

Political contexts and inter-organizational relations in SIBs
— Comparative study on SIBs in Japan and the UK

Ichiro Tsukamoto, Meiji University¹
Chih Hoong Sin (PhD), Traverse²

Abstract

This paper focuses on differences in political contexts of emergence and development process of SIBs in the UK and Japan. In this analysis, the difference in political contexts underpinning SIBs development is explored through examining circumstance of marketization and institutionalization in the UK's and Japan's SIBs. To explore this research agenda, this study used both qualitative and quantitative researches on SIBs in Japan and the UK.

In conclusion, SIB stakeholders in the UK are more NPG (New Public Governance) oriented in that social investors and commissioners favor inter-organizational collaboration with social sector. By contrast, in Japan, investors and commissioners have paid less attention to collaboration with social sector organizations. In relation to this, in Japan, policy areas have been less diverse. Service providers and investors tend to voluntarily accept government agendas. In another word, the tendency toward “governmentality” or “institutional isomorphism” among stakeholders of SIB seems to be stronger in Japan than in the UK.

Keywords: marketization, marketized welfare state, inter-organizational relation, institutional isomorphism, governmentality, New Public Management (NPM), New Public Governance (NPG), civil society

¹ Professor of Public Management, School of Business Administration, Meiji University tsukamoi@meiji.ac.jp

² Dr. Chih Hoong Sin, Director, Traverse chih.hoong.sin@traverse.ltd

Introduction

Social Impact bonds (SIBs) can be defined as outcome contract with using financial mechanism in which some component of results-based financing and public-private partnerships are combined (Gustafsson-Wright, Gardiner and Putcha 2015: 2). In SIBs, cost savings and outcome-based commissioning are key concepts, which harmonize with “New Public Management (NPM)”. In fact, in SIBs in the UK and US, targeted and contracted outcomes tend to be correlated to fiscal cost savings. Wider political context in the UK and US such as “evidence-based policy making” (EBPM) and the shift to outcome-based commissioning underlies such trend. Outcome based commissioning or Payment by Results (PbR) coincides with political context of marketization of social policies or “marketized welfare state”³ (Harris 2018). In reality, advocators of SIBs insist that introducing market discipline in public service delivery is expected to improve quality of services and enable operation by service provider more efficient (Social Finance 2010: 19-22).

On the other hand, SIBs have drawn criticism of the negative impact on quality of social services or social policies and the actual impact on reduction of government expenditure. For instance, some authors regard SIBs as marketization of public policies in the neoliberal context (Cooper, Graham and Himick 2016; Berndt and With 2018; Joy & Shields 2013). In terms of the skepticism about SIBs’ potential for realizing cost saving, Rangan refers to difficulty in aggregating social benefits and correlating them with cost savings (Rangan and Chase 2015). In addition, there have been very little rigorous counterfactual comparison of SIBs versus alternative methods of finance to deliver the same services to the same type of users (Fraser, Tan, Lagarde and Mays 2018: 16).

In SIB projects in Japan, evidence-based approaches and practices seem to have been underdeveloped and outcome metrics and impact measurements have remained in infant stage. To be sure, in terms of maturity of SIB market, even in the UK, its market has been less competitive than other social investment market. However, in Japan, SIB market has been much less competitive than that in the UK. Most of SIBs in Japan, in principle, seem to resemble SIBs in the UK in the contract structure although each investment size is rather small. That is, emerging SIBs in Japan share similar characteristics with those in the UK in that both seem to be harmonized with political context such as neoliberal or New Public Management (NPM) arrangements in public services.

However, SIB players in Japan tend to place emphasis on not just outcomes closely related to cost saving but also wider range of social outcomes such as local regeneration which have not clear causal relation to the cost saving. In addition, in more recent SIBs in Japan, most of service providers are not nonprofit organizations or social enterprises but for-profit companies such as company limited by shares. In contrast to SIBs in Japan, in the UK, SIB market has been evolved in political context with seeking for growth of social sector organizations (HM Government 2013) as service providers under of quasi-marketization of public services. In reality, In the UK, more diverse social sector organizations such as charities and social enterprises have been in operation as service providers in SIB market. On the other hand, commissioners and investors of SIBs in Japan have paid much less attention to growing social sector organizations such as nonprofit organizations or social enterprises. Furthermore, the tendency that for-profit companies which are not rooted in community or social capital become service providers has been more and more conspicuous in Japan.

Japanese welfare system basically shares the nature of marketization of social services with the UK’s marketized welfare system. Yet, social investors, service providers and financial intermediaries in SIBs are less diverse than those in the UK. Furthermore, for-profit providers are much more dominant in Japan. In contrast to the trend in Japan, in the UK, nonprofit providers tend to occupy demand side of SIB’s social impact investment market. In our hypothesis, such difference seems to attribute to immature New Public Governance (NPG) (Pestoff, Brandsen and Verschuere eds. 2012) in Japan. NPG advocators highlight inter-organizational coordination, collaboration and co-production (Pestoff 2012) between public sector and third sector organizations. However, in Japan new public governance (including the concept of co-governance) characterized as interactive negotiation has been slow to develop in nonprofit-government partnerships in Japan (Tsukamoto 2012: 292).

For this reason, this study focuses on differences in political contexts of emergence and development process of SIBs in the UK and Japan. In this paper, concept of “political” is interpreted in wider meaning, which covers not just vertical power excised by government but also power created through horizontal, inter-organizational relations

³ “A marketized welfare state is taken to refer to the a situation in which responsibilities for delivering welfare services have been delegated by the state to for-profit and third sector providers which relate to each other and to state agencies through a range of business management principles and quasi-market mechanisms”(Harris 2018: 352).

or network.

To put it concretely, in this analysis, the difference in political contexts underpinning SIBs development is explored through examining circumstance of marketization and institutionalization in the UK's and Japan's SIBs. To explore this research agenda, this study used both qualitative and quantitative researches on SIBs in Japan and the UK.

Conceptual Framework: “marketization”, “institutionalization” and “governmentality”

SIBs can be regarded as one form of outcome commissioning or payment by results (PbR) with using financial instrument. SIBs can be also conceptualized new form of social policy instruments called as marketization and financialization of social policies (Joy & Shield 2013; Lake 2015; Berndt and Wirth 2018). Actually, the ecosystem of social impact investment market including SIBs consists of the demand-side, supply-side and intermediaries (Figure 1). Within demand side, different social sector organizations such as nonprofits and social enterprise compete each other for being invested to their social programs. For sure, market principle can be infiltrated into their operations and behaviors. In addition, third sector organizations tend to pay more attention to data management or performance management since they social investors favor evidence-based practices.

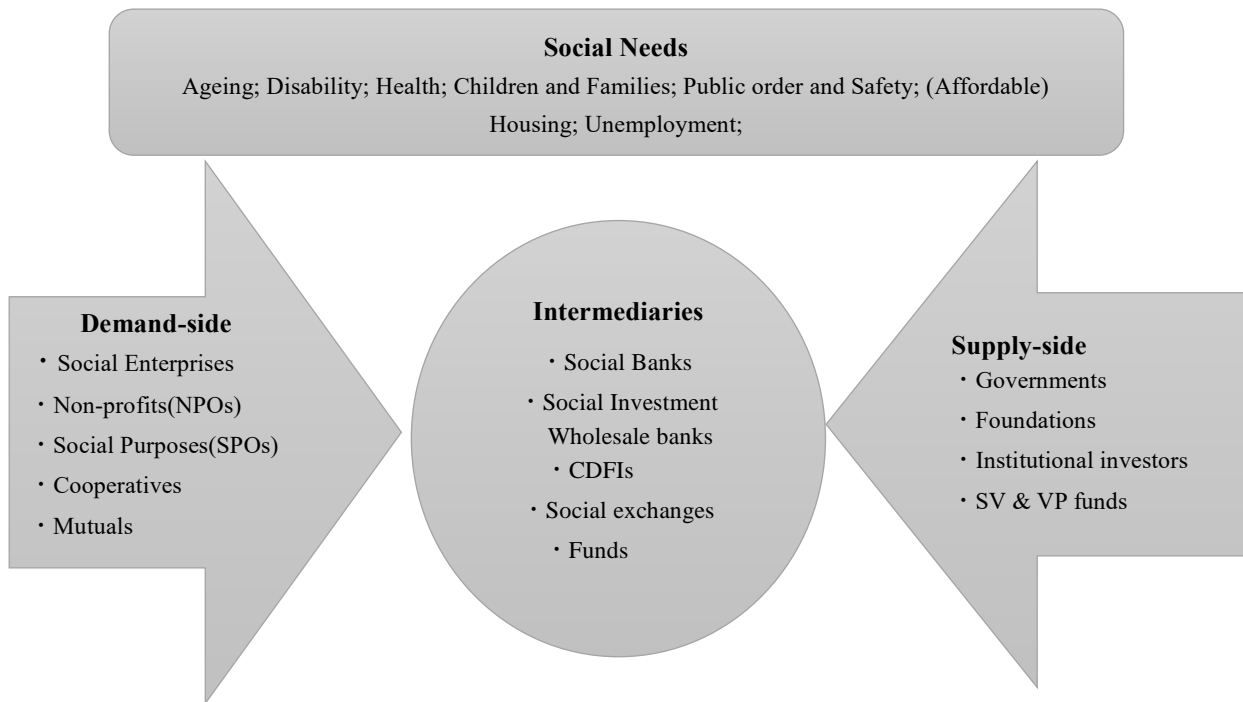
On the other hand, the size of SIB market has been quite rather smaller than other traditional investing market even in the UK. The SIB market has been less competitive at the germinal stage. In our view, it means that institutional pressure rather than market pressure is more influential to players in this market. In this context, from the perspective of institutional theory, “institutional isomorphic pressures” (DiMaggio and Powell, 1991) can underlie organizational behaviors of service providers in SIBs. “Institutionalization” such as institutional isomorphism and French Philosopher Michel Foucault's concept of “governmentality” (Rose 1999; Milbourne and Cushman 2015; Cooper, Graham and Himick 2016) seems to be helpful in understanding political and organizational context of SIBs. Tsukamoto (2019) pointed out that institutional isomorphism can be occurred by the government led standardization in relation to contractual outcomes framework and impact measurement.

According to “New Institutionalism” of organizational studies' view, institutionalization can be defined as “the process by which actions are repeated and given similar meaning by self and others” (Scott and Davis 2007: 260). In fact, in SIBs, the more service providers assume the contractual framework and use common data set, language and measurement framework, the more organizational behaviors of service providers seem to be resemble each other. Such homogenization of behaviors under institutional pressure has been referred to the concept, “institutional isomorphism”⁴ (DiMaggio and Powell 1991). Under SIB contractual framework, SIB players such as social enterprises require to assume political agreements and other rules for players to acquire legitimacy. If political and institutional pressure excessively affected on organizational behaviors, social enterprises would face institutional isomorphism (Tsukamoto 2019:16-17).

In terms of “governmentality” or “governmental encroachment”, the concept has been interpreted in different meanings. However, according to Harris (2018: 363), “the term is taken to refer to the idea that governments may exercise power in a way which maximizes the possibility of fulfilling a government's own policies while limiting the freedom of citizens.”. In this paper, governmentality is referred as the situation that governments try to fulfill their own agenda through implementing the policies with using systemized policy arrangement including contractual outcomes and measurement framework, on the other hand, private, social sectors and citizens which collaborate with governments may voluntarily accept governmental agendas. In this context, social sector organizations may seek for not outcomes in relation to social needs but contractual outcomes in relation to governmental agenda. In another word, the boundary between the state and private or nonprofit sector blurred more and more and both are homogenized each other. Thus, the two concepts, that is, institutional isomorphism and governmentality seem to be similar.

⁴ DiMaggio and Powell classified institutional isomorphism into three types, that is (1) coercive isomorphism that stems from political influence and the problem of legitimacy, (2) mimetic isomorphism resulting from standard responses to uncertain, (3) normative isomorphism, associated with professionalization (DiMaggio and Powell 1991: 67).

Figure 1. Social impact investment market framework



Source: OECD (2015:34)⁵

Research Method

In terms of our research on SIBs in Japan, we conduct both quantitative and qualitative surveys . That is, we conduct the semi-structural interviews for 2 cases of SIBs such as Amagasaki City (youth unemployment) and Kobe City (preventive healthcare) in Japan. In this paper, we treat a case study of Kobe City only. Because Amagasaki SIB was experimental project. In addition, we use the results of quantitative surveys on 1,788 local authorities in Japan in 2016.

In terms of research on the UK’s SIBs, we also conducted quantitative and comprehensive survey of England’s Local Authorities on Outcomes Commissioning and Payment by Results. That is, we conducted semi-structured interviews with two cases such as Essex SIB and London Homelessness SIB (“ Street Impact”). However, we will not treat the result of these case studies because of limitation of the time for presentation and this paper’s mainly focusing on Japanese case study of SIB. Instead, we treat the fact findings of our survey on Local Authorities in England. This analysis covers the period from 6th February 2018 to 22nd February 2018. Local Authorities include County Council, Unitary Authority, Metropolitan District and London Borough. This LA Survey was implemented by Traverse (the name was changed from OPM) in London in collaboration with Meiji University. The survey received 33 responses (33 of 153).

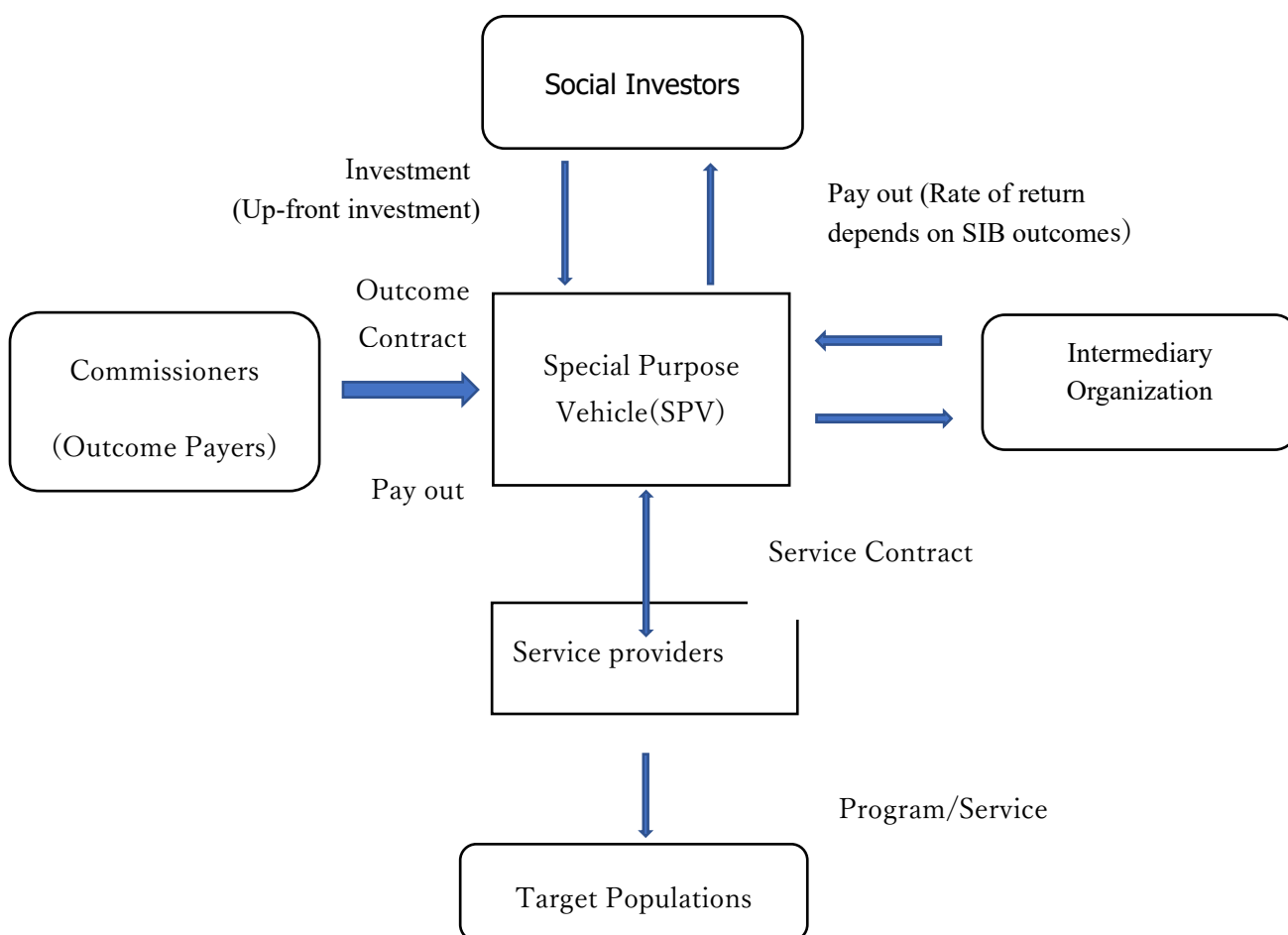
⁵ The figure is partially modified (omitted) by authors

Social Impact Bonds as outcome-based contractual relationships

SIBs can be considered as one form of outcome-based commissioning or payment by results. Under conventional government contract regime, governments as commissioners pay for the output of services provided by service providers. By contrast, in SIB contracts, government pay for not just output but the outcome of services provided. It means that service providers are required to demonstrate the clear evidence for the attainment of outcomes. In addition, in SIB contracts, service providers are paid upfront to deliver the intervention services by social investors. In most typical structure of the SIB contract, it is composed of different stakeholders such as service providers, social investors, outcome payers(government), intermediaries (See Figure2). In typical SIB contract, an intermediary or special purpose vehicle (SPV) issues the bond to investors and subcontracts with service providers.

SIBs are a subset of payment by results (OECD 2016:4). In response to the increasing pressure to achieve social outcomes with limited resources, governments have sought for value for money in the delivery of public services. In this context, new type of contract mechanism called as Payment by Results (PbR) has been prevailed in government commissioning. The underlying principle of PbR is that providers are paid according to the outcomes which they achieve. As such, PbR can be seen as a contract based at cost-effectiveness. Furthermore, PbR implicates transferring risk from government to service providers.

Figure 2. Social Impact Bond Structure



Political context of SIBs in Japan

Since 2014, interest in social impact bonds and impact investing has been radically increasing in Japan. In fact, since April 2015, some local governments and national government departments such as Ministry of Economy, Trade and Industry(METI) have been engaged in pilot experiment projects (Not Bonds) in collaboration with a few private charitable foundations ,nonprofit players and private companies. The areas of interventions include preventive health care, work integration (NEET), adoption, local businesses development, and learning support for children. As such, in early and experimental stage, policy areas of SIB were diverse (See table 1). Furthermore, in this early stage of SIBs experiments in Japan, in most cases, nonprofit organizations played role of service providers.

For example, as of 2015, in Yokosuka City SIB program, a nonprofit organization was engaged in activities for children placed in foster homes being adopted. In Amagasaki City, a nonprofit organization delivered consulting and training services for young people who were jobless and socially excluded. In Yokosuka and Amagasaki cases, social outcomes sought could not necessarily be attained since the duration of the programs were too short although their services were innovative compared to conventional public services. Furthermore, poverty of children and social exclusion such as “young people shutting themselves in their rooms” has been realized as social issues which should be addressed with using innovative way and collaborative works between public and private sectors.

Nevertheless, in more recent years in particular, since 2017, leading investors and intermediary organization have radically lost their concern about nonprofit organizations as service providers and partners of SIBs. In addition, such investors and intermediaries tend to focus in problems of health care, in particular, preventive health care rather than problems with socially and economically disadvantaged persons. Underlying cause is relevant to political connections between central government and a few charitable foundations such as Nippon Foundation⁶ and Social Impact Investment Foundation (SIIF)⁷. The foundations tends to address social outcomes closely linked to government agendas.

As table 1 shows, since 2017, the emergence of “business like SIB” has been remarkably apparent in Japan. It means that for-profit providers have been increasingly dominant in demand-side of SIB market. On supply-side, a few investors have occupied the market. Actually, Nippon Foundation and SIIF have often played double roles of investors and intermediaries. Furthermore, these foundations have directly proposed their SIB plans to local authorities in collaboration with Central government such as METI. It means that designing process of SIBs have been managed in informal way with using exclusive political connection between central government and these foundations. To be sure, in Japan, “enthusiasm” for SIBs have been emerging. Nevertheless, in some cases, local government officers who conducted pilot projects were disappointed at results and lessons from pilots. Because expected outcomes have not been achieved and also the evidence for cost-effectiveness could not be shown. There have been skepticism about the lack of evidence based approach, that is, lack of trustworthy outcome metrics, performance management and impact measurement in relation to SIBs led by Nippon Foundation and SIIF.

To be sure, as case of Higashiomi City, there are SIBs or SIB pilots with focusing in value creation by supporting stat-up of local businesses not just cost-saving in Japan. However, on the whole, policy areas SIBs address tend to converge on the preventive healthcare. In addition, on both demand and supply side, diversity of players are much less to compared to those in the UK.

⁶ Main resource of Nippon Foundation comes from earned income generated by local governments managed gambling businesses(motorboat races).

⁷ SIIF is a foundation which was spun off from Nippon Foundation. SIIF aims to catalyze a new capital flow model that transcends existing boundaries between private, public, and civil sectors.

<http://www.siif.or.jp/en>

Table 1. SIB projects in Japan 2015-2019

Duration	Location	Policy area	Type of service providers	Type of Finance
April 2015— March 2016	Yokosuka City	Adoption	Nonprofit	Grant from Charitable foundation
June 2015- September 2016	Fukuoka City and other municipalities	Preventive Health Care(Dementia) preventive intervention with using learning methods	Nonprofit and for-profit	Fee for contracted services provided by central government(METTI)
July 2015-June 2016	Amagasaki City	NEET	Nonprofit	Grant from charitable foundation
October 2017- February 2018	Higashiomi City	Startup of Community Businesses	For-profit and Nonprofit	Investment The size is relatively small 2,500,000 JPY (2,300 USD)
July 2017-March 2020	Kobe City	Preventive Health Care (diabetic nephropathy)	For-profit	Investment The size is relatively small 31,140,000 JPY(280,000 USD)
May 2017- August 2019	Hachioji City	Preventive Health (colorectal cancer, improving checkup rate of cancer screening)	For-profit	Investment The size is relatively small 8,880,000 JPY (80,000 USD)
October 2018 – September 2020	Hiroshima Prefecture and 6 cities in Hiroshima	Preventive Health (colorectal cancer, improving checkup rate of cancer screening)	For-profit	Investment The size is not announced. The operation cost is 22,294,000 JPY (200,000 USD)
April 2019- November 2022	Okayama City	Improvement health promotion activities of citizens and fostering healthcare businesses	For-profit	Investment The size is relatively small 30,000,000JPY (270,000USD)

Local Authorities survey in Japan

The Institute of Nonprofit & Public Management Studies (INPMS) at Meiji University conducted postal survey of polices and awareness about SIBs and social enterprises development on 1,788 local governments (prefectures and municipalities and metropolitan an boroughs) in January to February 2016⁸. At this period, a few experimental efforts for examining the potential of SIBs had started in Amagasaki City, Yokosuka City.

According to the result, it shows that just 10.7 per cent of respondents perceived SIBs. On the other hand, 24.6 per cent of respondents were interested in SIBs. As such, interest in SIBs had been quite limited at that time.

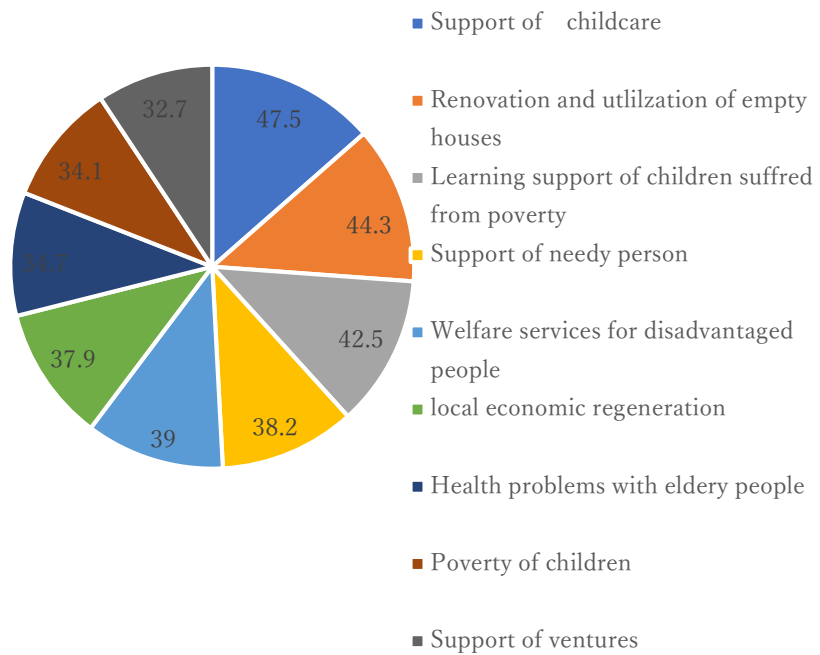
In terms of expected policy areas which will suite interventions by SIBs (figure3), Policy areas local governments were concerned with were diverse. The highest frequency of answer is related to “childcare support” (47.5%), the second highest is “renovation and utilization of empty houses” (44.3%) and the third is “learning support of children” (42.5%).

Interestingly, as mentioned above, in more recent years, in particular since 2017, most common policy areas SIBs being introduced is preventive health care. In contrast, in the result of this survey, 34.7 per cent of respondents were concerned about the health problem with the elderly as the target of SIB’s intervention. The degree of interest in this area is lower than that of support of children with difficulties. In addition to this, targeted policy areas included social problems in relevant to adding to economic value as well as contributing to fiscal value.

In another word, in more recent years, SIB players in Japan tend to favor preventive health care as the target of SIB interventions since that area is considered to contribute to fiscal cost saving. In contrast, most of local governments are concerned about wider range of social problems in which social outcomes sought for do not necessarily bring about cost saving. For this gap in needs, local governments which try to employ SIB solution have been still limited.

⁸ The collection rate was 26.4%.

Figure 3. Expected areas suited with solution by SIBs (%)



*Multiple answers allowed

Source: The Institute of Nonprofit and Public Management Studies(2016)

Case Studies: Kobe City Preventive Health Care SIB-Japanese first SIB

Since 2017, SIB contracts which will pay financial return to investors have been operated in Japan. Some SIBs have their own outcome metrics and payment models although in principle, they imitate contractual and payment structure of SIBs in the UK and the US.

Kobe City is one of SIBs with using financial mechanism. Kobe city is located in western Japan which is one of largest municipalities. The population of Kobe City is amount to 1,530,000. However, in recent years, its population has radically reduced. That is, the percentage of the population of aged 65 or older is 27.7 percent. It is relatively high compared with that of other big cities such as Yokohama (24.0%), Kawasaki City(19.7%) and Osaka City (25.3%). Because the large number of young people in Kobe City have left the region and have moved to other big cities such as Osaka in order to get better jobs. Due to this aging population and shrinking younger population in Kobe City, the expenditure of healthcare has radically increased. In particular, fiscal condition of National Health Insurance System ⁹has been worsen by the increase of older and retired insured persons.

⁹ In Japan, health care insurance system is composed of two tiers of Health Insurance and National Health Insurance. The former system covers employees and the latter for self-employment and others including retired persons.

According to Figure 4, in recent years, number of patients who need to get dialysis treatments has radically grown. As of 2016, the number of the patients was amount to around 330,000 persons which is around 2.0 times compared to 20 years ago (the number of 1996). In particular, number of the patients whose cause of getting dialysis is diabetic nephropathy has radically increased. According to estimate by Japanese Association of Dialysis Physicians, total medical cost per patient is amount to around 5,000,000 JPY (45,000 USD). In terms of the insured persons of the National Health Insurance System of Kobe City, as of 2016, 44.7 per cent of persons getting dialysis (356 of 796) are patients having diabetic nephropathy. The rate is higher than national average (38.8%)¹⁰.

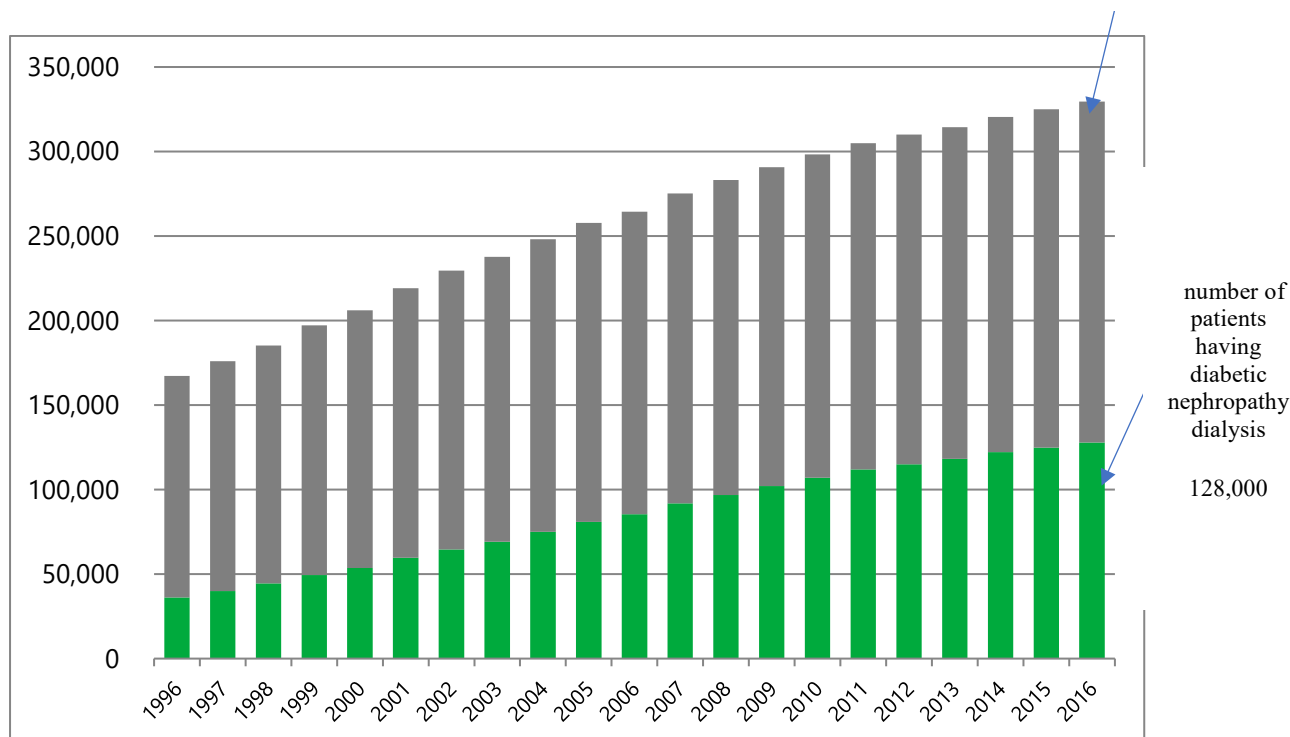
In this context, officers of Kobe City were interested in SIB scheme in order to reduce patients having diabetic nephropathy by delivering preventive health promotion program. Actually, they were keen to outcome based commissioning model in their public services. Officers who works for policy making department of Kobe City were outcome and innovation oriented people in contrast to traditional government employees in other local governments. Mayor of Kobe City is also innovation oriented. He well understood their idea and encouraged their works for developing SIB project. Coincidentally, Ministry of Economy, Trade and Industry (METI) was looking for new SIB project as a healthcare business model in collaboration with Nippon Foundation and SIIF. METI mediated the collaboration between Kobe City and SIIF. Thereafter, the other commercial investors joined the SIB scheme. Actually, Japanese some major banks have considered SIBs in the healthcare as their business chances with providing not only investing money but also project finance services or trust functions. Such major commercial banks are not necessarily concerned about social problems themselves. Rather, they tend to be concerned government priority issues such as healthcare reforms and related expansion of healthcare market.

In this Kobe SIB, Sumitomo Mitsui Banking Corporation (SMBC) and SMBC Trust Bank which are major commercial banks in Japan is involved in the partnership from commercial benefits as well as offering solution to social problems. In reality, SMBC would receive financial return and SMBC Trust Bank received 3,240,000 JPY (30,000 USD) as the fee for its setting and managing the trust¹¹.

¹⁰ The data was provided by officers of Kobe City at SIB seminar at Meiji University, 22nd November 2018.

¹¹ In Kobe SIB, trust was set up in order to protect and manage the asset from which return will be paid for investors instead of setting up SPC (Special Purpose Company).

Figure 4. Increase of patients getting dialysis in Japan



Source: presentation material delivered by officers of Kobe City at SIB seminar, Meiji University in Tokyo, 22nd November 2018

The table 2 shows the outline and the detail of SIB contract of Kobe City. The intervention is composed of health guidance program given by public health nurses with the aim of improving food and life customs and eating habits . In addition, the program encourages patients to undergo medical examinations. Program duration is 6 months per person including 2 times of consultation and ten times of guidance by telephone(30 minutes).

The contract is based at payment by results (PbR). Thus, payment for investors and service providers are related to the degree of achievement of the contracted outcomes (A)(B)(C). Targeted outcome indicator are set for each, that is, 80 per cent for (A), 75 per-cent for (B) and 80 per cent for (C).

On the other hand, the contract framework, outcome metrics and payment model was basically proposed by SIIF. This commissioning process was not based competitive tendering but discretionary contract. Furthermore, SIIF suggested candidates of investors, a service provider and independent evaluator en masse.

To be sure, Kobe SIB can be regarded as most mature SIB and the first real SIB in SIBs operated in Japan. The transparency of outcome metrics and detail of contract is much higher than other SIBs and pilots.

However, local government bears the program cost but does not benefit from reduction of medical expenditure. In addition, the evidence for causal relations between outcomes and intervention seems to be not enough. More importantly, it seems to be difficult to realize the long-term reduction of medical cost and improvement of quality of life by such short term intervention. Furthermore, the transaction cost seems to be relatively high although investment size is rather small. There have been less competitions among players entering the contract. As recent SIBs, the Kobe SIB lacks partnership with social sector service providers.

Table 2 Outline of Kobe City SIB

Location	Kobe City
Policy area and Intervention	
Policy area	Preventive Health care/Preventing aggravation of diabetic nephropathy
Outcomes sought	reducing future artificial dialysis treatments)/Improving QOL/ Reducing the related healthcare expenditure/ Reducing the loss of income
Intervention	Under this program, a service provider delivers health guidance program given by public health nurses with the aim of improving food and life customs and eating habits . In addition, The program encourages patients to undergo medical examinations. Program duration is 6 months per person including 2 times of consultation and ten times of guidance by telephone(30 minutes).
Target Population	100 Patients suffering from or at high risk being to suffer from diabetic nephropathy who have been unexamined in medical institution
Stakeholders	
Commissioner	Kobe City
Investors	Sumitomo Mitsui Banking Corporation (SMBC) , SIIF and individual investors
Service providers	DPP Health Partners (company limited by shares)
Intermediary	Social Impact Investment Foundation(SIIF)
Independent evaluator	Institute for Future Engineering
Contract duration	33 months (contract signing in July 2017) July 2017 to March 2018 : intervention by service provider April 2018 to March 2020: Evaluation of the program outcomes
Contracted Outcomes	(A) completion rate of program participants (B) improvement rate of life customs (C) rate of inhibition of lowering renal function
Impact measurement method and counter factual	
(A)(B) check test about self controlling behaviors (questionnaire)	
(C) quasi-experimental : Propensity score matching	
Investment size	31,540,000 JPY (=GBP 220,000, USD 284,000)

Political context of SIBs in the UK

At the outset, idea of SIBs in the UK has evolved in parallel with the growth of interest in impact investing and also with the much longer experience of commissioning for outcomes (Mulgan, Reeder, Aylott and Bo'sher 2011: 13-14).

In reality, conventional contracts tend to be won on the bases of the proposed cost of delivering outputs rather than cost-effectiveness of delivering outcomes (Social Finance 2010: 15). Such output-based contracts encourage commissioners to focus on the cost of the service being delivered rather than on the value it creates (Social finance 2010: 11). It means that larger and private for-profit providers has competitive advantage by providing lower cost services compared to nonprofit providers (Social Finance 2010: 15). However, public sector has become increasingly aware of the value that social sector organizations could as providers of public services(Social Finance 2010: 15).

In reality, Social Value Act 2012 (Public Services Act) (Department for Digital, Culture Media & Sport 2018) encourages more and more social enterprises to win contracts with public sectors under competitive tendering. Because the SVA requires commissioners to consider, at the procurement stage, how procurement could improve the social, economic and environmental well-being of the relevant area. It means that social sector organizations such as social enterprises can compete with for-profit rivals for seeking social outcomes or social value on equal footing.

To be sure, SIBs can be conceptualized as one form of Payment by Results (PbR) or outcome commissioning. As some authors stress the fact that the emergence of SIB may has correlation to political context of New Public Management (NPM) and marketization of social policy or the third sector (Joy & Shields 2013). In relation to institutional isomorphism and governmentality, according to the study on homeless SIB in London, encroachment of rationality or financial economics in SIBs was regarded as a “governmentality” (Cooper, Graham and Himick 2016). SIBs in the UK is characterized as utilizing inter-organizational coordination and collaboration between public, private and social sectors. Namely, SIBs in the UK can be regarded as based at NPM but also NPG. By contrast, in Japan, SIBs tend to lack partnerships based at NPG. Thereby, SIBs in Japan seem to be much more business-like.

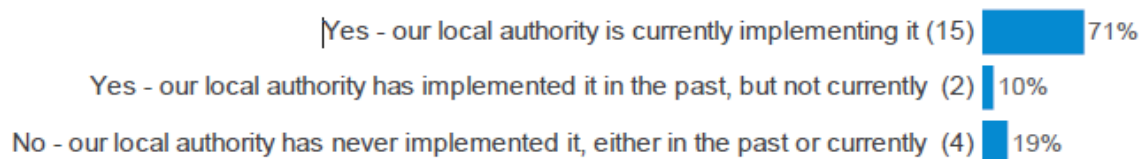
Local Authority Survey in the UK

■ Use of outcome based commissioning and payment by results

Respondents were asked if their local authority implemented outcome-based commissioning, including Payment by Results (PbR) either currently and/or in the past.

Almost three quarters (71%) of respondents reported that their local authority is currently implementing outcome based commissioning. Only 10% of respondents said that they have implemented it in the past but are not currently using the model. This needs to be interpreted with caution as it is likely that there is a self-selection bias, with those local authorities that have more experience of such commissioning being more likely to have responded to this survey.

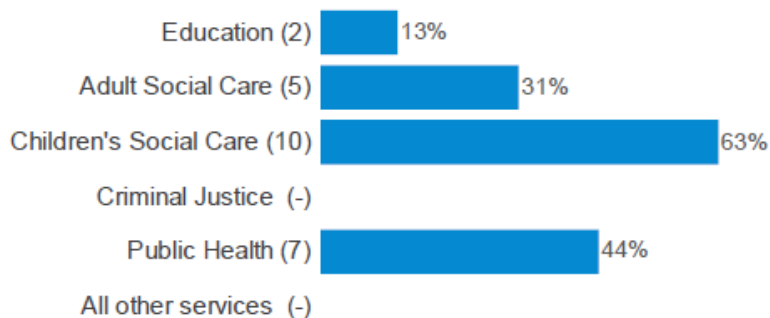
Has your local authority implemented outcome based commissioning, including Payment by Results (both currently and/or in the past)?



■ Use of outcome based commissioning/payment by results by service area

Outcome based commissioning is most commonly being used in Children's Social Care (63%), but is also widely used in Public Health (44%) and Adult Social Care (31%). It is less commonly used in Education (13%), while no respondents reported using it in Criminal Justice or all other services.

What service areas has outcome based commissioning/payments by results been adopted in?

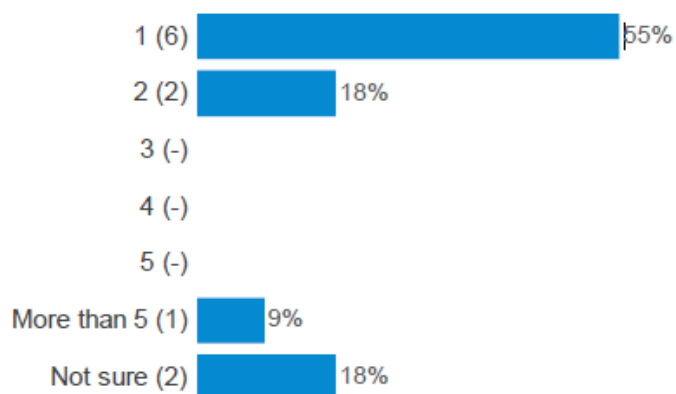


■ Use of SIBs

Just over half of respondents say that their local authority is currently implementing SIBs (52%), and the remaining 48% say their local authority has never implemented one. Again, this finding has to be interpreted against the context of likely self-selection bias.

For those who are currently implementing one, most have only been involved in one (55%).

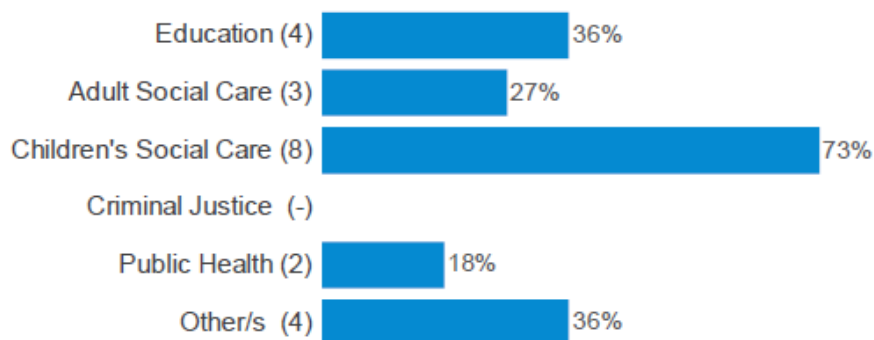
How many SIB's has your local authority been involved in?



SIBs are most commonly used in Children's Social care (73%), but just over a third (36%) had used them in Education and Public Health. 27% had used them in Adult Social Care, and 18% for Public Health. Similar to outcomes based commissioning/payment by results, they have not been used in Criminal Justice, although one respondent notes that their local authority is looking at using SIBs in this service area.

There are therefore interesting commonalities and differences between this specific form of outcomes contracting and outcomes based commissioning more generally. For example, in both cases, children's social care accounted for most of the cases. However, the preponderance of SIBs in education over adult social care and public health is a notable difference from general outcomes based commissioning.

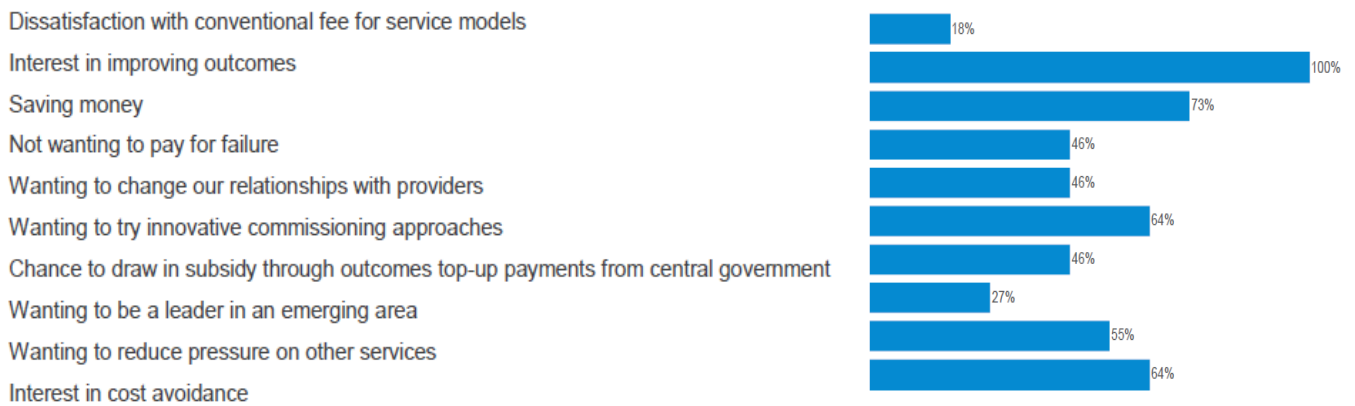
What service areas are/have been covered by the SIB(s)?



■ Rationale for and characteristics of SIBs

100% of those currently using SIBs said that this was driven by a desire to improve outcomes, which is not surprising as SIBs are an instrument that specifically focuses attention and innovation on outcomes. Other common reasons for introducing SIBs include saving money (73%) and a chance to draw in subsidy through outcomes top-up payments from central government (such as through the Commissioning Better Outcomes Fund and the current Life Chances Fund), and cost-avoidance (64%).

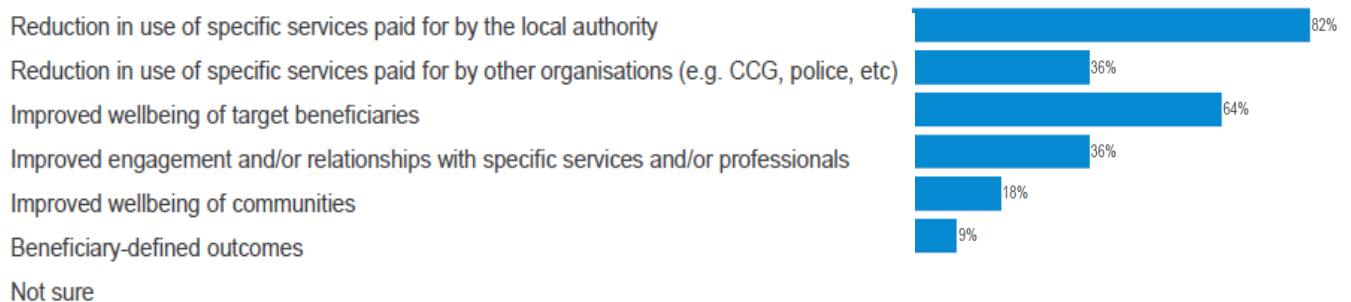
What was your local authority's rationale for introducing SIBs?



■ Effectiveness of SIBs

Respondents were asked what types of outcomes their local authorities were paying or had paid for in the past. The majority of local authorities implementing SIBs were paying for a reduction in the use of specific services paid for by the local authority (82%), and almost two thirds (64%) were paying for the improved wellbeing of target beneficiaries. This reaffirms wider observations that in the UK, because of the severe spending cuts being experienced by local authorities since 2010 (which will persist in years ahead), SIBs have been seen as a mechanism for generating savings.

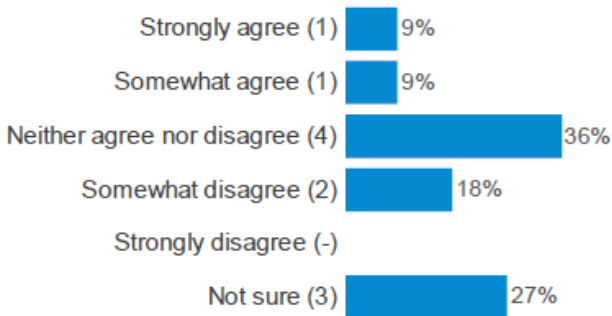
What types of outcomes are your local authority paying for/or have paid for?



Most respondents (63%) felt neutral, or unsure that SIB contracts in their local authority work well, while equal amounts (18%) agree and disagree. This is qualitatively different from their perceptions about the functioning of

outcomes based commissioning/payment by results in general, which tends to be more positive.

To what extent do you agree with the following statement: “SIB contract(s) in my local authority work well”?



When people thought that SIB contracts didn't work well, reasons given included that SIBs are relatively unknown and difficult to communicate to stakeholders.

However, despite uncertainty around their effectiveness, 55% of respondents felt that their local authority will implement more SIBs in future.

Do you think your local authority will implement more SIBs in the future?

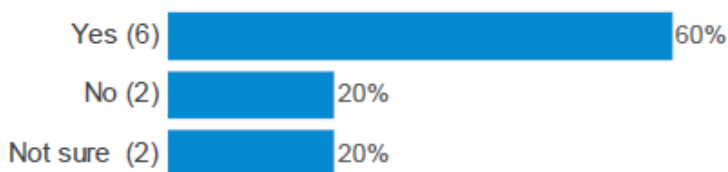


Respondents cited the fact that local service providers struggle to engage with SIBs, and a lack of confidence pricing outcomes appropriately as the main reasons why SIBs may not be used in future (40%).

■ Previous use of SIBs

Respondents were asked as to whether their local authority had used SIBs in the past. 60% of respondents indicated that local authorities had explored SIBs in the past, across various services including Children's Services (33%), and Public Health (33%), and Adult Services (17%). One had explored implementing SIBs in customer services, and one in drug and alcohol misuse. None have explored using SIBs in Education or Criminal Justice.

Has your local authority explored SIBs in the past?

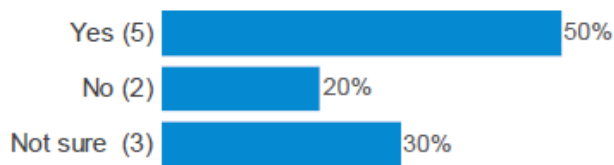


The most common reasons for a local authority not to have pursued a SIB are a lack of a business case, and difficulty in determining pricing and payment (43%). Difficulty in determining pricing and payment, and providers not being ready to engage with this kind of commissioning also played a role (29%). A minority (14%) had chosen not to pursue a SIB because it was complex and expensive, or had failed to secure internal buy in.

■ Future use of SIBs

50% of respondents whose local authorities are not using SIBs think they will do so in future, and 30% are unsure. Only 20% say their local authority would not use SIBs in the future.

Do you think your local authority may explore SIBs in the future?



Local authorities were most likely to explore using SIBs in Adult Services (80%), but may also look at using them in Children’s Services (40%). They are less likely to explore the use of SIBs in Criminal Justice or Public Health. Most respondents (62%) think that demand for SIBs will rise over the next five years, while only 15% expect demand to remain the same or fall. When asked to give a reason for their choice, responses included:

- “Due to the underlying pressure to move towards outcome payments vs revenue. SIBs will be one feature with derived demand from the demand for PbR”
- “Increasing pressure on local government finances; need to find new ways of commissioning & sourcing upfront funding; the evidence base from growing SIB market will create momentum”
- “Managers find it hard to plan long term as their budgets change annually”

This set of findings may be compared with those for outcomes based commissioning/payment by results more generally, where respondents similarly felt that there will be more of such contracting approaches in the future. However, in the case of SIBs, we have noted previously that respondents have tended to be less positive about their experiences of implementing SIBs compared to outcomes based commissioning/payment by results more generally. It may therefore be the case that while most anticipate greater demand for SIBs in the future, there may be more of a sense of being compelled to do so due to continuing financial pressures rather than due to more positive motivations.

Conclusion

From the perspective of marketization, in both Japan and the UK, SIBs have been operated as market based solution with employing market principle in the contractual frameworks such as cost-effectiveness and outcome based commissioning. However, in Japan, encroachment of market rationality into SIBs has been underdeveloped compared to those in the UK. That is, outcome metrics, impact measurement and competitive commissioning processes has been still immature. In addition, on both demand and supply side, players tend to lack diversity and there have been still less competitive. Despite the fact that Japanese SIB market is characterized as less competition, business-like and for-profit service providers are preferred by investors and commissioner. Underling the tendency is that governments and investors in Japan tend to not trust capability of performance management of social sector organizations. Business-like partners are easier to for them to negotiate and collaborate with.

From inter-organizational perspective, in Japan, institutionalization can be found as previous studies on UK' SIBs have identified. In fact, in SIBs in both countries, the more service providers assume the contractual framework under government led cost saving pressure, the more organizational behaviors of service providers seem to be resemble each other. Such homogenization of behaviors under institutional pressure has been referred to the concept, "institutional isomorphism" (DiMaggio and Powell 1991). The systemized contracting processes, standardized outcome metrics and impact measurement methods tend to strengthen such tendency. Contradictorily, despite that systemized contractual procedures including outcome metrics have been less common in Japan, isomorphic tendency in selecting policy areas is more conspicuous than that in the UK's SIBs. In another word, the tendency toward governmentality among stakeholders of SIB seems to be stronger in Japan than in the UK. Because in Japan, in more recent years, SIBs players tend to favor the policy area of preventive health care which is regarded as most prioritized government agenda. As a result, policy areas have been converge on the preventive healthcare and have been less diverse.

In short, SIB stakeholders in the UK are more NPG (New Public Governance) oriented in that social investors and commissioners favor inter-organizational collaboration with nonprofits or social enterprise. By contrast, in Japan, investors and commissioners have payed less attention to collaboration with social sector organizations. In relation to this, in Japan, policy areas have been less diverse. Service providers and investors tend to voluntarily accept government agendas.

Considering underlying the difference in Japan and the UK, difference in tradition and state of "civil society"¹² between two countries seems to affect such different approach to SIBs. In reality, largest investor such as Nippon Foundation and SIIF spun from the former are not historically rooted in civil society in contrast to philanthropic and social oriented investors in the UK.

To be sure, Japan and the UK can be regarded as marketized welfare state. However, the difference in political contexts between two countries seems to be related to difference in nature of SIB contractual relationship.

¹² Despite the fact that the concept of "civil society" has been interpreted in various meanings, in this paper, the term is used in broader sense to refer to "all the activities of citizens which happen independently of government and the market and within a context of freedom of association"(Harris 2018: 352-353).

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