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# Towards a Theoretical Framework for Social Impact Bonds

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## Abstract:

Governments in some of the world's richest nations appear to be caught in a double challenge of declining social budgets even as social needs are increasing. In this context, Outcomes Based Commissioning (OBC), has been suggested as one way in which 'more' social services can be provided for 'less' public resources. This form of commissioning is often linked with a new financing tool for social services, referred to in the US as 'Pay for Success and Payment by Results in the UK or as a 'Social Impact Bond' (SIB). However, to date, this approach is under-theorised and this is a limiting factor both for shaping a research and evaluation agenda around SIBs and in understanding how such instruments might develop in future. Without a theoretical rationale for SIBs, it is not straightforward to assess whether, and how well, they have achieved their goals, and how they might be developed further. In this paper we consider two broad approaches to theorising SIBs. One draws on public administration theories, the other on innovation theories. To date, SIBs have often been theorised as the logical next step in the New Public Management (NPM). But NPM itself is a contested theory and recent theoretical innovations in public administration, particularly the concept of New Public Governance might provide a more useful theoretical framework. A second broad approach through which to understand SIBs is their potential to improve the rate and dissemination of innovation. There are many different innovation models that might be applied to better understanding of SIBs. We look first at the concept of Open Innovation with its focus on distributed innovation processes in which knowledge flows across organisational boundaries and more recent articulations – Open Innovation 2.0 – which place greater emphasis on mixed economy collaborations involving: industry; government; universities; and communities and users (the so-called 'quadruple helix') to solve societal challenges. We go on to consider social innovation, with its clearer focus on using social means to deliver social outcomes and whether SIBs can be theorised through this lens. No one model is entirely satisfactory as an explanatory framework for SIBs and we conclude by suggesting that a supporting theory combining NPG with elements of Open Innovation 2.0 and social innovation might be a productive approach for shaping future research and, in addition, might suggest some future directions for the next generation of SIBs.


**Keywords:** social impact bonds, new public management, new public governance, open innovation, social innovation

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## 1 Introduction

Governments in some of the world's richest nations appear to be caught in a double challenge; they are faced with democratic demands to respond to increasing and some new social needs that include reducing re-offending, supporting young people into education and employment, loneliness, homelessness and reducing offending and drug use. Recently, however, many developed economies are undergoing a period of low-growth, if not economic contraction in real per-capita terms (see Cowen 2011; Kubiszewski et al. 2013; Lawn 2003; NEF 2004). If improvements in public wellbeing are to be achieved, they must result from policies designed to deliver social output more effectively for less resources: 'more for less' as (former Prime Minister of the UK) Cameron (2009) has put it. In this context Outcomes Based Commissioning (OBC), for example Pay for Success in the US or Payment by Results in the UK (Albertson et al. 2018), has been suggested as one way in which 'more' social services can be provided for 'less' public resources. This form of commissioning is sometimes linked with a new financing tool for social services, referred to in the US as 'Pay for Success Financing', and elsewhere, particularly in the UK, as a Social Impact Bond (SIB). It is this financing tool, which we refer to as a SIB hereinafter, which is the focus of this paper.

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In the first instance, we might note that SIBs are rather misnamed (c.f. Wooldridge, Stanworth, and Ronicle 2019). SIBs are not strictly speaking bonds (debt instruments), but rather are a class of OBC contract where the finance needed to make the contract work comes, not from government or the service provider, but from third-party investors; although in the UK this investment is often subsidised by central government SIB capacity building funds. In this sense SIB funded provision of public services is analogous to the UK's Private Finance Initiative (PFI) funded provision of public infrastructure. However, early proponents distinguished SIBs from other forms of outcome-based payment by emphasising: their alignment of social and financial returns on investment; that service provider costs are covered by investors up-front – in theory minimising risk transfer to smaller, third sector providers – ; and the potential for SIBs to bring together groups of social investors and portfolios of interventions (Social Finance 2009).

However, to date, it is not clear the potential of SIBs to facilitate social innovation has been realized – nor that it may be realized (Arena et al. 2016). It is not altogether clear what are SIBs and what their use is intended to achieve (Wooldridge, Stanworth, and Ronicle 2019). Furthermore, as we discuss below, while superficially similar, the UK approach and the US approach have very different emphases. The potential exists for the development of best (or at least better) practice if we develop an unifying structure within which they can both be framed.

In short, SIBs are under-theorised and this is a limiting factor both for shaping a research and evaluation agenda around SIBs and in understanding how such instruments might develop in future. Unless we are clear what it is SIBs are designed to achieve, other than in general terms, it is not straightforward to assess whether they have achieved their potential and, if not, how we might progress.

In this paper we consider two broad approaches to theorising SIBs. In the next section we draw on public administration theories, first New Public Management and then New Public Governance. In the third section we consider SIBs as a form of innovation, specifically Open Innovation and Social Innovation. Neither approach is entirely satisfactory as an explanatory framework for SIBs and in the final concluding section we suggest that combining New Public Governance with Open Innovation 2.0, which in turn incorporates the concept of social innovation, might be productive for shaping future research and suggesting some future directions for the next generation of SIBs.

## 2 SIBs and Public Administration

At first glance, the SIB approach appears attractive for public administrators; proponents argue it only pays for social outcomes where appropriate evaluation indicates there were sufficient monetised public benefits to cover the cost. Further, it supposedly provides an opportunity for investors to support mission-related projects with potential financial returns. Much early theoretical work on SIBs relates to the UK. This tends towards a focus on commissioning and has tended to draw on the public administration literature, in particular New Public Management.

### New Public Management

Perhaps the most common theoretical explanation of the emergence and use of SIBs (and, more broadly, models of OBC) has been to understand them as part of the New Public Management (NPM) paradigm. NPM is a broad, almost ubiquitous, term that has been applied to a wide set of public sector reforms in a number of countries over the past four decades, although it includes a widely accepted set of characteristics accepted by most commentators Gruening (2001). Hood (1991) identified seven components to these reforms, which in general seek to apply the incentive structures developed by business to the provision of public goods and services. These have subsequently been summarised by Ferlie (2017) as the 3Ms: 'markets'; 'management'; and 'measurement'.

Several commentators (e. g. Sinclair et al. 2014; Dowling and Harvie 2014; Dowling 2017) view the SIB approach to delivering public services as informed by, or an extension of, New Public Management. SIBs explicitly involve two of the three Ms, namely markets and measurement; and implicitly promote innovation in the third M, management. In the UK, SIBs result from public sector commissioning, and hence arise from marketisation of public services. Indeed, for McHugh et al. (2013), in the UK SIBs are part of a much broader realignment of the relationship between the market and the state along the lines of marketisation or neo-liberalism (Berndt and Wirth 2018). In the UK, therefore, SIBs are theorised as a top down attempt to increase private sector involvement in the provision of previously publicly funded services. Measurement, is also (in theory at least) an integral part of a SIB contract (Rangan and Chase 2015); notwithstanding, in practice the evidence base on the effectiveness of SIBs is limited (Edmiston and Nicholls 2017).

It might seem reasonable, therefore to theorise SIBs (in the UK at least) as part of a ‘public sector reform’ narrative that is an intrinsic part of NPM (Fraser et al. 2016). In particular, SIBs are often theorised as part of a move towards outcomes based contracting and payment for performance in public services more generally (Lagarde et al. 2013; Painter et al. 2018; Warner 2013) within the NPM framework. The public sector move towards market based measurement in the provision of social innovation is matched, to a greater or lesser extent, by the increasing use by third sector agencies of marketised norms, for example, Social Impact Reporting (Morley 2015).

However, NPM does not seem to provide a sufficient theoretical framework for explaining SIBs. First, while superficially SIBs mirror some key themes in NPM such as purchaser-provider splits and incentivisation (Dunleavy et al. 2006), and contracting out with an emphasis on accountability for performance (Gruening 2001), in practice SIBs actually fall short of implementing the full logic of the tenets of NPM. The name itself is illustrative: While ‘Bond’ implies the whole-hearted take-up of private sector thinking on financing, Social Impact Bonds are not Bonds in the sense that a trader in a bond market would understand. Indeed Wooldridge, Stanworth, and Ronicle (2019) have argued the concept of the SIB might be better served with a different name.

The concept of investor(s) in SIBs is also illustrative. Empirical evidence on SIBs, particularly those in the UK, suggests that the majority of investors are not-for-profit organisations (Albertson et al. 2018). To date, these have usually been either social investors – investors who consider both social and financial returns – or central or local government (Ronicle et al. 2014). More recent SIBs, especially those in the US, have at least one private investor, but the majority of programs still include a philanthropic or public investor.

Secondly, while the SIB agenda in the UK might have often been driven by central government, with various funds to support the development and financing of SIBs launched by central government departments (Albertson et al. 2018), in the US, the originators of SIBs (PFS Financing) are much more diverse and include third sector organisations seeking to expand their access to funding. This model does not fit well into the NPM framework. In the US, SIBs are closer to the private financial sector reform narrative identified by Fraser et al. (2016) which they see as very different to NPM and class as a social entrepreneurship/corporate social responsibility approach.

## New Public Governance

Osborne (2006) argues that the NPM paradigm has been superseded by New Public Governance (NPG). This recognises the increasingly fragmented and uncertain nature of public management in the twenty-first century and assumes both a plural state (where multiple inter-dependent actors from the public, not-for-profit and private sector contribute to the delivery of public services) and a pluralist state (where power is distributed and multiple processes inform the policy making system). Where NPM is pre-occupied with linear and Fordist models of public service delivery, selectively drawn from the manufacturing and production literature, the focus of NPG is on inter-organisational relationships and the governance of processes, and it stresses service effectiveness and outcomes (Osborne 2006).

The NPG perspective emphasises the design and evaluation of enduring inter-organisational relationships, where trust, relational capital and relational contracts act as the core governance mechanisms. Its value base is not in the efficacy of competition and markets, but instead is ‘neo-corporatist’ (based in assumptions of consensus, involving centralized and structured approaches, where government, labour interests and employer interests are organised to deliver policy). For Osborne (2006) this allows NPG to tap into more contemporary management theory concerned with the relational organisation as opposed to the output and intra-organisational focus of the NPM (ibid.). As Wooldridge, Stanworth, and Ronicle (2019) note, the building and maintaining of stakeholder relationships are key factors in the successful development and implementation of a SIB.

NPG incorporates a form of public service-dominant logic which recognises the distinctive context and nature of public, as compared to private, service and services. This is distinct from the ‘goods-dominant production logic of manufacturing and its linear Fordist models’ (Osborne 2018, 225) that underpins NPM and that Osborne argues is out of touch with an increasingly complex, fragmented and interdependent world (Osborne 2018). The public service-dominant logic articulated by Osborne’s Public Service Organisations ‘do not create value for citizens – they can only make a public service offering. It is how the citizen uses this offering and how it interacts with his/her own life experiences that creates value’ (Osborne 2018, 225). This understanding of how public service organisations create value places co-creation between the users of services and services at the heart of public service management and delivery (Bovaird 2007, Mazzei et al. 2019, and Fox et al. 2019). Further, Rosen and Painter (2019) illustrate in their model of co-production, the objective citizen control or ownership is an evolving process, rather than a linear process that ends with the creation of a new service.

The emphasis with NPG on a plural state, a mixed economy of public services and inter-organisational governance structures seems to have some resonance with Social Impact Bonds where multiple players come together and new collaborations are a strong feature of this emerging sector (Gustafsson-Wright, Gardiner, and

Putchá 2015). However, SIBs as they are currently being developed and implemented do not fit neatly into the NPG paradigm. This is because the emphasis in NPG on co-created value shifts the focus of public management away from ‘performance’ (however measured) towards value created by co-created relationships between services and the people who use them (Osborne 2018). It is the building of financial and contractual obligations that take priority in the specification of a SIB; the development of informal co-operative relationships, if it happens at all, is rather an externality than an outcome.

Despite the reliance on relationship building in the success of SIBs (c.f. Wooldridge, Stanworth, and Ronicle 2019), to date, there is little evidence of service users and communities being involved in the development of SIBs in either the UK, the US or worldwide (see for instance Ronicle et al. 2014 and Gustafsson-Wright, Gardiner, and Putchá 2015, two extensive reviews of SIBs, neither of which suggest service users or beneficiaries are significant stakeholders in the development of SIBs). This could of course suggest either that NPG theory does not fit perfectly with SIBs or that SIBs do not fit perfectly with the theory, an issue we will return to later in the paper.

### 3 SIBs and Innovation

From the earliest work on SIBs, their potential to be a source of innovation has been a consistent narrative. Innovation could take several forms. SIBs could be understood as an innovative form of financing social services and/or as encouraging innovative interventions to address social issues and/or as motivating interactions between stakeholders which may spark synergies and efficiencies (for example Moore, Westley, and Nicholls 2012). Early discussion of SIBs stressed only the former two modes of innovation. For example Social Finance (2009) in a discussion paper on SIBs argued both that SIBs were an innovation in financing social services and that the outcomes focus of SIBs would encourage social service providers to innovate.

In practice, there is evidence of innovation in both finance and interventions resulting from the use of SIBs. In the UK some of the earliest SIBs were supported through a government Innovation Fund (Albertson et al. 2018). In the United States, the Social Innovation Fund within the Corporation for National and Community Service has supported the development of an ecosystem for SIBs. A survey of SIBs by Gustafsson-Wright, Gardiner, and Putchá (2015) found that the most significant motivation for senior investors and intermediaries in SIBs was the opportunity to test an innovative financial model to address social problems. In the same survey actors also mentioned the opportunity to test innovative social interventions as a motivation for involvement in SIBs, although this motivation was less significant (ibid.).

In this section we consider two broad approaches to thinking about innovation: open innovation and social innovation.

#### Open Innovation

Traditionally innovation was associated with something companies did through internal Research and Development (R&D) activities. In the post-industrial, information economy new models of innovation, for example, Open Innovation, have become more influential. These start to break down the distinction between commercial and social innovation and suggest that innovation might involve collaboration between for-profit and not-for-profit organisations and users.

The Open Innovation paradigm assumes that firms can, and should, use external ideas as well as internal ideas when they innovate because useful knowledge is abundant, widely distributed and generally of high quality (Chesbrough 2006). This focus on distributed innovation processes in which knowledge flows across organisational boundaries (Chesbrough and Bogers 2014) is in contrast to earlier models of innovation which assumed that useful knowledge is scarce, hard to find and hazardous to rely on (Chesbrough 2006). The implication of knowledge being widely distributed is that organisational boundaries become more permeable and firms must interact with a wide range of external actors, including users, customers, suppliers, universities, and competitors (Felin and Zenger 2014). Mechanisms for accessing external knowledge and fostering open innovation include contests and tournaments, alliances and joint ventures, corporate venture capital, licensing, open source platforms, and participation in various development communities (Felin and Zenger 2014).

Citing a number of previous studies, Felin and Zenger (2014) show there is evidence that an increase in the number of external linkages and breadth of search for useful knowledge can have beneficial outcomes for organisations striving to innovate. As the innovation process becomes more open, intermediate markets arise in which parties can transact at stages that were previously conducted entirely within the firm. This leads to the rise of specialist firms that provide information, access and even financing to enable transactions to occur (Chesbrough 2006).

Open Innovation 2.0 builds on the Open Innovation paradigm but places more emphasis on engagement between industry, government, universities, communities and users (the so-called ‘quadruple helix’) to solve societal challenges sustainably and profitably (Curley 2016). Open Innovation 2.0 requires the creation of ‘innovation ecosystems’ made up of a mixed economy of diverse actors who align their goals and collaborate to co-create ‘shared value’. This involves creating economic value in a way that also creates value for society by addressing its needs and challenges (Porter and Kramer 2011). It is possible to co-create shared value when companies shift from optimising short-term financial performance to optimising both corporate performance and social conditions, thus increasing the value shared by both the corporation and the society in which it is embedded (Porter and Kramer 2011).

An interesting feature of Open Innovation 2.0 is that instead of the user or citizen being seen as a research object, and innovation being done to the citizen, ‘the citizen and user becomes an integral part of the innovation process’ (Curley and Salmelin 2013) and user experience becomes a new driver for innovation. Innovation happens when a user becomes a co-creator of value – a concept similar to that described by Osborne (2018) above. For Curley (2016) this only happens when there are high levels of trust between collaborators and conviction in a shared vision.

Curley (2016) suggests a number of components that are key to collaborative innovation. One is that solutions need to be tested and improved through rapid experimentation with users and citizens. This idea of ‘prototyping’ is just as applicable to services as it is to products and helps show how applicable a solution is, reduces the risks of failures and can reveal what Curley refers to as ‘pain points’. Rapid experimentation to develop a solution might involve many different types of research depending upon the how developed the solution is, the precise evaluation question to be answered, and the evaluation method; methods range from repeated randomised controlled trials (Haynes et al. 2012) to less formal, more iterative evaluation (Breckon 2015). It is an approach that requires a more benign attitude to risk and failure, better incentives (for example, rewards and competitions); new organisational structures (for example, innovation teams and crowd sourcing); and more open data (Breckon 2015).

There are some overlaps between proponents’ aspirations of SIBs and open innovation. SIBs, it was argued, would align stakeholder interests around specific social outcomes. The long-term vision was ambitious:

*Social Impact Bonds enable foundations, social sector organisations and government to work in new ways and to form new partnerships. By aligning the interests of all parties around common social outcomes, Social Impact Bonds have the potential to address some of society’s most intractable problems.* (Social Finance 2009)

Thus, it was argued, SIBs would unlock an untapped flow of social finance, creating an incentive to develop the evidence base for funded interventions and creating an incentive to develop innovative interventions and, as a result of the increased focus on outcomes, creating an ‘evidence incentive’ in which more and better evaluation would strengthen the knowledge base for social interventions (Social Finance 2009). This certainly resonates with elements of the Open Innovation model, particularly Open Innovation 2.0 and the quadruple helix. However, the fit is not perfect.

To date, reviews of SIBs have generally found relatively little evidence of SIBs leading to the creation of innovative solutions to tackling social problems, although there is some evidence of existing services being provided in new contexts or to new population (see for instance Albertson et al. 2018; Gustafsson-Wright, Gardiner, and Putcha 2015; Wooldridge, Stanworth, and Ronicle 2019). At a theoretical level it is also not clear that SIBs, understood as a form of open innovation, would be particularly well-suited to developing innovative solutions to complex social problems.

The Open Innovation paradigm assumes that useful knowledge is abundant, widely distributed and generally of high quality and that distributed innovation processes will deliver more efficient solutions. The implication of knowledge being widely distributed is that organisations must interact with a wide range of external actors – including users, customers, suppliers, universities, and competitors – using a range of governance models that include markets and contracts, partnerships and alliances, contests and platforms and users and communities (Felin and Zenger 2014). But SIBs do not make use of this full range of governance options and are essentially a set of contractual relationships between a limited number of players. Felin and Zenger (2014) invoke Arrow and Hahn’s (1971) ‘information paradox’ to argue that markets or contracts generally provide limited support for communication and knowledge exchange and are poor at supporting open, collaborative knowledge exchange. Instead market or contractual governance is ideally suited to solving simpler, well-structured problems that can be broken down into components that do not interact with each other and where each component of the problem can be solved independently. In contrast, complex problems have a large number of interdependent elements that require some kind of theory that guides the search for a solution and requires collaboration between diverse actors. Similarly, Sinclair, McHugh, and Roy (2019) argue that:

*while SIBs may potentially be applicable to some technical policy interventions which address relatively simple conditions, they are inappropriate for the complex conditions characterising wicked social problems.*

On the contrary, SIBs are rather more suited, so it is argued, to simple problems where the ‘outcome’ desired is relatively straightforwardly defined (ibid.).

## Social Innovation

In contrast to technological and industrial innovation, social innovation is explicitly about addressing human needs (Marques, Morgan, and Richardson 2018). However, to define social innovation simply in terms of providing social outcomes is misleading because many firms might claim that their innovations have important social impacts (Marques, Morgan, and Richardson 2018); for example a social media business or a dating website might be entirely profit driven, notwithstanding the products offered help tackle loneliness (ibid.). Social innovation, therefore also requires new processes which make use of social relations to deliver products and services in more efficient ways; more socially, not necessarily more economically, efficient.

Although social innovation can refer to new products and services that address social needs – goal-oriented social innovation – (see for instance, Mulgan 2006; Phills, Deiglmeier, and Miller 2008) it also involves new processes which make use of social relations to deliver products and services in more efficient ways – process oriented social innovation (see for instance, Howaldt and Schwarz 2010; Mumford 2002). The combination of goal oriented and process oriented social innovation is captured in NESTA’s (Murray, Caulier-Grice, and Mulgan 2010) simple, but effective definition is that social innovations are those innovations that are social in both their means and their ends.

One of the defining features of social innovation is that it provides insights and develops capacity and soft infrastructure (intangible assets such as know-how, intellectual property, social capital etc.) that endure and can be utilised by other sectors and forms of innovation. Thus Mulgan et al. (2007, 35) note that ‘social innovations, unlike most technological ones, leave behind compelling new social relationships between previously separate individuals and groups’. In this sense social innovation provides a double benefit, not only can it help in finding solutions to pressing social needs, but the process of social innovation itself implies beneficial, transformative change, rather than mere incremental improvements in products and/or services (Didero et al. 2008).

Nonetheless, in these terms social innovation is still a broad concept. Marques, Morgan, and Richardson (2018) suggest a more precise typology that distinguishes between: structural social innovation, which refers to wide social change in scale and scope; targeted radical social innovation, where activities radically reshape how essential goods and services are delivered to improve welfare and challenge power relations; targeted complementary social innovation, where new processes and relationships generate inclusive solutions to societal challenges; and instrumental social innovation, entailing rebranding community development and corporate social responsibility in a way that is more appealing to stakeholders.

If we start with the broad assertion that social innovations are social in both their means and ends then, on the face of it, SIBs are a promising fit to a social innovation framework. SIBs are innovations that are social in their ends and, in contrast to technological innovation, they are innovations that explicitly address key human needs. We can also start to locate SIBs within Marques et al.’s (2018) typology. First, while we might expect SIBs to fall primarily in one of the two ‘targeted social innovation’ categories, the large scale of some of the ‘scale-up’ SIBs (Gustafsson-Wright, Gardiner, and Putcha 2015) suggests that, actually, they might be considered as a form of structural social innovation. However, most SIBs seem to fit more comfortably into the category of ‘targeted social innovation’. Distinguishing between SIBs that engage in either radical or complementary versions of targeted social innovation is likely to be challenging. However, previous work in this field (for example, Albertson et al. 2018) suggests that SIBs are more likely to fall into the category of ‘targeted complementary social innovation’ where new processes and relationships generate inclusive solutions to societal challenges (Marques, Morgan, and Richardson 2018).

Using social innovation as the sole theoretical lense to understand SIBs also presents challenges, however. First, as noted above, beneficiaries (users of services funded by SIBs) and their communities generally have little or no role in the development of SIBs. Sinclair, McHugh, and Roy (2019) argue that much of the support for SIBs is attributable to the fact that they *appear* to depoliticise social policy, although the application of narrowly conceived economic principles to welfare provision is a highly political decision. Sinclair et al. argue that SIBs represent a further step in the ongoing financialisation of social policy which transform service users into ‘fictitious commodities’ (Sinclair, McHugh, and Roy 2019, 4). But one effect of this tendency has been the marginalisation of service users’ voice and agency (ibid.).

For Sinclair and colleagues (ibid.) transformational social innovations which may empower service users are more likely to result from a participatory approach to service design, implementation and evaluation. This is problematic for an application of social innovation theory to SIBs because it would suggest that, while SIBs are social in their ends, they are not fully social in their means. The means have social elements (63 % of programs in the US and UK have at least one not-for-profit investor and over 87 % of programs in the UK and US include a

not-for-profit service provider), but ultimately SIBs tend not to include service users and communities in their development.<sup>1</sup>

## 4 Discussion and Conclusion

None of the theories explored in this paper provide an explanatory framework into which SIBs fit neatly. This raises two possibilities if we are to determine whether and how SIBs are realizing their theoretical potential: One is that more work is needed to develop a theoretical position that adequately explains SIBs; the other is that SIBs need to evolve to fit existing theory.

### Developing a Theory to Explain SIBs

Open Innovation, particularly Open Innovation 2.0, with its stronger focus on addressing social challenges and recognition of the non-pecuniary motivations actors bring to the innovation process, provides a useful starting point for explaining SIBs. The use of Open Innovation models in this regard suggests a wider range of governance mechanisms is needed to solve complex social problems.

Open Innovation 2.0 represents a convergence between ‘traditional’ innovation theory rooted in the behavior of private firms and the concept of ‘social’ innovation. Drawing on the concept of social innovation in order to explain SIBs makes sense because of its strong focus on social outcomes or ends. However, social innovation places equal weight on the importance of social means to achieve social ends, whereas the SIB model, which is essentially contractual, leaves little room in its current form for the kinds of service user and community involvement in developing SIBs that might be closer to the idea of facilitating an authentic social innovation process.

The emerging paradigm of New Public Governance in public administration resonates with important elements of Open Innovation 2.0 and provides a potential framework both for placing SIBs within broader public service reform movements and for making clearer the relationship between social innovation and co-creation. Osborne (2018) suggests that the definition of what constitutes ‘value co-creation in public service is still only embryonic, but, he argues, the key is to move from linear and production-influenced conceptions of ‘co-production’ to dynamic ‘value co-creation’. When we do so we find that public service organisations do not create value for citizens, rather they can only make a public service offering. Whether value is created depends on how citizens interact with it. Thus, co-creation assumes ‘an interactive and dynamic relationship where value is created at the nexus of interaction’ (Osborne 2018, 225). Therefore, social and economic value for the service user and the public service organisation are not created by a linear process of production but rather through an interaction in which the service user’s wider life experience is part of the context (ibid.). This supports the findings of Wooldridge, Stanworth, and Ronicle (2019) who argue embedding a partnership approach by engaging all relevant stakeholders is key to the success of a SIB.

What all this suggests is that, while there is potential to develop richer theory to underpin SIBs by drawing on theories from several disciplines (Moore, Westley, and Nicholls 2012), there might also be a flaw in the design of SIBs; the lack of co-creation. This in turn suggests some elements of a future research strategy on SIBs, which as well as looking at the potential for SIBs to generate new funding for delivering social outcomes should examine how effective SIBs are at facilitating the process of social innovation including co-creation, piloting, and diffusion. The differences in the origin of SIBs in the UK, often spurred on by the public sector, and in the US, often initiated by third sector actors, suggests that multiple models may be appropriate to test in different contexts. As such, some jurisdictions may be much more interested in public sector reform, while others may be interested in diffusing social innovation.

### The Future Development of SIBs

For SIBs to be fully social in their means and ends, future SIBs would need to incorporate a stronger element of co-creation. Co-creation can be understood as an integral part of the social innovation process (Murray, Caulier-Grice, and Mulgan 2010). Voorberg, Bekkers, and Tummers (2015) make a link between the co-creation and social innovation, describing them as ‘magic concepts’ that have been embraced as a new reform strategy for the public sector in the face of social challenges and budget austerity.

There are different ways this might be achieved and it goes beyond the scope of this paper to develop detailed prescriptions. However, developing Social Investment Partnerships as suggested by Jupp (2017) might



be one approach. Such partnerships might provide a more inclusive framework within which to accommodate user and community voices in co-creative processes. Other options might include developing SIBs with more experimentation built into their development process (see for example, Breckon 2015); SIBs which tackle more complex social outcomes (for example, the Reconnections SIB in the UK that is tackling loneliness, see Jupp 2017); or SIBs where interventions are explicitly designed to promote asset or strengths-based approaches (what Wilson et al. 2018 term ‘good help’). More radical possibilities include the possibility of crowdsourcing funds to democratize the investment side of the SIB or micro-financing interventions – both mechanisms that might start to make co-creation a reality within SIBs.

## More for Less

Few would argue with the need to do more – to create more social output – with less resources cost. The question is how this might be done. Governments have an unfortunate history of rather doing less with more – particularly when innovation is not well theorised (King and Crewe 2014). Yet the for-profit private sector on its own is not, by definition, motivated to pursue the goal of more social output, if it means less profit.

Our overview of the theory which might support SIBs indicates we ought not to start with what can be done, but rather to consider what needs to be done – and this will involve co-creation, co-innovation, with (potential) service users. Our current analysis indicates we must focus more on where a Social Impact Bond (literally) begins; with the Social.

## Notes

1 Data are drawn from the Social Finance UK database through November 2018 (<https://sibdatabase.socialfinance.org.uk/>).

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