. SROI can contribute to achieving these goals. However, the opinion on reputation differs between respondents. In Cases 3 and 4, reputation is a part of the mutual effort of both the municipality and the social enterprise to achieve social sustainable outcomes. Non-compliance would result in a negative reputation. In Case 1, the municipality

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and social enterprise actively pursue a reputation based on their mutual effort to stimulate social entrepreneurship.

## 5. Discussion

To create a stimulating environment for sustainability development, public organizations should support its development by generating a driving force with the right incentives (Amann *et al.*, 2014; Walker *et al.*, 2008). Public authorities would be well advised to incorporate considerations of socially responsible policy goals within their procurement activities (Amann *et al.*, 2014). This study confirms the theoretical basis as shown in Table I and elaborates on this knowledge.

In all the case organizations, management support for social sustainability development is high, suggesting that (top) management supports the implementation and adoption of SROI and functions as an enabling factor (Brammer and Walker, 2011; Crespin-Mazet and Dontenwill, 2012; Preuss, 2009; Walker and Brammer, 2009). Because management emphasizes the importance of SROI and provides incentives (Walker and Brammer, 2009), the SROI initiatives are likely to succeed in their purpose of generating jobs for people who are less able to create their own chances on the labour market. SROI development needs constant attention, which increases the importance of information dissemination and communication within the case organizations. Within all case organizations, policy information is accessible and considered transparent by users. The information available allows for a good understanding of the policy by the actors involved. Familiarity with the policy by internal actors was high, enabling the actors to execute the policy as intended (Brammer and Walker, 2011; Georghiou *et al.*, 2013). In spite of the internal familiarity, external actors are actually not familiar with the municipalities' policy and possibilities. This confirms previous research which has identified poor supplier commitment as a barrier and linked this to a lack of knowledge and a supplier's fear of performance penalties (Testa *et al.*, 2012; Walker *et al.*, 2014). Besides this, our study suggest suppliers are willing to deliver SROI purposes but need a clearer view on the policy implications on their business. This problem cannot just merely be addressed by distributing information on policy implications. It is stressed public authorities need to develop a more active role in collaborating with external parties to try and generate more knowledge on and better fitting incentives for entrepreneurs. Also, we argue that in the process of collaboration development, municipalities need to focus on the needs of small entrepreneurs as they are often unable to meet all requirements set in the pre-award phase. The data show social enterprises can play a prominent part in filling this knowledge gap between municipalities and entrepreneurs. Social enterprises can be the linking pin in facilitating more social sustainability development.

Collaboration between the municipality and social enterprises is strong, as can be concluded by the extent to which the organizations work on overcoming opposing interests. Strong collaboration is caused by a high amount of trust between the actors. There is no evidence of distrust in the process which makes a clear statement the actors prefer to develop the managerial component through a stewardship lens. This approach could be seen as contradictory regarding monitoring SROI outcomes, and sanction possibilities are part of the contracts. However, in spite of these controlling elements, actors are willing to focus on stimulating SROI possibilities instead of threatening to penalize on any possible occasions. Another possibility for a failing monitoring process is that it is assigned to various officials, such as contract managers, who are not part of either the procurement department or the social firm. It seems the monitoring process is not aligned, which is often the case within public organizations (Schneider *et al.*, 2014). We argue that public

organization would benefit from assigning crucial tasks to less departments and officials. This might have a positive impact on SROI implementation by simplifying processes and reducing the number of officers included in the performance phase.

Furthermore, policies are supported by working with instructions and schedules, and are in most cases reviewed with management periodically. Also, policies come with a clear division of tasks and responsibilities for both the procurement officers and the SROI officers, enabling both to perform their own task the best way possible (Crespin-Mazet and Dontenwill, 2012). Organizations need to consider the expectations of various external stakeholders regarding sustainability development (Schneider *et al.*, 2014). The results of this study do not support a high salience for external parties in the development of social sustainability. This finding suggests a low amount of external pressure. A significant external factor influencing municipalities is the regulation by the national government. The Dutch government promotes SROI and has developed legislation and policy on the topic. However, this legislation and policy does not provide clearly stated guidelines and is considered to be ambiguous by all respondents. Contrary to previous sustainability research, we argue that external factors such as ethical concerns (Ates *et al.*, 2012; Giunipero *et al.*, 2012) and supplier resistance (Walker and Brammer, 2009) have little influence on social sustainability implementation.

At the functional level, organizations need contractor engagement strategies and sufficient information provision to help develop their policies (Uttam and Roos, 2015). Besides these factors, the administrative burden of social sustainability registration is seen as a barrier by all respondents. According to the SROI officers, especially smaller contractors lack priority and/or resources to comply with a varying set of instructions from every municipality. This study confirms findings by Millar and Hall (2013) and Moody *et al.* (2015) that the adoption of management systems lags behind in implementation, and that the majority of systems are developed based on yesterday's needs. Another new aspect we found to be of impact on information sharing comes from privacy legislation. Municipalities, social enterprises and contractors share information about SROI participants, which is needed to determine rates of success. Privacy legislation makes it ever harder to collect information and use this information for social parameters. This is considered to be a pesky issue on the functional level, though not recognized on the corporate level as management is not interested in too much detailed information. When not managed with the required amount of attention, this might become a barrier to be reckoned with in social sustainability development.

Reporting on sustainable initiatives through measurement and management is of critical importance for its development (Schaltegger and Burritt, 2014). A leading purpose of SROI measurement is to help capture the social impact sustainability initiatives (Richmond *et al.*, 2003). Our findings suggest that SROI development is not measured well enough to lead to measurable and reportable results. In spite of the effort of all case organizations to develop measurement tools, the needed analysis to help assess potential benefits and costs remains rare (cf. Moody *et al.*, 2015). At the moment, the municipalities are able to provide anecdotal evidence of SROI results with a focus on "soft" outcomes. Dutch municipalities use SROI as an instrument to enable social sustainability, rather than to capture its impact in financial terms. SROI development via public procurement requires appropriate governance between the two main actors: the municipality and the social enterprise. Creating better governance between the actors will have a positive impact on the implementation of social sustainability. This strengthens the call for more measurement and data analysis of SROI outcomes (Montalbán-Domingo *et al.*, 2018; Moody *et al.*, 2015; Polese *et al.*, 2017).

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### 5.2 Managerial and policy implications

Our research offers a number of managerial and policy implications. First, SROI itself can be considered an instrument that issues incentives to change the structure and content of a supply chain. Accordingly, public sector policymakers should balance social and economic elements within their business and stimulate procurement and social firms to set adequate inducements to the supply market. Policymakers should consider developing guidance on how to integrate social and economic impacts via SROI. Social sustainability development should be provided through a strategic approach and contribute to the evolution of supply markets and social equality in society. Because the realization of social sustainability through SROI requires full engagement of all participating actors, a clear set of incentives is needed, stimulating for all parties. Municipal procurement departments and social firm SROI departments must be involved in developing policy targets, and suppliers need clear incentives as well as a clear view and deep understanding on why social sustainability development is highly valuable.

The public sector should develop social policy instruments through the triangular relationship of procurement, social firm and supplier. A first step might be giving more attention to details in the development of a national policy. National policy is a first incentive for lower authorities to adopt initiatives. When this policy is ambiguous, the development within local authorities is interpretable, which does not contribute to more clarity for stakeholders. Additionally, measuring performance of SROI in contracts contributes to a clearer view on the results of a program. Management could generate a better understanding regarding the process of social sustainability development by introducing an adequate management system. By introducing an adequate management system which enables organizations to analyze SROI data, barriers on generating hard evidence to determine success rates would be tackled. However, analyzing SROI data should not be used to control actors; on the contrary, it should be used to generate more knowledge for all parties involved to improve SROI implementation.

## 6. Conclusions and recommendations

The social dimension of sustainable development and its impact on public organizations have received less attention than the other sustainable dimensions (Yawar and Seuring, 2017). This also has effect on the knowledge about the implementation of social sustainability. SROI implementation was investigated in four cases at different municipalities in The Netherlands. The findings show differences between the policy as intended and its actual execution on the functional level. On the latter, we mostly found factors that hinder the functional implementation of SROI, such as limitations of management systems, the administrative burden and little dissemination of information towards external organizations. Besides this, new salient factors were identified, such as legal restrictions in relation to privacy legislation and more strongly engaging suppliers in the development of SROI.

In the studied cases, the management of SROI occurs in a similar manner. Differences are related to the organizational structure of each organization, the maturity of the SROI policy and mutual entanglement between organizations. For all four case organizations, it can be concluded that management of SROI is based on an equal relationship between the procurement officer and the SROI officer. The relationship between actors shows many strong characteristics such as trust and commitment, which require collaborative efforts and development strategies to realize SROI. These characteristics are allied to the theory of stewardship, whereas only few signals indicate that there is a principal-agent relationship based on hierarchy.

The SROI policies of the cases showed both differences and similarities. Some policies are strict and prescribe how SROI has to be developed in practice, whereas others are loose and show a great amount of freedom for the SROI officer to have ownership on how to meet the contractual requirements. Both types of policies seem to work. Policy design should be clear and simple to understand and apply for all the stakeholders involved (Georghiou *et al.*, 2013). We have added to the concept that the policy, no matter how strict or loose, should leave possibilities to create alternative solutions for a situation that may occur somewhere along the implementation process, especially during the performance phase. Additionally, it is suggested that a very strict policy provides challenges on the functional level to respond to unforeseen situations, whereas a very loose policy is prone to provide difficulties on the corporate level because management is unable to generate and analyze data to improve the process. We stress that organizations should focus on the thin line between these two opposite sides when developing a social sustainability policy and be aware of all the benefits and drawbacks.

Familiarity with the policy is considered elementary in achieving social sustainability outcomes. All SROI officers and some procurement officers mentioned that there is still a gap regarding the knowledge and awareness about the possibilities of SROI, both within the case organizations but mostly with suppliers. SROI officers mention that a great deal of effort goes to educating suppliers about the possibilities of SROI and facilitating the process of SROI. Increasing familiarity with SROI removes a threshold for entrepreneurs to engage in contracts with an SROI component. Informing and educating suppliers about SROI is considered paramount to achieve sustainable social outcomes and is likely to increase SROI adoption.

Legal boundaries and government regulation play an important role in the implementation process of social sustainability. Respondents mention that the national government plays an important role in establishing a sustainable climate to develop SROI. Efforts by the Dutch government have increased awareness about the possibilities and benefits of SROI. At the same time, the Dutch government provides few guidelines on how SROI is to be implemented. As a result, local policies are established by the best effort and by copying policies previously established by other municipalities. It is suggested that national guidelines should be more clearly formulated without ambiguous SROI goals and guidelines.

The observed management approach between the municipalities and the social firm can be linked to stewardship theory. However, the actors may also be aware of some agency theory-like characteristics that can have a positive effect on the development of their relationship, such as a periodic review of all SROI-related contracts and periodic monitoring at management level. Adding these characteristics will likely emphasize SROI awareness within both municipalities and social firms and to a great extent stimulate information analysis. Additionally, this will emphasize the relationship between the actors as they become more aware of each other's SROI development challenges. It is recommended to improve SROI monitoring and controlling elements as well as limit the officers involved with these tasks. Monitoring and controlling can be stimulated by developing software applications. These applications need to be integrated in the governance structure of municipalities and used for periodic SROI reporting. This allows for better measurement and monitoring application and can have a positive effect on the current administrative burden as experienced by respondents. A wide variety of SROI applications and processes to enable SROI adoption have been observed in the case organizations. At the managerial level, periodic review of the status of SROI development can be discussed in board meetings. Also, frequent reporting on the overall implementation progress can help drive forward



SROI awareness and improve involvement by management. On the functional-level working instructions, schematics and checklists can provide a basis for SROI operationalization. These interventions contribute to more sufficient attention for SROI, without rewarding employees personally for stimulating SROI development.

The results of this study show that social sustainability in general, and SROI in particular, is gradually evolving and maturing as organization are actually operationalizing policies. The respondents in this study were public procurement officers and SROI officers who are directly involved in enabling SROI via municipal procurement. Because of their active involvement in SROI development, a limitation is the risk of respondents' bias. Second, the number of cases provide a limitation of the study. The four cases selected are not representative for all Dutch municipalities. Future research could focus expanding the number of cases to enrich the results of this study. There are studies that address SROI implementation in The Netherlands with a sole focus on the condition "if" SROI is implemented (Brouwer *et al.*, 2011; Van Emmerik *et al.*, 2014). This study explores "how" SROI is implemented and what factors contribute to its implementation as well as "how" the main actors govern their relationship. The data suggest that stakeholder involvement increases prior to, during and after the procurement phases. Besides procurement professionals and SROI officers, future studies on public social sustainability development could consider involving:

- budget holders;
- contract managers within municipalities; and
- contractors (private sector).

Another limitation of this study is the focus on municipalities who are leaders on social sustainability development. It is suggested future research might include cases who are lagging behind on implementing social sustainability initiatives. Furthermore, an interesting perspective would be to look into the regional hub-function of large municipalities and see how they are able to influence the development of SROI policy with nearby municipalities. Another interesting perspective for further research would be to look into the position of the procurement department and the social firm, as there are indicators that the position of these actors has different impact on the implementation process. Future studies may compare the national legislation and policy with local policies on social sustainability development. Findings of this study suggest that a stewardship approach is used to manage the relationship between the municipalities and social enterprises. Better understanding of how this stewardship approach is established and evolves may contribute to knowledge on implementation of social sustainability initiatives.

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