




# Scaling impact: Exploring 'success' in relation to impact investments

A research study in partnership  
with NSW Office of Social Impact  
Investment and

UTS Centre for Business & Social  
Innovation

**Associate Professor Danielle Logue**

**Dr Gillian McAllister**  
UTS Business School



Corresponding Authors:  
Associate Professor Danielle Logue  
E: Danielle.Logue@uts.edu.au

Dr Gillian McAllister  
E: Gillian.McAllister@uts.edu.au

© 2019 University of Technology Sydney

#### **Funding**

Supportive funding for this study was provided by the UTS Centre for Business & Social Innovation.

#### **Acknowledgements**

We sincerely thank all those who contributed to this project by participating in the interview program and providing input to the report.

# Contents

|   |           |
|---|-----------|
| <b>Introduction</b>   | <b>1</b>  |
| Background.....   | 1         |
| Approach.....   | 1         |
| <b>Defining ‘success’ in social impact investments</b>      | <b>2</b>  |
| Indicators of success.....                                  | 2         |
| Social impact investing program .....                       | 2         |
| Individual investment .....                                 | 3         |
| Barriers to success in SIB phases .....                     | 4         |
| <b>Scaling social impact investments</b>                    | <b>5</b>  |
| Perspectives on scaling.....                                | 5         |
| Scaling products and services .....                         | 5         |
| Barriers to scaling .....                                   | 6         |
| Scaling SIB programs .....                                  | 6         |
| Research findings on understandings of scaling .....        | 7         |
| Measures to support scaling.....                            | 9         |
| Component decoupling and scaling.....                       | 10        |
| Organisational capabilities required for participation..... | 12        |
| Unintended consequences of participation .....              | 13        |
| <b>References</b>   | <b>14</b> |

# Introduction

## Background

As several of the first social impact bonds (SIBs) in NSW are coming to an end, it is timely to review this experience and consider: what next?

As academics, we are interested in understanding the impact that these investments are creating, and their sectoral, organizational and managerial implications.

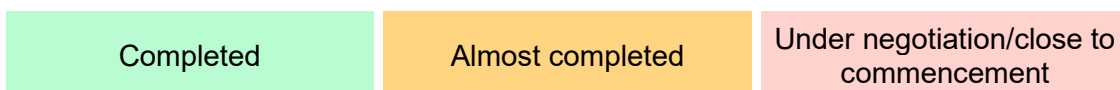
The NSW Government, through the Office of Social Impact Investment, has had responsibility for this early program of social impact bonds and investments and would like to understand the strategic and operational outcomes and 'lessons learned'.

In this context, we have formed a research partnership to explore the following questions:

- 1** **What does success look like for social impact investments?**
- 2** **How do we scale or mainstream (elements of) successful programs/services?**
- 3** **How do we scale or mainstream principles of social impact investment (in particular outcomes definition/measurement/evidence and risk sharing)?**

## Approach

This was an exploratory research project using case studies on three social impact investments in NSW at different stages:



Semi-structured interviews were undertaken with 19 stakeholders from various groups including:

|                              |                   |
|------------------------------|-------------------|
| Government departments       | Service providers |
| Intermediaries and investors | Evaluators        |

Archival documents and data were also reviewed by the research team.

# Defining 'success' in social impact investments

## Indicators of success








### Social impact investing program

In principle, interviewees expected that a successful social impact investment *program* would achieve the following:

|  |   |
|--|---|
|   | Positive outcomes are delivered for target populations  |
| Investors receive a return   |                                    |
|    | Different or new sources of funding are established, and services are delivered that would not otherwise be available |
| A more evidence-driven approach to government services is embedded   |                                  |
|   | More/new collaborative partnerships are established between government and service providers                          |
| Service delivery strategies that have been proven to be successful are mainstreamed  |                                  |
|   | Innovative programs that are shown to work can be funded and scaled   |
| There is increased reach and impact of the impact investing program itself, through more investments or deals of a larger size |                                  |
|   | Social impact investments become tools that policymakers routinely draw on when tackling complex issues               |

# Individual investment

Based on experience with specific investments, interviewees identified the following outcomes as 'successes'.

|  |   |
|--|---|
|   | The service at the centre of the impact investment delivered positive results for the target population |
| The investment provided a new and appropriate level of funding for the service   |                      |
|   | There was an improvement in evaluation practice and, as a result, richer insights from the evaluation   |
| Better, more nuanced impact measures were created  |                      |
|    | New, more collaborative contracting relationships were developed  |
| The incentive structure drove a greater level of engagement with the target population and resulted in improved/more effective practices |                    |
|   | There was greater clarity of expectations around what needed to be delivered for the available funding  |

## Barriers to success in SIB phases

Interviewees saw the following factors as barriers to success.

### Negotiation

- Integrating social and economic logics
- Funding the design/advisory work
- Intensive resourcing (compared to BAU programs)
- Access to data and ethics process
- Speed – coming to table with a set of measures and several ideas of what to measure
- Understanding of risk issues and risk sharing

*“It’s not a quick process – there are lots of elements that need to be considered.”*

### Execution

- Referral system/referral capacity and flow
- Building trust around new working relationships
- Moving baseline for measurement
- Jurisdictional challenges in a federal system
- Resourcing (time and cost) for active contract management

*“This is a different world – you have to chase those who are eligible and make sure they come into the program.”*

### Post-completion

- Resourcing the service during re-negotiation period
- Changed context so program impact no longer significant
- Inability to mainstream
  - Service no longer aligned in a changed policy context
  - Program too narrow/specific
- Budget constraints within Government
- Identifying what has been successful:
  - Some elements of programs more successful than others
- Risk sharing once the program has been proven

*“Successful to BAU is much more complicated than imagined.”*

# Scaling social impact investments

## Perspectives on scaling

### Scaling products and services

According to Seelos and Mair (2017), scaling involves the adoption of successful innovation outputs and organising their efficient delivery to serve more people better.

This can mean:

- Producing and delivering more products or services to more people (bigger); **or**
- Improving the products or services produced so as to deliver higher quality at lower cost more reliably (better).

Seelos and Mair (2017) describe four scaling modes for organisations.

- **Scaling through productivity increases**  
Small increments over time enable organisations to increase their impact through the more efficient use of resources. That is, they can create more impact from a given stock of resources.
- **Scaling through adding resources**  
Organisations increase their capacity by adding resources (hiring more staff; increasing income; getting more funding; expanding existing infrastructure). However, this will only increase impact if the organisation is productive. Adding resources to an unproductive organisation with a weak impact-creation logic will not necessarily increase impact.
- **Scaling through replication**  
This involves expanding operations to a different environment. This can also enable organisations to keep their business units to a smaller and more manageable size. However, replicating in a new environment can have challenges – environmental variance can hinder successful replication. Scarcity of the required specialist resources can also hinder this type of scaling.
- **Scaling through knowledge transfer**  
Knowledge can be transferred to other organisations. But this relies on the other organisations being able to integrate the knowledge efficiently. If the knowledge represents an innovation for the receiving organisation, then some diagnosis of their capacity to scale should be undertaken before adopting this approach for scaling.



## Barriers to scaling

Seelos and Mair (2017) also identify two pathologies that can limit the impact creation (scaling) potential of innovations:

- Insufficient exploitation
  - A failure to build the right organisational capabilities for scaling can mean that the potential of past innovations does not get fully realised;
  - Further, the lack of accumulated knowledge due to insufficient scaling efforts mean that organisations are unable to recognise good ideas, so develop less relevant ideas.
- Innovate again too soon
  - Organisations can focus too much on exploring new possibilities to the exclusion of productively enacting what was learned and developed in the past. This can produce too many undeveloped new ideas and too little distinctive competence.

## Scaling SIB programs

Wooldridge, Stanworth and Ronicle (2019) identified six routes for the scaling or replication of social impact bonds as a mechanism for service delivery in the UK.

### 1. A commissioner develops and implements a number of SIBs simultaneously

This route is sometimes referred to as a 'multi-SIB'. It involves a commissioning organisation initiating more than one SIB at the same time, thus achieving greater scale than would be achieved by a single SIB. It also enables the commissioner to explore potential economies of scale within its own organisation, for example by developing business cases in a common format or running a single process to identify and procure potential providers or a single investor.

### 2. A commissioner develops a second or further SIBs sequentially

This route involves a commissioning organisation choosing to develop and implement one or further SIBs, in a different social policy area to a SIB they have previously implemented successfully. The commissioner will thus be achieving further scale in a different way and will also be replicating some aspects of a process that it has applied before. There are therefore potential benefits to the commissioning organisation in learning from the earlier implementation, and being familiar with the principles of a SIB.

3. A commissioner emulates a SIB that another commissioner has previously implemented, to address a similar social problem. They can draw on documents and models used in the earlier SIB.

4. A provider or other third party develops a SIB which is then promoted to other commissioners

5. A local commissioner adopts a central government SIB model that has been used for a number of concurrent SIBs. The local commissioner can draw on the outcomes specification and payments structure (typically in the form of a Rates Card)

6. Centrally funded SIBs based on a standard rate card –

This route involves one or more central government departments funding a number of SIBs at the same time using a standard rate card. It has already been used to commission a number of SIBs under the Innovation Fund (IF) Rounds 1 and 2, the FCF and the Youth Engagement Fund (YEF). In all these cases the funding department directly procured the providers and investors and was a direct party to the contract.

## Research findings on understandings of scaling

In talking about 'scaling', interviewees considered the following to be examples of scaling.

Increasing the volume of (existing type of) participants (i.e productivity)

Increasing the volume of (new types of) participants

Extending the term of the program

Entering new geographic areas (i.e. replication)

Increasing the size of the deals for intermediaries/investors

Systems integration or mainstreaming into regular service provision  
(i.e. knowledge transfer and local translation)

## Scaling dilemmas

The interviews revealed a range of tensions or contradictory demands associated with SIBs. These dilemmas, set out below, represent a challenge to scaling. Dilemmas have been categorised based on the phase of SIB. They will be more acute for certain stakeholders than for others.

### Defining success

|  |    |   |   |
|--|----|---|---|
| Piloting innovative programs             | vs | Some evidence of likely success required to attract support | <b><i>“Innovation and evidence are often enemies”</i></b> |
| Collaboration for collective good        |    | Protecting IP   |   |
| Important social problem to be addressed |    | Small pool of potential participants                        |   |

### Reasons for success

|                                     |    |  |   |
|-------------------------------------|----|--|---|
| Place-based factors driving success | vs | Context-neutral expansion required for scaling                 | <b><i>“The underlying principle is much more broadly scalable.”</i></b> |
| Fidelity to licensed program        |    | Adaptation needed to fit local context and mainstream services |   |
| Fidelity to licensed program        |    | Identifying, decoupling and scaling successful components      |   |

### Measuring success

|  |    |  |  |
|--|----|--|--|
| Evidence of success within the scope of the investment | vs | Evidence required for scaling  | <b><i>“It is a continual challenge with the state of the evidence and the moving target of BAU.”</i></b> |
| Measuring impact                                       |    | Constantly changing baselines due to changes in other programs over the life of the bond |  |
| Need for large-scale data                              |    | Issues around privacy and access to data   |  |
| Rigour of measures required                            |    | Need to streamline or simplify measurement for scaling                                   |  |

## Measures to support scaling

A number of measures to support scaling were identified and are listed below. These are drawn from interviews conducted for this project and from Wooldridge, Stanworth and Ronicle's (2019) report.

Structured and systematic sharing of existing datasets (eg TFM Human Services Dataset)

Streamlined ethics and data privacy processes

Funding for development support to build the capacity of personnel

Funding for the design of deal frameworks, standard contracts clauses and supporting tools such as financial models

Develop contractual terms that cover the maturity of an investment and processes for scaling

Implementation of simplified or standardised measures, such as rate cards; binary measures; standard indicators for (e.g. wellness)

Effective processes for valuing IP and negotiating the use or sharing of IP

Focus on programs that support larger populations rather than more niche services

## Component decoupling and scaling

A theme that emerged from the interview program was that there may be specific components of SIBs or SIB programs that could be isolated and replicated to support scaling. This issue was canvassed in Wooldridge, Stanworth and Ronicle (2019). They put forward a list of SIB characteristics that could be decoupled for scaling. These are summarised in the table below.

**Table 1: Components that can be decoupled for scaling**

| Characteristic                                    | Main benefits of replication   |
|---|--|
| Business case                                     | Saves commissioner time and cost if they can adopt/adapt existing structure and possibly content from a previous case.                         |
| Financial model                                   | Saves commissioner time and cost if they or a third party can plug new data into an existing and proven model.                                 |
| Licensed intervention or evidence-based programme | Saves commissioner time and cost of researching interventions and their impact. Likely to be providers ready and able to deliver intervention. |
| Provider-designed intervention                    | As for licensed intervention above but commissioner may still need or want to research alternative interventions.                              |
| Cohort referral pathway                           | Saves commissioner (and possibly provider) time and cost of developing new processes and criteria.   |
| Outcome measure                                   | Saves commissioner time and cost of reviewing options including some that might be unworkable.   |
| Outcome achievement criteria                      | Same as for outcome metrics – saves time and cost for commissioners and possibly also providers and investors                                  |
| Payment mechanism                                 | Saves time and cost for commissioners and possibly also providers and investors.   |
| Payment level/rate                                | Saves commissioner time and cost of new modelling to calculate appropriate levels of payment   |
| Contract terms and conditions                     | Saves all parties to the contract time and cost of drafting new terms though commissioner may wish   |
| Procurement approach                              | Saves the time and cost of evaluating alternative procedures afresh, and sometimes of developing detailed processes and plans                  |

|  |  |
|--|--|
| Operating structure                    | Saves all parties time and costs of developing bespoke structure for each contract   |
| Financial structure                    | Saves investor and provider time and cost of agreeing terms, though detailed negotiation of terms may still be needed in each case       |
| Governance structure                   | Saves all parties time and costs of developing bespoke structure and processes for each contract   |
| Data Collection and Sharing Agreements | Saves all commissioners and providers time and cost of designing new processes. Ensures common data standards and legislative compliance |
| Data collection / management systems   | Saves all commissioners and providers time and cost of designing new systems. Ensures common reporting formats and standards             |

*Source: Wooldridge, Stanworth and Ronicle, 2019: Table 5.1*

## Organisational capabilities required for participation

Participation in a SIB can call for a range of new organisational capabilities. The key capabilities identified through this research are set out below.

### Scaffolding

- Structures to support decision making and sign-off in relation to the investment
- Systems and processes that are flexible enough to support testing and scaling

### Beginning with the end in mind

- Contractual terms tend to cover operational issues and risks related to failure and termination rather than planning for a successful outcome.
- Contracts could include a mid-point review

### Negotiation skills

- Impact investing creates a different set of relationships compared to grants programs
- There are more technical issues to resolve compared to traditional grants programs

### 'Business development' and active contract management

- Establish, collect, collate and review outcomes data
- Monitor performance and resolve issues
- Maintain collaborative relationships
- Critical to keep flow of referrals

### Mind set

- Experimentation
- Cross-sector understanding
- Openness to collaboration and co-design

### Perception/awareness of SIBs and skills to match their complexity

- Data management and finance skills are a particular area of need
- The recent UK Report recommends the fostering of learning networks

## Unintended consequences of participation

Finally, interviewees reported a number of unexpected outcomes from participating in a SIB. These are set out below.

### Questioning BAU

- New ways of working required for the program have provided 'fresh eyes' on existing ways of working

### Greater openness to other outcomes mechanisms

- The skills built for the investment provide capacity to consider more outcomes-based programs

### Changing internal structures

- Impact investments draw skills and capabilities together in different ways

### Changing internal systems

- Especially IT systems for data management

### Heightened discussions re: IP of social programs

- Questions around how to manage and value IP



# References

Seelos, C. and Mair, J. (2017) Innovation and Scaling for Impact. Stanford University Press: California.

Wooldridge, R., Stanworth, N., and Ronicle, J. (2019) A study into the challenges and benefits of commissioning Social Impact Bonds in the UK, and the potential for replication and scaling: Final report. Available at:  
<https://www.gov.uk/government/publications/research-social-impact-bond-commissioning-and-replication>

Icons in report sourced from [icons8.com](https://icons8.com)

## Contact UTS

For more information about this report, contact:

### **Danielle Logue**

Associate Professor  
Centre for Business and Social Innovation  
UTS Business School  
University of Technology Sydney  
E: [Danielle.Logue@uts.edu.au](mailto:Danielle.Logue@uts.edu.au)

### **Dr Gillian McAllister**

Senior Researcher  
Centre for Business and Social Innovation  
UTS Business School  
University of Technology Sydney  
E: [Gillian.McAllister@uts.edu.au](mailto:Gillian.McAllister@uts.edu.au)

*[cbsi.uts.edu.au](http://cbsi.uts.edu.au)*

Centre for Business and Social Innovation  
UTS Business School  
PO Box 123  
Broadway NSW 2007